

Personal Ownership versus Sole Proprietorship: Contract Structure, Liability Risks, and Protection of Owner Assets

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ABSTRACT

This article examines the differences between private ownership and individual limited liability companies in terms of legal protection for small entrepreneurs through a normative juridical method based on literature studies. The analysis uses the Civil Code, the Limited Liability Company Law as amended by the Job Creation Law, and Government Regulation No. 8 of 2021 as the main normative framework. In private ownership, business obligations are attached to the same person, so that personal assets become general collateral for liabilities, which affects contract design, evidence, and litigation positions. In a Private Limited Company, the company acts as a legal entity, so that contracts and evidence are directed at the company's identity, administration, and separation of records. Shareholder protection arises through liability limitations, but can be set aside in cases of corporate abuse or commingling of assets in accordance with the Limited Liability Company Law. PP 8 of 2021 strengthens administrative discipline, particularly the obligation to submit annual financial reports, which is useful for maintaining the separation of transactions and facilitating verification in civil disputes. Findings indicate that the choice of business form shapes different risk patterns: sole proprietorship excels in simplicity, while private limited companies excel in administrative separation and certainty of parties in contracts. This article offers an assessment framework for small entrepreneurs and creditors to draft contracts, documentation, and dispute resolution measures in line with applicable norms. The framework emphasizes the selection of the appropriate party in a lawsuit, the inclusion of the signatory's capacity, and the separation of accounts and archives. With this discipline, dispute resolution can focus on performance and transaction evidence, rather than on the ambiguity of business identity, and improve the traceability of obligations for major creditors.

INTRODUCTION

Small-scale business activities often start from personal ownership, where one person manages capital, assets, transactions, and legal responsibilities on their own behalf. This model is common because it is simple, quick, and has low initial costs, but it has the consequence of blurring the line between personal and business assets. In practice, this separation determines the protection for business owners in the event of default, civil lawsuits, labor disputes, workplace accidents, or consumer claims. The choice of business form also determines how relationships with suppliers, creditors, financial institutions, and digital platforms are established through standard contracts. Credibility and protection in digital transactions are increasingly

relevant with the widespread use of electronic contracts, whose validity and effectiveness have become the subject of separate legal studies (Maulani et al., 2023; Sulaiman et al., 2023). When business growth requires capital, procurement of goods, or the use of third-party services, the legal structure becomes an instrument that influences the feasibility of financing, risk sharing, and decision-making governance. For small entrepreneurs, the main issue is not merely commercial development, but certainty regarding who bears legal consequences, the extent to which that responsibility extends to personal assets, and how internal arrangements can be proven in the event of a dispute (Muhammad, 2018).

The development of modern corporate law provides the mechanisms of separate legal

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personality and limited liability as risk management tools. Through these mechanisms, the company's obligations are, in principle, fulfilled from the company's assets, not from the shareholders' assets. Similar principles of protection, albeit with varying degrees of complexity, also exist in the context of public companies, particularly in conflict resolution mechanisms involving minority shareholders (Rahayu et al., 2024; Ratnawati et al., 2024). For small businesses, this separation is valuable when business relationships develop into more complex contractual networks, including business credit, property leases, purchases with deferred payment, or distribution partnerships. However, liability restrictions are never absolute. There are circumstances in which the controlling party can still be held liable, either through the construction of unlawful acts, abuse of legal form, breach of fiduciary duties of directors, or the withdrawal of liability due to asset commingling (Johan & Ariawan, 2022). The expansion of this concept, including the impact of the Job Creation Law on the concept and responsibilities of sole proprietorships, also affects the legal protection landscape for small businesses (Hardyansah et al., 2023). Therefore, the legal form that provides protection needs to be read as a package of rules, including establishment, separation of assets, management, reporting, bankruptcy, and law enforcement, not just a label of "legal entity".

In the national legal system, the choice between private ownership and legal entities is closely related to civil, corporate, labor, consumer protection, evidence, and bankruptcy systems. When business actors operate as private owners, their legal relationships are commonly constructed as obligations attached to individuals (Purwijanti & Prihandono, 2018). The risk of liability attaches to the same person, so that personal assets are, in principle, subject to debt repayment based on the general provisions of civil law. Meanwhile, the formation of a company creates a new legal entity that can own assets, enter into contracts, sue, and be sued. This difference affects bargaining power during negotiations, contract design, and how to manage transaction evidence. At the same time, law enforcement still requires good faith, prohibition of abuse, and administrative compliance so that the protection promised by legal entities does not become a source of new disputes.

Changes in corporate law policy in recent years have introduced individual limited liability companies for micro and small businesses as a form of company with a single founder, which is simplified from conventional companies. This policy

is related to the agenda of ease of doing business, lighter formalities, and recognition that many small businesses are run individually. Individual limited liability companies promise access to limited liability and legal entity recognition without complicated procedures. However, for the legal protection of small entrepreneurs, the key question is not only about ease of establishment, but also how minimum governance, separation of assets, and administrative compliance can be implemented consistently. The transition from personal ownership to a private limited company changes the legal relationship with third parties, including contract signing mechanisms, tax compliance, bookkeeping, and dispute resolution. If this change is not followed by disciplined documentation, the risk of evidence in the event of a dispute may increase, even though the legal entity form has been chosen.

The discussion of private ownership versus private limited companies also touches on the dimension of creditor and vulnerable party protection. Limited liability provides protection for business owners, but at the same time has the potential to increase risks for small creditors, workers, and consumers when companies do not have sufficient assets to cover their liabilities (Armour et al., 2017). Therefore, company law and bankruptcy law seek to balance these interests through the doctrine of abuse of legal entity, transparency obligations, and enforcement mechanisms in cases of fraud or unfair risk transfer (Madaus, 2015). Achieving this balance is also an integral part of business accountability, which encompasses ethics, responsibility, morality, and legal obligations (Darmawan, 2022).

For small entrepreneurs, this balance is crucial because they can be in two positions at once, namely as debtors who need protection from business risks and as creditors to customers or partners who are in debt. Economic law studies show that the choice of business entity affects market confidence, access to financing, and exposure to litigation and bankruptcy risks (Gagliardi et al., 2013). Thus, relevant legal protection is not merely formal protection, but protection that can be effectively implemented in daily transactions and supports business sustainability (World Bank Group, 2016).

This issue becomes even more specific when the applicable national regulations are read as a whole. The Limited Liability Company Law, amended by the Job Creation Law and its implementing regulations, which introduced sole proprietorship companies, provides a formal basis for the separation of assets and liabilities. Beyond that, the Consumer

Protection Law, the Manpower Law and its amendments, the Bankruptcy and PKPU Law, the Civil Code, and the provisions on contracts and evidence continue to shape the risk landscape that small businesses must face. The choice between personal ownership and individual limited liability companies therefore needs to be examined through normative legal questions regarding the design of protection: protection of personal assets, protection when contracting, protection when disputes arise, and protection in the event of default. From this point, research can examine whether the individual limited liability company instrument actually adds certainty for small entrepreneurs, or instead creates new compliance requirements that are difficult to meet without assistance.

The comparison between personal ownership and individual limited liability companies places the issue of asset separation at the center of the legal protection debate. In personal ownership, the concept of personal liability is attached to the same subject as the business manager, so that a general guarantee of all the debtor's assets becomes an inevitable consequence. In a sole proprietorship, the doctrinal separation of assets provides a barrier of liability, but that barrier relies on compliance with minimum governance and demonstrable administrative separation. In corporate law literature, liability limitation is understood as a risk allocation mechanism that changes incentive structures and the way creditors assess debtor eligibility (Armour et al., 2017). The problem is that small entrepreneurs often combine household and business finances, so the formal separation required by legal entities may not be consistently implemented. When this separation is fragile, disputes can move towards claims of corporate abuse, allegations of asset mixing, or the withdrawal of personal liability on the basis of unlawful acts, which ultimately reduces the expected value of protection.

Another problem arises at the point of financing and contractual relationships with third parties. Sole proprietorships may be perceived as more credible because they are legal entities, but in the practice of small business financing, creditors often require personal guarantees, sureties, or collateral, which ultimately returns the risk to the personal sphere. This means that protection based on limitation of liability does not always mean the removal of risk from the owner, as the structure of the financing agreement can shift the risk back through contractual clauses. Bankruptcy literature emphasizes that the design of owner protection and creditor protection always intersects with information governance,

collateral structure, and enforcement mechanisms when the debtor defaults (Finch & Milman, 2017). For small entrepreneurs, the legal issue lies in how the choice of business form affects bargaining position in agreements, access to financing, and the consequences of default. At the same time, the compliance burden arising from legal entities, such as bookkeeping and reporting, has the potential to become a source of dispute if fulfilled minimally and inconsistently.

The next issue relates to the certainty of law enforcement mechanisms when disputes arise with consumers, employees, or business partners. Private ownership places entrepreneurs as the directly responsible party, making the collection, lawsuit, and execution processes simpler from the creditor's point of view, but riskier for business actors. Sole proprietorships change the map of the parties being sued, the objects of seizure, and the strategy of proof because the legal subject is different from the owner. In corporate law, the separation of legal personalities is seen as a prerequisite for the stable management of assets and contracts, but it also requires formal discipline so that third parties can verify with whom they are transacting (Armour et al., 2017). In small businesses, this discipline often clashes with pragmatic daily business practices, such as the use of personal accounts, informal contracts, or sloppy record-keeping. The tension between doctrine and practice creates normative legal issues regarding the realistic extent of protection and the design of rules that small entrepreneurs can apply without reducing legal certainty for other parties.

Changes in the corporate legal architecture that open the way for sole proprietorships encourage a re-reading of the concept of legal protection for small entrepreneurs. The choice of business form is no longer limited to private ownership versus conventional corporations, which typically require more than one founder, but now includes sole proprietorships with simpler formalities. This shift expands access to legal entities for small businesses, but also raises questions about the quality of protection that is actually obtained when the rules are simplified. A normative legal study is needed to map out how the provisions on companies, contracts, guarantees, bankruptcy, employment, and consumer protection intersect in small business transactions. With this mapping, the choice of business form can be assessed through its legal consequences, rather than through administrative preferences alone, so that small entrepreneurs have a more orderly basis for determining risk design and evidence in their business activities.

This topic is also relevant because increasingly

formal digital economies and supply chains require clear legal identities, transaction records, and verifiable document compliance. Many small entrepreneurs enter ecosystems of data-based platforms, procurement, or financing that assess administrative compliance as an indicator of credibility. At this point, sole proprietorships are often positioned as a gateway to formality, while private ownership is considered flexible but less "readable" by institutions. Research comparing the two forms can test these assumptions from a legal perspective: how asset separation is practiced, how litigation and enforcement risks are mapped, and how the choice of business form affects contract design and evidence. Such studies help to develop more precise arguments regarding the legal protection that can be implemented in small business practices, while maintaining a balance of interests for third parties transacting with the business.

This study aims to compile a normative legal analysis comparing sole proprietorships and sole proprietorship companies by examining the construction of liability, separation of assets, and the consequences for the protection of owners' assets and certainty for third parties. Theoretically, this paper clarifies the relationship between the doctrine of separate legal personality, limitation of liability, and the limits of personal liability in a single-member company scheme. Practically, this paper provides a framework for small entrepreneurs to assess the legal consequences of their choice of business form on contract design, evidentiary discipline, and dispute risk mapping, so that decisions on business establishment and management can be made in a more measured manner and in accordance with applicable regulations.

RESEARCH METHOD

This study uses a normative juridical method with qualitative literature study techniques that place legal materials as the main object of analysis. Primary legal materials include laws and regulations governing business forms, companies, contracts, liability, bankruptcy, employment, consumer protection, as well as government administration and licensing services relevant to the establishment of a private limited company. Secondary legal materials include academic books and journal articles discussing the doctrine of separate legal personality, limitations of liability, withdrawal of liability under certain circumstances, and the legal relationship between companies and the guarantee and bankruptcy systems. Literature collection was conducted through targeted searches of publisher

and scientific journal databases, accompanied by forward and backward citation tracking of identified works. The literature review was compiled in accordance with the principles of scientific evidence screening and organization to ensure that the arguments were systematically structured and auditable (Webster & Watson, 2002).

The source selection process applied inclusion and exclusion criteria to maintain quality and relevance. Sources were included if (i) they originated from reputable journals or academic books, (ii) they were published within the permitted range of the last two decades, (iii) they had a verification identity in the form of a DOI or ISBN, and (iv) discuss aspects directly related to the comparison of private ownership and sole proprietorship, including issues of wealth separation, risk allocation, contractual structure, and the consequences of disputes. Sources are excluded if they are non-academic in nature, cannot be verified via DOI/ISBN, duplicate substance without added value, or are irrelevant to the problem formulation. Furthermore, all sources that passed the selection process were summarized analytically, then synthesized thematically to find patterns of argumentation, points of difference, and points of convergence between the literature, including how each source defined legal protection, limits of liability, and the extent of formal compliance required for liability limitations to hold up when tested (Thomas & Harden, 2008).

The analysis stage uses qualitative coding to organize literature findings and legal materials into themes that are in line with the two problem formulations. Initial codes are constructed from recurring elements in the literature and norms, then refined through iterative reading to ensure that each theme has sufficient, consistent, and non-overlapping reference support. For quality assurance, this study applied an analysis trace check in the form of a source summary matrix, recording the reasons for inclusion or exclusion, and checking the consistency of interpretations between sections of the manuscript. This technique helps maintain traceability from statements to sources, reduces source selection bias, and ensures that conclusions are drawn from a testable synthesis. The qualitative data analysis framework refers to coding and presentation guidelines commonly used in document-based qualitative research (Miles et al., 2014; Saldaña, 2016).

RESULT AND DISCUSSION

Construction of Liability and Separation of Assets in Private Ownership and Sole Proprietorship

Differences in business legal structures have significant consequences for owners. The

construction of civil liability in private ownership differs fundamentally from that of a Limited Liability Company (PT), particularly in terms of asset separation and protection of the owner's assets. Sole proprietorship, which in Indonesian civil law is commonly understood as an individual business without legal entity status, places the owner as the sole legal entity responsible for all business obligations. Because the business does not give rise to a new legal entity, any obligations arising from business transactions are directly attached to the same person. As a result, there is no clear line between personal assets and business assets. All of the owner's assets have the potential to be used to fulfil obligations in the event of default, whether arising from trade debts, loans, or compensation. In relation to creditors, this structure gives them a strong position because they deal directly with individual debtors. This interaction is highly dependent on the principle of good faith in the execution of contracts, which is the foundation for preventing and resolving disputes (Irfansyah et al., 2024). This framework also means that day-to-day business decisions, such as taking out personal loans for business needs, directly affect the risk of losing household assets. From a normative legal reasoning perspective, the core issue lies in the identity of the debtor and the scope of responsibility that accompanies it (Setiawan & Huda, 2023). This confirms that the nature of personal ownership carries legal risks attached to the individual.

The civil law framework places sole proprietors in a vulnerable position. In personal ownership, the legal consequences for the protection of the owner's assets are minimal because they are based on the principle of general guarantees in civil law (Purwijanti & Prihandono, 2018). Article 1131 of the Civil Code (KUHPerdara) states that all property belonging to the debtor, whether movable or immovable, existing or future, is collateral for all personal obligations. This norm has two important implications. First, creditors do not have to designate specific assets as collateral at the outset in order to collect, because all of the debtor's assets are positioned as a source of repayment. Second, the scope of protection for the personal assets of sole proprietors is very limited because the creditor's success in obtaining a judgment and execution opens up the possibility of seizure of various assets, as long as the applicable procedural and execution requirements are met. Normatively, Article 1131 of the Civil Code does not distinguish whether the obligation arose for business or personal purposes. The difference in purpose may be relevant in fact, but

it does not change the debtor's position as the same person. Therefore, the proposed protection of the owner's assets through "separation" is difficult to achieve if it remains in the form of personal ownership. Sole proprietorships provide almost no effective asset protection mechanisms.

The choice of business form is often determined by seemingly simple practical factors. Sole proprietorship is often chosen because of the ease of starting a business and low initial costs, but these characteristics are directly proportional to the absence of a legal entity. From a legal perspective, the relationship with creditors is formed through agreements made on behalf of the owner, so that the identity of the parties in the contract and the identity of the parties in the execution is the same person. The quality and effectiveness of contractual instruments are key determinants in preventing disputes and creating legal stability for businesses (Wibowo et al., 2021). In the event of default, creditors can demand performance, cancellation, compensation, or a combination of claims in accordance with the agreed terms of the contract. After a legally binding decision, enforcement measures can reach personal assets such as houses, vehicles, savings, or other property identified in the debtor's name, subject to the rules of seizure and exceptions determined by law. For small entrepreneurs, this risk is often not realized because business transactions are carried out repetitively in small amounts, but the accumulation of debt or compensation can exceed the value of household assets. Normatively, the key issue is the absence of liability restrictions, so that one commercial failure can drastically reduce a family's economic capacity. Thus, personal ownership places the protection of the owner's assets at a weak level from the outset. This condition shows how fragile the position of sole proprietors is in the face of legal risks.

The legal entity business model offers a different dimension of protection for small business actors. Unlike private ownership, a Sole Proprietorship is provided for by company law as a legal entity that can be established by one person for micro and small business categories. Its regulatory basis is based on Law Number 40 of 2007 concerning Limited Liability Companies (PT Law), which has been amended through Law Number 11 of 2020 concerning Job Creation, as well as details through Government Regulation Number 8 of 2021. Since Limited Liability Companies have legal entity status, the law separates the Company from its shareholders and directors (separate legal personality), so that shareholders have no direct interest in the Company's assets and are not liable for the Company's debts (Sutrisno,

2019). In this design, the company becomes an independent legal entity, with rights and obligations, and assets that are separate from its owners. This separation is a premise that shifts the construction of civil liability. A good management structure and contractual relationships priorities ethical foundations, contributing to more stable business performance (Mardikaningsih & Darmawan, 2022; Putra et al., 2022). If in private ownership the debtor is a person, in a Personal Ownership the debtor is the company as long as the agreement is made on behalf of the company by the authorized body. The direct implications for the relationship with creditors are changes in collection targets, changes in the object of execution, and changes in the way credit risk is assessed. Creditors dealing with Personal Ownership in principle test the feasibility of the company, including the company's assets and cash flow capabilities, not the personal assets of the shareholders. This change in subject becomes an instrument of protection for owners, as personal assets are placed outside the perimeter of the company's obligations, as long as the principle of separation is implemented. Consequently, a Personal Ownership functions as a legal mechanism that strengthens the limits of owner liability.

The concept of limited liability is a key feature of private limited companies in Indonesia. The liability of private limited companies in Indonesia is essentially limited, because the structure of private limited companies does not allow for internal relationships (relationships between company organs), so there is no form of internal liability and liability does not exceed the company's capital (Maria, 2023). Article 3 paragraph (1) of the PT Law emphasizes that shareholders of a company are not personally liable for obligations made on behalf of the company and are not liable for losses of the company exceeding the shares they own. This formulation contains two layers of protection. The first layer is the denial of personal liability for company obligations, so that creditors cannot automatically demand payment from shareholders simply because they are the sole controller or founder. The second layer is the limitation of shareholders' economic risk to the value of their shares or paid-up capital, so that potential losses are limited to their investment in the company. In a sole proprietorship, these consequences are more pronounced because the sole shareholder usually acts directly as the manager. Nevertheless, the norm in Article 3 paragraph (1) serves as a legal barrier that separates risk accounts. For creditors, this barrier requires a protection strategy in the form of strengthening contract clauses, requesting collateral

from the company, or testing the adequacy of the company's assets before providing facilities. For business owners, this barrier offers the opportunity to take measured business risks without jeopardizing all household assets, as long as the company's compliance is maintained. The competence of managers and the organizational culture built in the management of the company are also determining factors in maintaining the commitment and effectiveness of the legal entity (Hariani, 2023). Thus, a sole proprietorship company provides a balance between business opportunities and personal asset protection.

The principle of limited liability in a Limited Liability Company does not always stand unconditionally. Limited Liability Companies in principle provide limited liability to shareholders, but this principle can be set aside if it is proven that there has been a commingling of personal assets with Company assets carried out in bad faith (Fionita & Gunadi, 2023). However, the protection arising from Article 3 paragraph (1) of the Limited Liability Company Law is not absolute. The limitation of shareholder liability remains applicable as long as there are no exceptions in the law, but through the doctrine of piercing the corporate veil, this limitation can be penetrated to impose unlimited liability in response to the rigidity of the principle of limited liability, even though its application has the potential to reduce business incentives (Siregar et al., 2022). Article 3 paragraph (2) of the PT Law provides an exception that allows the withdrawal of personal liability of shareholders if the legal entity requirements are not met, shareholders with bad faith use the company for personal gain, shareholders are involved in unlawful acts committed by the company, or shareholders unlawfully use the company's assets so that the company's assets are insufficient to pay off its debts. Normatively, this norm is a correction to the abuse of legal entities. This means that the separation of assets in a sole proprietorship is conditional. It remains valid if the founders and managers maintain the separation of assets, keep neat records, and act within the limits of their authority. If the company is treated as a personal "wallet", for example, by taking company assets without a valid basis or systematically mixing personal transactions with company transactions, then creditors have a way to break through the limited liability barrier. For small entrepreneurs, the norm in Article 3 paragraph (2) means that protection is not merely the result of registration, but the result of continuous compliance. The effectiveness of Personal Ownership protection depends on asset separation discipline and governance.

Regulatory reform through the Job Creation Law

brings a new dimension to the establishment of companies in Indonesia. The changes brought about by Law Number 11 of 2020 concerning Job Creation in the realm of companies facilitate Personal Ownership through the simplification of establishment requirements, including the introduction of a statement of establishment for a single founder for micro and small businesses. From a normative legal perspective, the purpose of this simplification is to open up access to legal entities for small businesses, while remaining within the framework of the corporate principle of separation of assets and organ accountability. The purpose of establishing a Sole Proprietorship for MSME actors is to facilitate business development for MSME actors by enabling them to form a Limited Liability Company (Kusuma, 2022). At this point, it is important to distinguish between "ease of establishment" and "ease of proving separation of assets". A simple establishment does not automatically result in a factual separation of assets. Separation requires consistent administrative practices, such as separate accounts, traceable transaction records, and documented decisions by sole shareholders. The Job Creation Law, as an amendment, must be read in conjunction with the PT Law, which still contains the structure of liability, including the norms of Article 3 paragraphs (1) and (2). Thus, the consequences of protecting the owner's assets in relation to creditors greatly depend on whether these procedural changes are balanced by compliance behavior that maintains a "distance" between the owner and the company (Purwijanti & Prihandono, 2018). If that distance is blurred, creditors have grounds to argue for personal liability. The effectiveness of Personal Ownership protection depends not only on the rules, but also on consistent compliance practices.

Derivative regulations are an important instrument for ensuring that the principles of legal entities are implemented effectively. Government Regulation No. 8 of 2021 serves to detail the operations of sole proprietorships, including aspects of establishment, changes, and administrative obligations associated with legal entity status (Jazuli et al., 2022). The provisions regarding the obligation to prepare annual financial reports for Personal Ownership are normative instruments directly related to the separation of assets. Financial reports are not merely a formality, but a means of demonstrating that the company's transactions are recorded as company transactions, not personal transactions. In relation to creditors, properly prepared financial statements clarify the company's capacity to pay its obligations,

assist in credit assessment, and reduce disputes over which assets belong to the company. Conversely, negligence in preparing reports or unverifiable records opens the door to claims that shareholders are using the company for personal gain or commingling assets, which is a path to exclusion under Article 3(2) of the Limited Liability Company Law. Therefore, PP 8 of 2021 needs to be positioned as a reinforcement of the separation of assets. It establishes minimum discipline so that legal entity status functions as intended for protection, while also protecting creditors through greater transparency regarding the company's condition. With this obligation, PP 8/2021 emphasizes that the legitimacy of a legal entity depends on accountability practices.

The legal relationship between creditors and debtors always adjusts to the form of business entity chosen. Another notable implication is the change in the position of creditors in designing security. In private ownership, creditors can rely on Article 1131 of the Civil Code as general collateral and assess the debtor's personal assets as a source of repayment. In a sole proprietorship, creditors face a different subject, so that general guarantees "stick" to the company, not to the shareholders. Therefore, conservative creditors tend to seek additional instruments, such as requesting collateral on company assets, requesting additional collateral, or requesting personal guarantees. Requests for personal guarantees, if agreed upon, in practice change the risk map because the owner voluntarily extends their liability beyond the fence of Article 3 paragraph (1) of the PT Law. Normatively, this situation does not negate the concept of asset separation, but illustrates that the protection of the owner's assets in relation to creditors is often determined by the content of the financing contract. In other words, a Private Limited Company provides a default fence, but the parties can draft a contract that reduces the power of that fence. Normative legal analysis must examine the intersection between the norms of limited liability and freedom of contract that allow creditors to request additional security. This condition shows that the effectiveness of legal protection depends on the balance between norms and contracts.

The identity of the parties to the contract determines the direction of liability that will apply. This comparison also requires clarity regarding who is acting and, on whose behalf, when the agreement is formed. In private ownership, the signatory to the contract is the owner and the legal consequences are directly attached to him or her. In a sole proprietorship, the agreement must be made on behalf of the company by an authorized body, with

the signatory stating their capacity as a director or representative of the company. Normatively, errors in stating capacity or mixing identities can lead to disputes regarding the bound parties. If the owner signs the contract without mentioning the company, the creditor may argue that the debtor is a person, not a company. Conversely, if the contract is clearly in the name of the company, the creditor is bound to collect from the company. This discipline is closely related to the objective of protecting the owner's assets. The protection of Article 3 paragraph (1) of the new PT Law only works effectively if the agreement is truly born as a company agreement. PP 8 of 2021, which regulates the administration of Individual PTs, supports the certainty of identity through a registration and announcement mechanism that facilitates the verification of parties. For small entrepreneurs, the practical implication is that every important transaction must be framed as a company transaction and evidenced through company documents. Administrative discipline is a key requirement for legal protection to work optimally.

The aspect of liability in a sole proprietorship PT does not only depend on the separation of assets. In addition to the separation of assets, relationships with creditors are also influenced by the possibility of liability based on unlawful acts and corporate abuse. Article 3 paragraph (2) of the PT Law provides a normative path to bypass liability restrictions if there are acts that meet the elements of exception. For creditors, this norm is a tool to demand more than just company assets if the company is run improperly. For owners, this norm serves as a warning sign so that the management of a private limited company does not fall into the practice of mixing or taking company assets without justification. In the realm of evidence, creditors will trace the flow of funds, use of accounts, baseless transactions, and administrative negligence that indicates bad faith or unlawful use of company assets. At this point, the financial reporting obligation in PP 8 of 2021 becomes relevant, as missing or unreasonable reports can strengthen allegations of abuse. Therefore, the consequences of owner asset protection are conditional. Owners are protected if they maintain separation and compliance, but they risk becoming direct targets if management actions provide strong evidence of misuse. In other words, legal protection is only effective if management practices are carried out consistently and appropriately.

The normative conclusion of this analysis highlights the fundamental differences between the two forms of business. Ultimately, the normative

answer to this research question can be formulated as a difference in the identity of the debtor and the mechanism of guarantee for the fulfilment of obligations. In private ownership, the debtor is the owner, and Article 1131 of the Civil Code places all of the owner's assets as general collateral. Consequently, the protection of the owner's assets against creditors is weak because there is no separation of assets. In a private limited company, the debtor is the company as a legal entity, and Article 3 paragraph (1) of the Limited Liability Company Law stipulates that shareholders are not personally liable beyond their shares. Consequently, creditors in principle collect from the company's assets. However, this protection can be breached through Article 3 paragraph (2) of the PT Law in the event of abuse, commingling of assets, or unlawful acts, and can also be "bypassed" through an agreement if the owner agrees to provide personal guarantees. PP 8 of 2021 regulates administrative requirements, including financial reports, which help to prove the separation of assets. Within this framework, the protection of owners' assets in a Private Limited Company is stronger by design, but its effectiveness depends on compliance and provable separation discipline. Therefore, the success of asset protection in a Private Limited Company is determined by consistent compliance practices.

Implications of Business Form on Contracts, Evidence, and Dispute Resolution for Small Businesses

The choice of business form determines different legal consequences for business actors. The choice of business ownership form, whether it is private ownership or a Limited Liability Company (LLC), has significant legal implications for contract structure, transaction evidence, and the position of the parties in civil dispute resolution. This contractual framework also applies in various transactions, where analysis of consumer protection and the legal consequences of default become very important (Darmawan et al., 2023). Sole proprietorship in civil law practice is understood as an individual business without a legal entity, so that the owner becomes the sole legal subject who performs business legal actions in his or her own name. Sole Proprietorship Companies, regulated by Law No. 40 of 2007 concerning Limited Liability Companies as amended by Law No. 11 of 2020 concerning Job Creation and detailed in Government Regulation No. 8 of 2021, present the legal entity of the company as the contracting party, the party that keeps the administration, and the party that appears in the dispute forum. This difference in legal status

results in differences in contract drafting techniques because the determination of parties, signing authority, and scope of performance becomes more structured in a Personal Ownership. In private ownership, contract design often follows simple, trust-based commercial practices, while Personal Ownership encourages the consistent use of corporate identity, including the inclusion of the company name, domicile, and signing capacity. In civil disputes, this difference in party identity becomes the starting point for judges to assess who is bound, who can be sued, and from whom performance can be demanded (Purwijanti & Prihandono, 2018). This difference confirms that legal entity status forms a clearer framework for contracts and disputes.

Individual business contracts are generally characterized by simplicity in structure and proof mechanisms. In private ownership, the contract structure is usually simpler because the contract is made in the name of the direct owner, so that the validity requirements of an agreement under Article 1320 of the Civil Code become the main reference for testing its binding force. These four requirements, namely agreement between the parties, competence, a specific subject matter, and a lawful cause, in small businesses often appear in the form of a brief written agreement or even a verbal agreement supported by proof of payment. The legal implication is that when a dispute arises, the plaintiff will seek to prove that an agreement did indeed exist, that the performance was sufficiently clear, and that the purpose of the agreement did not conflict with the law. Since the parties to the agreement are the owners, the construction of rights and obligations rests with the same person from the beginning to the stage of execution of the decision. The simple structure does facilitate quick transactions, but it often sacrifices the accuracy of clauses, such as those regarding delivery time, quality standards, complaint procedures, or compensation limitations. In testing Article 1320 of the Civil Code, weaknesses in clauses can lead to debates about the object of the agreement and the *causa*, especially if the implementation practices are inconsistent. At this point, the form of private ownership often depends on proving the behavior of the parties after the contract, because the contract itself has minimal provisions. Simple contracts risk disputes due to weak regulatory details.

Contracts in private limited companies require greater precision because they involve legal entities as subjects. In private limited companies, the contract structure is built on the recognition of the company as a legal entity, so that ideally the contract refers to

the company as a party, while the owner acts through their position within the company. The framework of Law No. 40 of 2007, as amended by Law No. 11 of 2020, places the company as a subject that can perform legal actions through the company's organs. The demand for more detailed and complex contract clauses is also found in various forms of modern business partnerships, which require in-depth legal consideration (Putra & Wibowo, 2023). The practical implication for contract design is the need to ensure that the signatory's authority is connected to the company, for example, by stating that the signatory is acting for and on behalf of the company, accompanied by the correct identity of the company. If the clauses regarding the parties and authority are unclear, the counterparty may argue that the contract is binding on the individual personally, or conversely, that the contract is not binding because the signatory did not have the authority. Thus, differences in business forms affect the anatomy of contracts, especially in the sections on the definition of the parties, statements of authority, correspondence addresses, and mechanisms for notification of default. Personal Ownership tends to encourage more orderly arrangements because the contract documents will be part of the company's administration, whereas in private ownership, documents are often mixed with personal files. In disputes, the regularity of the parties' identities affects how quickly judges can determine who should be named as a party. This strengthens the position of Personal Ownership as a business form that demands clearer contractual discipline.

The negotiation of guarantee clauses in business contracts reflects the differences in character between private ownership and Personal Ownership. The form of business also influences how the parties negotiate guarantee and performance security clauses, even though such security remains subject to general principles of contract. In private ownership, the opposing party often requests security based on the owner's reputation and direct access to the owner's assets, so that the clauses may take the form of advance payment, gradual handover, or retention of payment until the work is accepted. In a Personal Ownership, performance safeguards are often directed at the company's assets and capabilities, so that clauses may evolve into requests for supporting documents, such as invoices in the company's name, proof of orders, or provisions that payments be made to the company's account. An important distinguishing point is that the design of clauses in Personal Ownership commonly requires administrative separation so that payment flows can

be easily traced if disputes arise. This is related to the principle of company administration, which is further detailed in PP No. 8 of 2021. The rise of digital transactions also adds a layer of complexity, where the validity and effectiveness of electronic contracts become critical issues in legal protection (Sulaiman et al., 2023). Although the Government Regulation primarily regulates certain aspects of establishment and obligations, the contractual consequences are real because the opposing party will assess administrative regularity as an indicator of the company's seriousness. In private ownership, such regularity depends entirely on the owner's habits, resulting in high variation and susceptibility to disputes during the evidence stage. These differences indicate that administrative discipline is a key factor in assessing the credibility of contracts.

Evidence in individual businesses often relies on simple documents attached to the owner. Proof of transactions in private ownership tends to be straightforward because the documents are attached to the owner, but they are prone to being mixed with non-business transactions. In small business practices, proof of transactions can take the form of simple receipts, notes, short messages, or manual records, while formal agreements are often not made. In civil disputes, this shifts the focus of proof from the contract text to a series of evidence showing the existence of an agreement and the performance of the contract, such as proof of transfer, receipts, order communications, and acknowledgement of partial performance. Article 1320 of the Civil Code remains the framework for testing, but proving the requirements of "specific matters" and agreements often requires reconstructing transactions from scattered evidence. The absence of organizational filing restrictions increases the risk of evidence loss, weakening the owner's bargaining position if the opposing party presents more organized documents. Furthermore, when personal and business transactions use the same account, arguments about whether a payment is related to contractual performance or household needs become a source of energy-consuming debate. Such circumstances make the burden of factual proof heavier, even though the civil law is simple. The choice of private ownership, with a pattern of proof based on simple evidence, influences litigation strategy and the potential outcome of disputes. As a result, private ownership places the owner in a vulnerable position when disputes require more structured evidence.

Evidence in a Private Limited Company is supported by a more organized administrative system than a private business. In a Private Limited

Company, the evidence of transactions is more structured because the company's administration is geared towards separating company transactions from owner transactions. Government Regulation No. 8 of 2021 stipulates the obligation for private limited companies to submit annual financial reports, which conceptually encourages the systematic recording of the company's income, expenses, receivables, payables, and assets. In civil disputes, financial reports and supporting documents can be used to show transaction patterns, the existence of receivables, payment status, and the fairness of claims. Although financial statements are not the only evidence, they help build a consistent narrative of events, especially when supported by invoices, contracts, and bank evidence in the company's name. This kind of regularity facilitates the mapping of legal relationships, for example, distinguishing sales transactions from the owner's personal loans (Purwijanti & Prihandono, 2018). The implication for the parties is an increase in the company's ability to attack or defend allegations of default through mutually reinforcing documents. However, administrative obligations also require discipline. If the company is negligent, fails to prepare reports, or keeps records carelessly, this evidentiary advantage is lost and the dispute reverts to informal evidence. Therefore, the choice of Private Limited Company influences evidence through two channels: providing strong administrative tools while also demanding the fulfilment of administrative obligations so that these tools can be used effectively.

The form of a business entity determines the procedural direction in civil disputes and the identification of the parties involved. The choice of business form affects the position of the parties in dispute resolution by determining which party has the right to sue and which party must be sued. In private ownership, the owner becomes the plaintiff or defendant directly because he or she signs the agreement and receives or delivers the performance on his or her behalf. This makes it easier for the opposing party in the dispute to prepare a statement of claim because it does not require proof of legal entity status. However, this convenience is accompanied by broader enforcement consequences under Article 1131 of the Civil Code, which places the debtor's property as collateral for their obligations. In civil disputes, the norm of Article 1131 affects the creditor's strategy because after the verdict, the scope of performance can be directed at various identified assets of the debtor. In a sole proprietorship, the defendant is the company as a legal entity, so the

lawsuit must mention the company's identity correctly. This difference affects the technique of exception and defense, for example, objections regarding error in persona if the plaintiff has sued the wrong party. In practical terms, parties who choose a Personal Ownership can obtain procedural advantages in the form of focusing the dispute on the company as the contracting party, so that the position of the owner as an individual does not automatically become the center of the dispute, as long as the contract and evidence support this. This procedural difference confirms that legal entity status provides an additional layer of protection for owners.

Disputes in private limited companies have an additional dimension due to the potential for personal liability. In private limited companies, the position of the parties in a dispute is also influenced by the possibility of personal liability in the event of abuse of legal entity, as reflected in Article 3 paragraph (2) of the Limited Liability Company Law. This norm is relevant at the dispute stage because the plaintiff can formulate alternative arguments, for example, suing the company for default and at the same time arguing certain circumstances that open up the possibility of suing the owner personally (Setiawan & Huda, 2023). The formulation of such an argument changes the structure of the lawsuit and the evidence, because the plaintiff must prove the elements of using the company for unlawful purposes, mixing assets, or other acts that meet the qualifications for exemption. From the perspective of a private limited company, this creates a defensive need for documentation showing that the company's governance is running properly and that transactions are carried out on behalf of the company. Government Regulation No. 8 of 2021 regarding annual financial reports is relevant as a tool to confirm administrative separation. In private ownership, the issue of Article 3 paragraph (2) does not arise because there is no legal entity that can be "pierced", so disputes are more directly about the existence or absence of default and the amount of compensation. Thus, the choice of a Private Limited Company can broaden the spectrum of issues debated in court, from mere default to issues of governance, administration, and alleged abuse. Therefore, disputes in Private Limited Companies are not only about default, but also the quality of governance.

The legitimacy of contracts in business practice is greatly influenced by the form of business entity used. Differences in business forms also affect the legitimacy of contracts in the eyes of business partners, especially in higher-value transactions or those involving formal supply chains. Personal Ownership, because it is recognized as a legal entity

under the amended PT Law, provides certainty of identity and facilitates verification of company data, including address and status. In contract design, this certainty allows for the inclusion of more explicit representation and warranty clauses, such as representations that the signatories are authorized and that the company has the capacity to perform. This administrative certainty is an important element in business sustainability strategies, especially in the face of regulatory uncertainty and managerial challenges (Mardikaningsih & Darmawan, 2021).

In private ownership, the legitimacy of a contract depends on the personal identity of the owner, so that if the owner changes their address, contact number, or runs several businesses at once, business partners may experience administrative uncertainty. This uncertainty can lead to disputes over whether the transaction was carried out with business A or business B owned by the same person. Although it can still be proven in civil law, the cost of the dispute increases because factual verification requires more evidence. At this point, the choice of a Private Limited Company influences the contract structure by encouraging standardization of identity, whereas private ownership tends to result in greater document variation, which then complicates the burden of proof when disputes arise. Thus, the legal entity status of a Private Limited Company strengthens the legitimacy of contracts and reduces administrative uncertainty.

Evidence in court is greatly influenced by the quality of documentation attached to the form of business. In terms of evidence in court, the formal documentation requirements for private limited companies provide the advantage of consistency of evidence, especially if the company diligently archives contracts, invoices, proof of receipt, and annual financial reports. PP No. 8 of 2021 can be seen as a norm that guides the administrative behavior of companies, so that the documents produced are not merely internal records, but a means of accountability that can be presented when there is a dispute. This regularity helps judges assess a series of events, including whether a payment has been taken into account, whether goods have been delivered, or whether services have been received. In private ownership, evidence often relies more on sporadic "per transaction" evidence, so judges must reconstruct the chronology from pieces of evidence. This situation opens up room for debate regarding the interpretation of evidence, for example, whether a short message constitutes a final agreement or merely a negotiation. Article 1320 of the Civil Code remains the benchmark for the validity of an

agreement, but proving the terms of the agreement often becomes the main arena of dispute. Therefore, the choice of business form affects the burden of proof in factual terms. Private limited companies tend to strengthen their ability to prove their case when their administration is in order, while private ownership tends to require more work to prove due to limitations in documentation structure.

The difference in business forms is also reflected in the dynamics of bargaining positions when disputes arise. The practical consequences of these differences are seen in bargaining positions when disputes are resolved through negotiation or in court. Sole proprietorships often place owners in a vulnerable position because they are directly sued, and any threat of execution can immediately target their property under Article 1131 of the Civil Code. This risk influences the settlement strategy, for example, encouraging a quick settlement even if the terms are burdensome, in order to avoid escalating costs and the risk of execution. In a sole proprietorship, the company becomes the disputing party, so the scope of negotiations often centers on the company's ability to fulfil its obligations, restructure payments, or settle through the surrender of company assets. The owner's bargaining position can be better protected as long as the dispute remains within the company and does not move to the exception of Article 3 paragraph (2) of the PT Law. At the same time, Personal Ownership requires contractual discipline, especially the use of the company's identity in correspondence and payments. If the owner frequently uses their personal name in company transactions, the opposing party in a dispute may use this circumstance to expand their arguments and put pressure on the bargaining position. Therefore, the choice of business form affects not only theory, but also negotiation patterns, litigation threat patterns, and the resilience of the parties when the dispute enters the evidence stage. The business form has direct implications for negotiation strategies and resilience in the face of disputes.

The balance between ease of doing business and legal protection is reflected in the applicable regulatory framework. Normatively, the balance between ease and protection in the choice of business form is evident in two sets of rules that operate simultaneously. The first set comes from the Civil Code, particularly Article 1320 as a test of the validity of contracts and Article 1131 as the basis for general guarantees that affect the consequences of disputes after a decision. The second package originates from the Limited Liability Company Law and its amendments through the Job Creation Law and details in Government Regulation No. 8 of 2021,

which establishes the procedures for sole proprietorships as legal entities with administrative discipline, including annual financial reporting obligations. If small entrepreneurs choose private ownership, they gain ease of transaction without corporate administration, but contracts and evidence are highly dependent on the quality of personal documentation. If small entrepreneurs choose a Personal Ownership, they obtain a legal entity that requires more orderly standards for contracts and evidence, so that disputes can be mapped more systematically. These choices ultimately affect the structure of contracts, as they determine how parties and authorities are referred to, affect evidence, as they determine archiving and recording patterns, and affect the position of the parties in disputes, as they determine who appears as the litigant and how arguments can be constructed based on the rules that govern them.

CONCLUSION

This study confirms that private ownership and sole proprietorship form different legal relationship structures from the contract stage to dispute resolution. Private ownership places the owner as the contracting party, the center of evidence, and the subject directly facing claims, so that the contractual structure is simpler but prone to blurring the separation between business and personal transactions. A private limited company places the company as the contracting party and subject of the dispute, so that the contract structure requires the company's identity, signing authority, and administrative regularity. In terms of asset protection, the Civil Code, through general guarantees on the debtor's assets, places private owners in a position that is more open to execution, while the Limited Liability Company Law provides a limitation of liability for shareholders with exceptions in certain circumstances. Government Regulation No. 8 of 2021 strengthens the administrative order of limited liability companies, which directly affects the quality of evidence and the orderliness of relationships with creditors.

For small entrepreneurs, the form of ownership determines the design of daily business documents, the manner of arranging contractual correspondence, and the filing system that will determine the strength or weakness of their position when disputes arise. For creditors and business partners, the choice of business form affects the due diligence process, the formulation of clauses, and the determination of the appropriate party in a lawsuit. For law enforcement officials, the distinction between legal subjects

requires precision in the identity of the parties, the capacity of the signatories, and the relationship between transaction evidence and company administration. The combination of the Civil Code, the amended Limited Liability Company Law, and Government Regulation No. 8 of 2021 provides standards for assessing whether a contract is in whose name, whether obligations are fulfilled by whom, and how the burden of proof is reasonably arranged in small business civil disputes.

Small entrepreneurs who maintain personal ownership need to apply minimum contractual discipline that confirms the parties, the object of performance, the price, the method of payment, and

proof of delivery, accompanied by the separation of business transaction files from personal files. Small entrepreneurs who choose a sole proprietorship need to ensure that all major transactions are carried out in the name of the company, that incoming and outgoing payments use the company's account, and that administrative obligations, especially annual financial reports, are fulfilled consistently so that the separation of records can be proven. Creditors are advised to draft clear clauses regarding the identity of the debtor, collection methods, and proof of default, as well as to verify company documents before providing facilities.

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