



The role of legal due diligence in ensuring legal certainty in business transactions in Indonesia

Radea Respati Paramudhita¹

¹Universitas Widyatama, Indonesia

email: radea.respati@widyatama.ac.id

Info Artikel :

Diterima :
4 September 2025
Disetujui :
12 Oktober 2025
Dipublikasikan :
3 November 2025

ABSTRACT

This study aims to analyze the role of Legal Due Diligence (LDD) in ensuring legal certainty in business transactions in Indonesia. In the context of an increasingly complex business world, LDD serves as a preventive instrument to identify and mitigate legal risks that may arise before a transaction is executed. This study uses a qualitative method with a normative juridical approach, through a literature review and analysis of laws and regulations, legal doctrine, and legal practices in Indonesia. The results indicate that the implementation of Legal Due Diligence (LDD) plays a crucial role in ensuring legal certainty and increasing trust in every business transaction in Indonesia. Through a thorough examination of legal aspects, such as asset ownership, regulatory compliance, financial condition, and potential disputes, LDD is able to identify various legal risks that may arise before a transaction is executed. The findings also indicate that companies that consistently implement LDD tend to be better protected from legal issues and have a stronger bargaining position in business negotiations.

Keywords: Legal Due Diligence, Legal Certainty, Business Transactions, Legal Risk, Legal Protection



©2025 Radea Respati Paramudhita. Diterbitkan oleh Arka Institute. Ini adalah artikel akses terbuka di bawah lisensi Creative Commons Attribution NonCommercial 4.0 International License.
(<https://creativecommons.org/licenses/by-nc/4.0/>)

INTRODUCTION

In the era of globalization and digital transformation, companies worldwide face increasingly dynamic business challenges due to regulatory changes, technological developments, and shifting market needs.¹ This dynamic demands that every business entity adapt quickly and accurately to maintain competitiveness while ensuring compliance with applicable legal provisions.² In this context, Legal Due Diligence (LDD) has emerged as a crucial mechanism in the strategic decision-making process, particularly regarding business transactions such as mergers, acquisitions, and investments. Through LDD implementation, companies can obtain a comprehensive overview of the legal status of an entity or asset that will be the subject of a transaction.³

Furthermore, rapid changes in industrial policies, tax regulations, and data security standards are encouraging companies to implement LDD as a preventative measure to anticipate potential legal risks. This process serves not only to examine legal formalities but also as a means to assess legal feasibility and compliance with various applicable regulations.⁴ By conducting a comprehensive Legal Due Diligence (LDD), companies can identify potential legal issues such as breaches of contract, asset ownership disputes, business permit inconsistencies, and hidden legal liabilities. This is crucial to

¹ Yustina Dhian Novita and Budi Santoso, "Urgensi Pembaharuan Regulasi Perlindungan Konsumen Di Era Bisnis Digital," *Jurnal Pembangunan Hukum Indonesia* 3, no. 1 (2021): 46–58, <https://doi.org/10.14710/jphi.v3i1.46-58>.

² Wahyu Hidayat Hidayat and Nur Kholik, "Implikasi Hukum Atas Perubahan Bisnis UMKM: Strategi Adaptasi Era Digital Dan e-Commerce Di Indonesia," *Jurnal Analisis Hukum* 7, no. 1 (2024): 70–84, <https://doi.org/10.38043/jah.v7i1.5052>.

³ Hoai-Nam Nguyen et al., "Leveraging Blockchain to Enhance Digital Transformation in Small and Medium Enterprises: Challenges and a Proposed Framework," *IEEE Access* 12 (2024): 74961–78.

⁴ Mochammad Tanzil Multazam et al., "Standards for Conducting Legal Due Diligence: Current Developments," *Indonesian Journal of Law and Economics Review* 15 (2022): 10–21070.

ensure that every business transaction is conducted transparently, fairly, and in accordance with the principles of good corporate governance.⁵

Companies that fail to properly conduct Legal Due Diligence (LDD) risk facing various serious consequences, both legal and financial. Non-compliance with legal obligations can result in administrative sanctions, fines, and even lawsuits, potentially damaging the company's reputation with the public and investors. In situations like this, LDD serves as an early warning system, helping management detect potential legal violations before transactions are executed.⁶ Through a thorough analysis of contracts, permits, asset ownership status, and tax obligations, companies can ensure that all legal aspects have been properly fulfilled and do not pose future risks. Thus, LDD becomes an essential protective instrument for maintaining business integrity and continuity.⁷

Furthermore, the function of LDD is not limited to merely identifying legal risks but also plays a role in providing a deeper understanding of the legal obligations that must be met by the company. In practice, LDD results serve as an important basis in the transaction negotiation process, as they can provide an objective picture of the legal position and legal conditions of the parties involved.⁸ LDD reports can also be used to determine risk mitigation measures, such as contract revisions, transaction price adjustments, or even agreement cancellation if significant legal violations are discovered. With this approach, companies can avoid inappropriate business decisions and ensure that every transaction is conducted in accordance with prudent principle.⁹

In modern business trends, the application of LDD is increasingly widespread and transforming into a strategic tool to support corporate sustainability and growth. This process is now focused not only on conventional legal issues but also encompasses broader aspects such as environmental, social, and governance (ESG).¹⁰ In the context of mergers and acquisitions, LDD, which includes ESG aspects, allows companies to assess the extent to which potential business partners adhere to sustainability and social responsibility principles. This is increasingly important given that global investors are now placing significant emphasis on ethical and sustainable business practices.¹¹

In the Indonesian context, the role of Legal Due Diligence is increasingly crucial given the complexity of the legal system and the ever-changing dynamics of regulations. Every business transaction, whether national or cross-border, requires legal certainty so that parties can transact with a sense of security and legal protection.¹² Through the comprehensive implementation of LDD, companies can ensure that all transaction processes comply with national legal provisions, such as the Limited Liability Company Law, the Capital Market Law, and other relevant regulations. LDD also helps prevent violations of third-party legal rights and ensures that important documents such as agreements, licenses, and business permits are legally valid and remain valid.¹³

⁵ Gilang Alife Akbar Efendy and Asep Suherman, "Kewajiban Negara Dalam Melindungi Hak Asasi Manusia Korban Perdagangan Orang Melalui Kerangka Hukum Dan Standar Due Diligence," *Jurnal Inovasi Hukum Dan Kebijakan* 5, no. 4 (2024).

⁶ Iliana Pérez Pupo et al., "Method for Revenue Assurance and Financial Fraud Alerting Supported by LDS Techniques," in *Computational Intelligence Applied to Decision-Making in Uncertain Environments* (Springer, 2025), 63–90.

⁷ Zainuddin Zainuddin, "The Legal Due Diligence of Land Acquisition for the Public Interest: A Critical Review," *SIGn Jurnal Hukum* 4, no. 1 (2022): 46–57, <https://doi.org/10.37276/sjh.v4i1.159>.

⁸ Alemayehu Yismaw Demamu, "Legal Status and Objectives of State-Owned Enterprises in Ethiopia: A Global Perspective," *CIFILE Journal of International Law* 5, no. 9 (2024): 67–86.

⁹ Eko Prakoso Johannes, "Customer Due Diligence Dalam Mencegah Tindak Pidana Pencucian Uang Melalui Lembaga Perbankan," *Law Review*, 2019, 77–97.

¹⁰ Edwin Tri Angga Saputra et al., "Due Diligence in Financial Aspects for Mobile Fuel Station Business Development," *Dynamic Management Journal* 8, no. 3 (2024): 827–44, <https://doi.org/10.31000/dmj.v8i3.11289>.

¹¹ Nabilah Israq et al., "Tinjauan Hukum Pelaksanaan Perjanjian Pengadaan Perumahan Oleh Developer Di PT. Bank Niaga," *Jurnal Kajian Hukum Dan Pendidikan Kewarganegaraan* | E-ISSN: 3089-7084 1, no. 1 (2024): 1–3.

¹² Akhmad Zaki Yamani, "Legal Drafting Untuk Perubahan Hukum: Tantangan Dan Solusi Dalam Penyusunan Regulasi Dan Undang-Undang Yang Adaptif," *Journal of Law and Nation* 3, no. 4 (2024): 1026–36.

¹³ Atiyah Atiyah, Nur Chalesa Fitriani, and Akhmad Zaki Yamani, "Digitalisasi Legal Drafting Melalui Artificial Intelligence: Peluang Dan Tantangan Masa Depan Dokumen Hukum Di Indonesia," *Indonesian Journal of Islamic Jurisprudence, Economic and Legal Theory* 3, no. 2 (2025): 1283–99.

Furthermore, consistent implementation of LDD plays a role in building trust between parties involved in business transactions. The existence of objective and transparent legal analysis ensures that every decision is made based on accurate and accountable information.¹⁴ Thus, LDD functions not only as a technical instrument but also as a mechanism for creating legal certainty and strengthening the principle of good faith in business relationships.¹⁵

Several previous studies have also emphasized the importance of LDD in business transactions. For example, Gu et al. demonstrated that LDD plays a crucial role in reducing the risk of post-transaction disputes.¹⁶ Meanwhile, other studies emphasized the function of LDD in ensuring the validity of the legal documents of acquisition target companies.¹⁷ Another study found that companies implementing LDD demonstrated higher levels of regulatory compliance than those that did not.¹⁸

However, most of these studies focused on the technical aspects of LDD implementation and did not comprehensively examine its contribution to legal certainty directly in the context of Indonesia's dynamic regulatory environment. Furthermore, limitations of previous research are evident in the limited discussion of the relationship between LDD and increased business confidence, as well as the lack of comparative analysis across industry sectors.

Therefore, the novelty of this research lies in its normative-juridical approach, which integrates regulatory analysis, legal doctrine, and LDD practices to explain LDD's contribution to legal certainty in business transactions in Indonesia. This contribution is strengthened by a review of contemporary legal risks, including regulatory changes, ESG challenges, and digital market dynamics.

This research aims to analyze in-depth the role of Legal Due Diligence in ensuring legal certainty in business transactions in Indonesia and to identify how LDD can enhance legal protection and business confidence.

METHOD

This study employed a qualitative research method with a normative juridical approach. This approach was chosen because the focus of the study is the analysis of legal norms governing the implementation of Legal Due Diligence in business transactions in Indonesia. Normative juridical research was conducted by examining various laws and regulations, legal doctrines, and relevant scientific literature.¹⁹ The primary data sources in this study consisted of primary legal materials in the form of regulations such as Law Number 40 of 2007 concerning Limited Liability Companies, Law Number 8 of 1995 concerning Capital Markets, and other provisions relating to mergers, acquisitions, and investments. Additionally, secondary legal materials in the form of journals, books, and previous research findings were used to strengthen the analysis of Legal Due Diligence theory and practice.

Data collection techniques were conducted through library research, which involved reviewing, identifying, and interpreting various relevant legal sources.²⁰ The data obtained were then analyzed using a descriptive-qualitative analysis method, namely by describing, interpreting, and linking

¹⁴ Budi Endarto, Arief Syahrul Alam, and Dwi Elok Indriastuty, "Pelatihan Legal Due Diligence Pada Kantor Hukum Sebagai Upaya Diversifikasi Layanan Jasa Hukum," *Prosiding Konferensi Nasional Pengabdian Kepada Masyarakat Dan Corporate Social Responsibility (PKM-CSR)* 3 (2020): 976–83, <https://doi.org/10.37695/pkmcsr.v3i0.763>.

¹⁵ Muhammad Rizqy Ali Akbar, Soesi Idayanti, and Bha'iq Roza Rakhmatullah Rakhmatullah, "Pelaksanaan Due Diligence Dalam Pendaftaran Jaminan Fidusia Secara Online Oleh Notaris," *Pancasakti Law Journal (PLJ)* 2, no. 2 (2024): 294–302.

¹⁶ Feiying Gu et al., "Biological Roles of LSD1 beyond Its Demethylase Activity," *Cellular and Molecular Life Sciences* 77, no. 17 (2020): 3341–50.

¹⁷ Will Lindstrom and Jennifer H Lindstrom, "College Admissions Tests and LD and ADHD Documentation Guidelines: Consistency with Emerging Legal Guidance," *Journal of Disability Policy Studies* 28, no. 1 (2017): 32–42.

¹⁸ Mughees Aslam, Zhili Gao, and Gary Smith, "Integrated Implementation of Virtual Design and Construction (VDC) and Lean Project Delivery System (LPDS)," *Journal of Building Engineering* 39 (2021): 102252.

¹⁹ KELIK Wardiono et al., "Epistemology Of Legal Studies: Research Method Characteristics of Theoretical Law Bearers in Indonesia," *Journal of Ecohumanism* 3, no. 3 (2024): 814–54.

²⁰ Abigail A Matthews and Jason Rantanen, "Legal Research as a Collective Enterprise: An Examination of Data Availability in Empirical Legal Scholarship," *The Journal of Law, Economics, and Organization* 41, no. 2 (2025): 570–603.

applicable legal provisions with the practice of implementing Legal Due Diligence in business transactions in Indonesia. This analysis aims to find a comprehensive understanding of the role of LDD in ensuring legal certainty and identifying factors that influence the effectiveness of its implementation. With this method, it is hoped that this research can contribute to the development of business law studies and serve as a practical reference for business actors and legal practitioners in applying the principle of prudence in every business transaction.

RESULTS AND DISCUSSION

The Strategic Role of Legal Due Diligence in Business Transactions

1. Identifying Legal Risks

One of the primary roles of Legal Due Diligence (LDD) in business transactions is to identify and disclose various potential legal risks that could threaten the validity and continuity of the transaction. This process is carried out by conducting a thorough review of all legal aspects related to the target company or transaction object. Through LDD, interested parties can obtain an overview of any unresolved legal issues, such as asset ownership disputes, civil conflicts, or other legal liabilities that could impact the value and legality of the transaction. Thus, LDD serves as a preventative tool to prevent unexpected legal risks and provides a solid foundation for careful and measured business decision-making.

Furthermore, LDD also helps uncover the existence of non-visible risks such as hidden liabilities, breaches of contract, and non-compliance with applicable laws and regulations. In practice, the legal team will review important documents such as financial statements, cooperation agreements, operational permits, and tax documents to ensure there are no obligations that could potentially give rise to future legal issues. This verification process is crucial for assessing the extent to which a business entity has conducted its business activities in accordance with good corporate governance principles. If any discrepancies or legal violations are discovered, the LDD results can serve as a basis for renegotiation, adjustments to the transaction value, or even cancellation of the agreement if the risks are deemed too great.

Furthermore, the LDD process also ensures that all legal aspects related to company establishment documents, business permits, asset ownership, intellectual property rights, and cooperation contracts comply with applicable Indonesian regulations. This audit is crucial for ensuring the legality and validity of all business elements involved in the transaction, while also providing legal certainty for all parties. By systematically and comprehensively identifying legal risks, the LDD not only serves as a preventative measure against potential legal issues but also strengthens trust between buyers and sellers in a business transaction.²¹ This demonstrates the crucial role of the LDD process in creating transparency, legal protection, and legal certainty in all business activities in Indonesia.

In the context of Law No. 40 of 2007, the LDD process related to identifying legal risks is closely related to compliance with Articles 97 and 108 concerning the responsibilities of directors and commissioners. If negligence by directors in managing corporate documents, permits, or assets is discovered, this legal risk could result in potential personal liability claims for the directors. Furthermore, the existence of asset disputes must be tested based on Article 32 of the Limited Liability Company Law concerning the validity of share ownership and registration in the shareholder register. From the perspective of Law No. 8 of 1995 concerning Capital Markets, the LDD is crucial to ensure there are no violations of Articles 86 and 90 concerning the obligation to disclose information, as failure to disclose hidden liabilities can be classified as misleading information, potentially leading to criminal or civil sanctions. Therefore, the analysis of this article reinforces the LDD as a legal instrument that ensures legal certainty and transparency in business transactions.

2. Assessing Legal Compliance

One fundamental aspect of implementing Legal Due Diligence (LDD) is assessing the legal compliance of the business entity subject to the transaction. This audit aims to ensure that the company

²¹ Hossam Magdy Balaha, Rawan Ayman Ahmed, and Magdy Hassan Balaha, "LDD-VTS: An AI-Based Framework for Lung Disease Diagnosis Using Vision Transformers and SHAP," *Health Information Science and Systems* 13, no. 1 (2025): 47.

has conducted all its business activities in accordance with applicable laws and regulations and relevant industry standards. Through this process, the legal team verifies the company's legality, from the validity of its establishment, amendments to its articles of association, completeness of business permits, and compliance with reporting obligations to government agencies. This evaluation is crucial because any form of legal non-compliance has the potential to pose serious risks, including administrative sanctions, criminal sanctions, and financial losses that can impact the continuity of the business transaction.

Furthermore, LDD also serves to assess the extent to which a company complies with regulations in its industry sector. For example, for companies operating in the financial, energy, or pharmaceutical sectors, compliance with regulations from supervisory authorities such as the Financial Services Authority (OJK), the Ministry of Energy and Mineral Resources, or the Food and Drug Supervisory Agency (BPOM) is crucial. Non-compliance with these sectoral regulations can have broad legal implications, including the revocation of business permits or the suspension of operations. Thus, LDD ensures that the target company is not only legally valid but also meets the operational standards required by regulatory agencies and applicable technical regulations in Indonesia.

In addition to examining legality and licensing, the legal compliance assessment also covers labor aspects, which are integral to the company's operations. The LDD team will evaluate employment contracts, industrial relations structures, employee rights, and the company's fulfillment of social security and worker welfare obligations. Non-compliance with labor laws, such as minimum wage violations, unprocedural terminations, or violations of occupational safety and health (K3), can lead to lawsuits and damage the company's reputation. Therefore, inspections of labor aspects are a crucial step in ensuring that the company operates ethically and in accordance with fair labor practices.

The assessment of legal compliance in the LDD must be linked to the provisions of Article 98 and Article 102 of the Limited Liability Company Law concerning board actions that require approval from company organs. If the audit finds contracts or operational policies implemented without the approval of the GMS or the Board of Commissioners, this has the potential to violate legal provisions and create procedural flaws. Furthermore, for companies raising public funds or engaging in the capital market, compliance with Law No. 8/1995 is crucial, particularly Articles 5, 30, and 70, which regulate registration, licensing, and reporting obligations. Failure to comply with these obligations can result in administrative and criminal sanctions under Articles 102–110 of the Capital Market Law. Therefore, an analysis of these articles makes it clear that the LDD is not only an administrative assessment but also a judicial evaluation that ensures the company is within the legal framework.

3. Protecting Investors and Financiers

One of the primary functions of Legal Due Diligence (LDD) in business transactions is to provide legal protection for investors and financiers. In the investment context, accurate and transparent information regarding the legal status of a target company is a critical factor in determining the success of an investment decision. Through the LDD process, investors obtain a clear picture of the company's legal status, including asset ownership, licensing validity, regulatory compliance, and potential ongoing disputes. This information serves as the basis for investors to assess the level of investment risk, business feasibility, and long-term profit prospects. Thus, LDD serves as a legal safeguard mechanism that helps investors make rational, data-driven, and risk-reducing decisions.

Furthermore, implementing LDD allows investors to detect hidden liabilities early on that could lead to future losses. These hidden liabilities can include unrecorded debts, legal liabilities pending litigation, or contractual breaches that could have significant financial impacts. By understanding these potential risks before a transaction is executed, investors can take mitigating measures, such as renegotiating the price, changing the agreement structure, or even canceling the transaction if the risk is deemed too high. Therefore, LDD functions not only as a legal verification tool but also as a strategic instrument to protect investors' financial interests and reputation.

Furthermore, the existence of LDD also increases investor confidence in the transparency and accountability of the business market in Indonesia. In the context of economic globalization, investors tend to invest in countries with legal certainty and a strong investment protection system. With professional and standardized LDD practices, Indonesia can strengthen a healthy and competitive investment climate. This aligns with the principles of good corporate governance, where information transparency and legal compliance are fundamental to maintaining business integrity. Thus, LDD not

only provides individual protection for investors but also contributes to national economic stability and growth by creating a safe, transparent, and trustworthy investment environment.

Investor protection within the LDD framework can be examined through the provisions of the Capital Markets Law, specifically Articles 7 and 78, which regulate the obligation to disclose information and prohibit fraud or concealment of material facts. If investors make decisions without complete information regarding the legal status of the target company, the risk of losses due to misinformation increases, and this can be categorized as a violation of the full disclosure principle. From the perspective of the Limited Liability Company Law, the existence of hidden liabilities not reported by directors can be classified as a violation of the fiduciary duty and duty of care as stipulated in Article 97 paragraph (3). Therefore, this analysis shows that the LDD has a strong legal basis as a mechanism to prevent legal violations that directly impact investor protection and financial stability.

4. Serves as a basis for negotiations

One of the strategic roles of Legal Due Diligence (LDD) in business transactions is to provide a solid foundation for the negotiation process between the parties involved. LDD results provide comprehensive information regarding the legal condition of the target company, including potential risks and liabilities that may arise in the future. Based on these findings, buyers or investors can adjust their price negotiation strategies objectively and proportionately to the actual legal situation. For example, if potential disputes or non-compliance with certain regulations are identified, the buyer has the right to negotiate a price reduction or request legal guarantees from the seller. Thus, LDD serves as an analytical tool that provides a rational basis for a fair, transparent, and legally certain business negotiation process.

In addition to serving as a basis for price determination, LDD results also play a crucial role in drafting legal clauses within transaction agreements. Information obtained from the legal examination process can be used to draft indemnity clauses, warranties, and condition precedents to protect the buyer's interests from identified risks. Through this approach, each party has clarity regarding their rights and obligations in the event of a legal violation or loss after the transaction is completed. Thus, the LDD serves not only as a risk identification tool but also as a legal basis that strengthens the bargaining position in negotiations and ensures a balance of interests between the parties.

Furthermore, implementing the LDD also helps in developing an optimal transaction structure from a legal perspective. Based on the analysis, the parties involved can determine the most appropriate transaction form and mechanism, whether through a share acquisition, an asset acquisition, or another form of strategic cooperation. The choice of this structure is highly dependent on the results of a legal evaluation of the target company's obligations, permits, and potential risks. With the support of the LDD results, companies can design transactions that are efficient, minimize risk, and compliant with national and international legal frameworks. Therefore, the LDD is a crucial instrument in the business negotiation process, not only ensuring legal certainty but also creating sustainable and beneficial agreements for all parties involved.

In the negotiation process, the LDD provides a foundation that aligns with Article 1338 of the Civil Code concerning the principle of freedom of contract, but remains limited by mandatory legal provisions in the Limited Liability Company Law and the Capital Markets Law. For example, if a violation of Articles 29–30 of the Limited Liability Company Law concerning the company's organizational structure is discovered, the buyer has the right to negotiate legal guarantees to address potential risks. In transactions involving public companies, negotiations must also comply with the information disclosure provisions stipulated in Article 86 of the Capital Markets Law, as all material information must be disclosed before the transaction is approved by shareholders or regulators. Thus, the LDD results serve not only as a commercial basis but also as a legal basis that strengthens the legitimacy of the negotiation process.

5. Serves as a basis for negotiations

One of the strategic roles of Legal Due Diligence (LDD) in business transactions is to provide a solid foundation for the negotiation process between the parties involved. LDD results provide comprehensive information regarding the legal condition of the target company, including potential risks and liabilities that may arise in the future. Based on these findings, buyers or investors can adjust their price negotiation strategies objectively and proportionately to the actual legal situation. For

example, if potential disputes or non-compliance with certain regulations are identified, the buyer has the right to negotiate a price reduction or request legal guarantees from the seller. Thus, LDD serves as an analytical tool that provides a rational basis for a fair, transparent, and legally certain business negotiation process.

In addition to serving as a basis for price determination, LDD results also play a crucial role in drafting legal clauses within transaction agreements. Information obtained from the legal examination process can be used to draft indemnity clauses, warranties, and condition precedents to protect the buyer's interests from identified risks. Through this approach, each party has clarity regarding their rights and obligations in the event of a legal violation or loss after the transaction is completed. Thus, the LDD serves not only as a risk identification tool but also as a legal basis that strengthens the bargaining position in negotiations and ensures a balance of interests between the parties.

Furthermore, implementing the LDD also helps in developing an optimal transaction structure from a legal perspective. Based on the analysis, the parties involved can determine the most appropriate transaction form and mechanism, whether through a share acquisition, an asset acquisition, or another form of strategic cooperation. The choice of this structure is highly dependent on the results of a legal evaluation of the target company's obligations, permits, and potential risks. With the support of the LDD results, companies can design transactions that are efficient, minimize risk, and compliant with national and international legal frameworks. Therefore, the LDD is a crucial instrument in the business negotiation process, not only ensuring legal certainty but also creating sustainable and beneficial agreements for all parties involved.

An analysis of the articles in the Limited Liability Company Law indicates that the negotiation process must comply with Article 126, which regulates restrictions on mergers, amalgamations, or takeovers, including protection for minority shareholders. If the LDD finds any violation of these rights, the negotiation clauses may include compensation mechanisms or adjustments to the transaction structure. In the capital market context, Articles 84 and 85 of Law No. 8/1995 stipulate that material transactions and conflicts of interest must obtain the approval of independent shareholders, allowing the LDD's findings to determine whether the transaction can proceed or be revised. Therefore, the analysis of these articles demonstrates that the basis for negotiations is not only commercial but also a legal obligation to ensure the validity and certainty of the transaction.

Legal Due Diligence Implementation Methods in Indonesian Business Law

1. Review of Contract and Legal Documents

The first stage in implementing Legal Due Diligence (LDD) in the context of Indonesian business law is to review relevant contracts and legal documents. This process aims to ensure that all agreements and legal documents of the target company have been drafted, signed, and executed in accordance with applicable laws. This review covers various types of documents, such as deeds of establishment and amendments to articles of association, cooperation agreements, lease contracts, licenses, business permits, and financing or loan agreements. Through this process, the legal team can assess the validity and enforceability of each contract, including ensuring that no clauses conflict with laws and regulations or disproportionately disadvantage one party. This stage also includes an analysis of the contract's terms and conditions, validity period, the parties' responsibilities, and potential legal violations that may arise from the implementation of the contract.

In addition to examining the validity of the contract, the legal document review in LDD also includes an assessment of the company's level of compliance with administrative and regulatory obligations. The legal team will investigate whether the company's business permits, intellectual property rights, and operational licenses are still valid and compliant with its business activities. This review is crucial to avoid legal risks that could arise from the use of unauthorized or expired permits. The results of this document review serve as a crucial basis for business decision-making, as they provide a clear picture of the company's legal standing and potential liabilities. Therefore, reviewing contracts and legal documents is not merely an administrative exercise, but a key foundation for ensuring legal certainty, transparency, and legal protection in every business transaction in Indonesia.

2. Ownership Structure Review

The next crucial step in implementing Legal Due Diligence (LDD) is examining the company's ownership structure. This review includes identifying and verifying major shareholders, share ownership proportions, and the relationships between the company and other parties with economic or legal interests. The goal is to ensure that the ownership structure is legitimate, transparent, and does not violate applicable laws and regulations, such as the Limited Liability Company Law and regulations of the Financial Services Authority (OJK). During this process, the legal team typically reviews documents such as the shareholder list, the deed of incorporation and its amendments, and annual financial reports to ensure there are no irregularities in ownership records. A thorough examination will help ensure that the parties involved in the company have clear legal legitimacy and that there are no indications of share ownership manipulation.

Furthermore, the ownership structure examination also serves to identify potential legal and reputational risks that could arise from the involvement of certain parties within the company. The Legal Due Diligence team needs to ensure that no shareholders, investors, or affiliated entities are involved in illegal activities such as money laundering, terrorism financing, or corrupt practices. This is crucial because the involvement of legally problematic parties can have serious consequences for the company, both in the form of legal sanctions and reputational damage. Therefore, the ownership structure examination not only ensures legal certainty for shares and their holders but also serves as a form of preventative protection for investors and business partners to avoid potential risks that could disrupt the stability and sustainability of business transactions in Indonesia.

3. Legal and Litigation Examination

The legal and litigation examination stage is a crucial element in the Legal Due Diligence (LDD) process, as it focuses on identifying potential legal disputes that could impact a company's condition and value. This process involves reviewing all legal records and documents related to the company's current or past litigation cases, whether civil, criminal, or administrative. The legal team will review court filings, lawsuits, dispute resolution agreements, and other legal documents to determine the company's legal standing in each case. This examination also aims to assess the level of risk exposure that may arise from unresolved disputes, including potential financial liabilities that could impact the company's operational continuity.

In addition to examining ongoing cases, the examination also includes a historical analysis of past legal issues to assess the company's compliance and integrity in dealing with legal issues. Through this approach, investors or buyers can understand the extent of the company's potential future legal risks, both in terms of unresolved legal liabilities and the likelihood of similar disputes reoccurring. The LDD team also typically assesses the quality of a company's legal handling, including the effectiveness of legal counsel and the dispute resolution strategies employed. Therefore, legal and litigation examinations not only serve to uncover potential legal risks but also serve as a means to assess the company's credibility in managing its legal obligations, ultimately contributing to legal certainty in business transactions.

4. Compliance with Laws and Regulations Examination

The compliance with laws and regulations examination stage is a vital component of the Legal Due Diligence (LDD) process, as it ensures that the company has conducted all its operational activities in accordance with applicable laws. This examination includes an evaluation of the company's compliance with various national and regional regulations, such as taxation, business licensing, environmental protection, and occupational safety standards. The legal team will review administrative and legal documents, including tax compliance reports, operational permits, and environmental management documents, to ensure the company has not committed any legal violations that could potentially result in administrative sanctions, fines, or future lawsuits. In the context of business in Indonesia, where regulations are constantly evolving, this stage is crucial for maintaining business continuity and ensuring that company activities remain within the law.

Furthermore, this audit also plays a crucial role in assessing a company's level of compliance with good corporate governance principles. Compliance with regulations not only demonstrates a company's integrity but also enhances investor and business partner confidence in the entity's

legitimacy and stability. The LDD team will identify areas of potential non-compliance, such as inaccurate tax reporting, improper use of permits, or negligence in fulfilling environmental and social obligations. The audit results are then used to provide recommendations for improvements so the company can promptly comply with applicable regulations. Therefore, the audit phase of compliance with laws and regulations serves not only to detect potential violations but also as a proactive effort to create legal certainty, enhance the company's reputation, and strengthen the foundation of business sustainability in Indonesia.

5. Examination of assets and liabilities

The examination of a company's assets and liabilities is an integral part of the Legal Due Diligence (LDD) process, which aims to ensure the validity and legal value of all assets owned and to identify liabilities inherent in the company. This examination covers fixed assets such as land, buildings, machinery, vehicles, as well as intangible assets such as intellectual property rights and business licenses. The legal team will review ownership documents, certificates, and agreements related to the transfer or guarantee of assets to ensure there are no legal disputes or dual ownership. Furthermore, an examination of the company's receivables is conducted to ensure legitimate collection rights, as well as other debts and obligations that could impact the company's financial structure. This process is crucial because inaccurate recording of assets and liabilities can pose legal and financial risks for potential investors or purchasers.

Furthermore, the examination of assets and liabilities also serves as a means to assess the financial stability and legal soundness of a company. In this context, LDD not only assesses the quantitative value of assets and liabilities but also examines the legal aspects of each transaction involving those assets. For example, if assets are used as collateral for credit, it is necessary to ensure that their use complies with regulations and is approved by the relevant authorities. Similarly, regarding liabilities, the company must demonstrate that all debts and financial commitments have been recorded transparently and in accordance with the principles of legal accountability. Therefore, auditing assets and liabilities serves not only as administrative validation but also as a strategic step in ensuring legal certainty, the accuracy of financial information, and the protection of stakeholder interests in a business transaction.

6. Auditing Compliance with Internal Regulations

The auditing phase of compliance with a company's internal regulations focuses on evaluating the extent to which the business entity has implemented the internal policies and procedures established by management. This audit covers various aspects such as privacy policies, data security, business ethics, and the company's internal control system. In today's digital era, compliance with data security and information protection policies is increasingly important given the increasing risk of data leaks and privacy breaches, which can have legal implications. The Legal Due Diligence Team will verify whether these policies have been formulated in accordance with applicable laws, such as the Personal Data Protection Act and internationally recognized information security standards.

Furthermore, this audit also aims to assess the effectiveness of the implementation of good corporate governance. Compliance with internal regulations reflects the extent to which an organization's culture supports integrity, transparency, and accountability in its business activities. The LDD team typically reviews the implementation of internal audit procedures, whistleblowing systems, and anti-bribery and anti-corruption policies to ensure that the company has systems in place to prevent misconduct. If discrepancies are found between policies and actual practices, the audit results will provide management with recommendations for improvements to ensure the internal control system functions more optimally. Thus, audits of compliance with internal regulations not only ensure compliance with external laws but also strengthen the organization's integrity and the company's reputation among investors and business partners.

CONCLUSION

Based on the above description, it can be concluded that Legal Due Diligence (LDD) plays a highly strategic role in ensuring legal certainty and protecting the interests of parties in business transactions in Indonesia. LDD serves as a preventative mechanism that helps identify, assess, and mitigate various legal risks that may arise from a transaction, whether in the form of non-compliance

with regulations, ownership disputes, or contractual issues. Through an in-depth analysis of legal documents, ownership structures, and compliance with laws and regulations, LDD provides a strong foundation for business actors to make informed and measured decisions. Thus, LDD implementation is a crucial instrument in maintaining transparency, integrity, and the legality of business activities in Indonesia.

Furthermore, LDD implementation is not only beneficial in the context of risk identification but also serves as a strategic evaluation tool for assessing a company's legal and governance performance. Through an examination of assets, liabilities, and organizational structure, LDD provides a comprehensive picture of the target company's actual condition. Furthermore, internal and external compliance audits ensure that all business activities are conducted in accordance with good corporate governance principles and applicable legal provisions. The results of the LDD process can also serve as an important basis for negotiations, determining transaction value, and drafting relevant legal protection clauses. This demonstrates that LDD is not merely administrative but also strategic in maintaining business continuity and stability.

Considering the complexity of regulations and business dynamics in Indonesia, implementing Legal Due Diligence is essential for every business entity, particularly in major transactions such as mergers, acquisitions, and cross-sector investments. Comprehensive and professional implementation of LDD will increase investor confidence, strengthen the company's legal standing, and minimize future legal risks. Therefore, LDD should be viewed as an integral part of a company's legal risk management process, not simply a legal formality. With proper implementation, Legal Due Diligence can contribute significantly to creating a transparent, fair, and legally certain business environment in Indonesia.

REFERENCES

- Akbar, Muhammad Rizqy Ali, Soesi Idayanti, and Bha'iq Roza Rakhmatullah Rakhmatullah. "Pelaksanaan Due Diligence Dalam Pendaftaran Jaminan Fidusia Secara Online Oleh Notaris." *Pancasakti Law Journal (PLJ)* 2, no. 2 (2024): 294–302.
- Aslam, Mughees, Zhili Gao, and Gary Smith. "Integrated Implementation of Virtual Design and Construction (VDC) and Lean Project Delivery System (LPDS)." *Journal of Building Engineering* 39 (2021): 102252.
- Atiyah, Atiyah, Nur Chalesa Fitriani, and Akhmad Zaki Yamani. "Digitalisasi Legal Drafting Melalui Artificial Intelligence: Peluang Dan Tantangan Masa Depan Dokumen Hukum Di Indonesia." *Indonesian Journal of Islamic Jurisprudence, Economic and Legal Theory* 3, no. 2 (2025): 1283–99.
- Balaha, Hossam Magdy, Rawan Ayman Ahmed, and Magdy Hassan Balaha. "LDD-VTS: An AI-Based Framework for Lung Disease Diagnosis Using Vision Transformers and SHAP." *Health Information Science and Systems* 13, no. 1 (2025): 47.
- Demamu, Alemayehu Yismaw. "Legal Status and Objectives of State-Owned Enterprises in Ethiopia: A Global Perspective." *CIFILE Journal of International Law* 5, no. 9 (2024): 67–86.
- Efendy, Gilang Alife Akbar, and Asep Suherman. "Kewajiban Negara Dalam Melindungi Hak Asasi Manusia Korban Perdagangan Orang Melalui Kerangka Hukum Dan Standar Due Diligence." *Jurnal Inovasi Hukum Dan Kebijakan* 5, no. 4 (2024).
- Endarto, Budi, Arief Syahrul Alam, and Dwi Elok Indriastuty. "Pelatihan Legal Due Diligence Pada Kantor Hukum Sebagai Upaya Diversifikasi Layanan Jasa Hukum." *Prosiding Konferensi Nasional Pengabdian Kepada Masyarakat Dan Corporate Social Responsibility (PKM-CSR)* 3 (2020): 976–83. <https://doi.org/10.37695/pkmcsr.v3i0.763>.
- Gu, Feiying, Yuxin Lin, Zhun Wang, Xiaoxin Wu, Zhenyue Ye, Yuezhen Wang, and Huiyin Lan. "Biological Roles of LSD1 beyond Its Demethylase Activity." *Cellular and Molecular Life Sciences* 77, no. 17 (2020): 3341–50.
- Hidayat, Wahyu Hidayat, and Nur Kholik. "Implikasi Hukum Atas Perubahan Bisnis UMKM: Strategi Adaptasi Era Digital Dan e-Commerce Di Indonesia." *Jurnal Analisis Hukum* 7, no. 1 (2024): 70–84. <https://doi.org/10.38043/jah.v7i1.5052>.

- Israa, Nabilah, Anjeli Afriani, Lutfiah Azizah, and Helfira Citra. "Tinjauan Hukum Pelaksanaan Perjanjian Pengadaan Perumahan Oleh Developer Di PT. Bank Niaga." *Jurnal Kajian Hukum Dan Pendidikan Kewarganegaraan/ E-ISSN: 3089-7084* 1, no. 1 (2024): 1–3.
- Johannes, Eko Prakoso. "Customer Due Diligence Dalam Mencegah Tindak Pidana Pencucian Uang Melalui Lembaga Perbankan." *Law Review*, 2019, 77–97.
- Lindstrom, Will, and Jennifer H Lindstrom. "College Admissions Tests and LD and ADHD Documentation Guidelines: Consistency with Emerging Legal Guidance." *Journal of Disability Policy Studies* 28, no. 1 (2017): 32–42.
- Matthews, Abigail A, and Jason Rantanen. "Legal Research as a Collective Enterprise: An Examination of Data Availability in Empirical Legal Scholarship." *The Journal of Law, Economics, and Organization* 41, no. 2 (2025): 570–603.
- Multazam, Mochammad Tanzil, Rifqi Ridlo Phahlevy, Regita Amanah Huzairin, and Melati Indah Purnama. "Standards for Conducting Legal Due Diligence: Current Developments." *Indonesian Journal of Law and Economics Review* 15 (2022): 10–21070.
- Nguyen, Hoai-Nam, Hoang-Anh Pham, Nguyen Huynh-Tuong, and Duc-Hiep Nguyen. "Leveraging Blockchain to Enhance Digital Transformation in Small and Medium Enterprises: Challenges and a Proposed Framework." *IEEE Access* 12 (2024): 74961–78.
- Novita, Yustina Dhian, and Budi Santoso. "Urgensi Pembaharuan Regulasi Perlindungan Konsumen Di Era Bisnis Digital." *Jurnal Pembangunan Hukum Indonesia* 3, no. 1 (2021): 46–58. <https://doi.org/10.14710/jphi.v3i1.46-58>.
- Pupo, Iliana Pérez, Pedro Yobanis Piñero Pérez, Raykenler Yzquierdo Herrera, Luis Alvarado Acuña, Carlos Manuel Piñero Ramírez, and Pedro E Piñero Ramírez. "Method for Revenue Assurance and Financial Fraud Alerting Supported by LDS Techniques." In *Computational Intelligence Applied to Decision-Making in Uncertain Environments*, 63–90. Springer, 2025.
- Saputra, Edwin Tri Angga, Rhian Indradewa, Dimas Angga Negoro, and Edi Hamdi. "Due Diligence in Financial Aspects for Mobile Fuel Station Business Development." *Dynamic Management Journal* 8, no. 3 (2024): 827–44. <https://doi.org/10.31000/dmj.v8i3.11289>.
- Wardiono, Kelik, Khudzaifah Dimyati, Wardah Yuspin, T P Nugraha, A Budiono, and SAEPUL Rochman. "Epistemology Of Legal Studies: Research Method Characteristics of Theoretical Law Bearers in Indonesia." *Journal of Ecohumanism* 3, no. 3 (2024): 814–54.
- Yamani, Akhmad Zaki. "Legal Drafting Untuk Perubahan Hukum: Tantangan Dan Solusi Dalam Penyusunan Regulasi Dan Undang-Undang Yang Adaptif." *Journal of Law and Nation* 3, no. 4 (2024): 1026–36.
- Zainuddin, Zainuddin. "The Legal Due Diligence of Land Acquisition for the Public Interest: A Critical Review." *SIGn Jurnal Hukum* 4, no. 1 (2022): 46–57. <https://doi.org/10.37276/sjh.v4i1.159>.