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## LEGAL DILEMMA OF USING DIPLOMAS AS COLLATERAL IN EMPLOYMENT RELATIONSHIPS

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### ABSTRACT

The concern in Indonesia is that explicit regulations addressing this issue still need to be improved. This study aims to analyze the legal dilemmas surrounding diploma retention, identify weaknesses in current regulations, and propose solutions to protect employee rights. Using a normative juridical approach, this research employs statutory and conceptual methodologies. Data were collected through document analysis of legal statutes, employment agreements, and relevant legal literature. The findings indicate that ambiguity in regulatory frameworks concerning legal sanctions leads to repeated violations and construction failures. The findings reveal that diploma retention as collateral needs a solid legal foundation, creating an imbalance of power that disadvantages employees. The study highlights the novelty of examining diplomas as collateral within the broader principles of collateral law, offering new perspectives on their inapplicability as valid collateral objects. By proposing clear regulatory frameworks and alternative approaches, such as proportional penalties, the study contributes to safeguarding workers' rights while addressing employers' concerns. These findings aim to promote fairness and legal certainty in employment practices.

**Keywords:** building failures, diploma withholding, employment relationship collateral, legal certainty, penal sanctions

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### INTRODUCTION

Indonesia is a state of law, meaning every state activity must be subject to legal rules. As a law-governed country, Indonesia guarantees legal protection for each of its citizens, even from the moment they are a fetus in the womb (Helitha Muchtar et al., 2023; Kusdarini et al., 2022; Muawanah et al., 2018; Tacconi et al., 2019). This fetus has an inviolable right to life, and the law will continue to protect these rights until death. The law regulates relationships among individuals in society, primarily creating tranquility, order, peace, and social security. The law also encompasses protections for various professions and workers (Chandranegara & Cahyawati, 2023; Suntana et al., 2023). The law is responsible for safeguarding workers' rights, including their rights to welfare, health, and safety at work. Workers play a vital role in national development, necessitating good quality standards and competent human resources that meet employers' needs. One form of proof of competence is an individual's latest educational diploma (Bergsmann et al., 2015; Cattaneo et al., 2022; Núñez-Canal et al., 2022).

The law regulates relationships among individuals in society, primarily aiming to create social tranquility, order, peace, and security (Van Prooijen et al., 2022). Additionally, the law protects various professions, jobs, and workers with rights that must be guaranteed, such as welfare, health, and safety at work (Cohen, 2024; Colenda, 2024; Nault & Thau, 2022). Workers or employees, who also include laborers, work under the employer, entrepreneur, or owner, utilizing their skills and talents in exchange for compensation, whether in monetary form or another. As time progresses,

education has increasingly come to be viewed as a requirement for obtaining a job. To work, an individual must undergo education to receive a diploma, proving they have completed their formal education (Bamieh & Cintolesi, 2021; Chandranegara & Cahyawati, 2023; Esteves, 2024; Putri et al., 2023). Consequently, a diploma is considered an object that carries rights for its owner as proof of their graduation from their educational path.

Recently, issues have arisen in employment agreements, particularly regarding clauses burdening workers, such as withholding diplomas during the contract period (Karhapää et al., 2024; Radic et al., 2020). This practice has emerged due to the imbalance between the number of job seekers and available job openings, compounded by rising living costs (Albro & McElfresh, 2021; Radic et al., 2020; Wang et al., 2025). Such conditions often compel job seekers to accept any work to meet their needs. The unclear legal rules aggravate this situation, as Law Number 6 of 2023 on Job Creation (from now on referred to as the Job Creation Law) and the Civil Code do not explicitly address the practice of withholding employees' diplomas. Protection of the right to work is essential in fierce competition and limited job opportunities (Min et al., 2019). Companies frequently withhold employees' diplomas under the guise of security or to ensure that employees possess the necessary qualifications and protect sensitive information about workers. However, this diploma withholding can violate the principles of equality and non-discrimination in employment relationships (Egels-Zandén & Lindholm, 2015a; Hoffmann et al., 2022). This practice can hinder workers' career development and academic opportunities, obstructing them from achieving higher positions or enhancing their professional skills.

The importance of legal protection for workers who hold their diplomas by companies can be found in international principles. Various international human rights legal instruments, such as the International Covenant on Civil and Political Rights (ICCPR) and the International Covenant on Economic, Social, and Cultural Rights (ICESCR), implicitly support individuals' rights to possess and control personal documents. In Indonesia, the Job Creation Law provides a legal framework that regulates workers' and companies' rights and obligations. Although this law does not explicitly address diploma withholding, the principles of equality, fair treatment, and the right to privacy recognized within it can serve as a basis for re-evaluating such practices if they risk harming employees.

Recently, issues have arisen in employment agreements, particularly regarding clauses that burden workers, such as the withholding of diplomas during the contract period. This practice has gained attention due to the imbalance between job seekers and available positions, compounded by rising living costs. For instance, Egels-Zandén and Lindholm (2015) examined restrictive employment clauses and their impact on worker rights, emphasizing how power asymmetries often disadvantage employees. Similarly, Hoffmann et al. (2024) analyzed workplace policies that indirectly perpetuate inequality, highlighting the lack of specific regulations as a critical factor in exacerbating employee vulnerability. These studies underscore the urgent need to revisit and update employment regulations to protect workers from exploitative practices. While often framed as a tool for ensuring employee commitment, withholding diplomas violates principles of fairness and equality in employment relationships, obstructing workers' career progression and educational opportunities.

Moreover, international human rights instruments, such as the International Covenant on Economic, Social, and Cultural Rights (ICESCR), have increasingly been applied to employment practices to uphold workers' rights (Abderhalden-Zellweger et al., 2021). Recent research by Núñez-Canal et al. (2022) explores the intersection of labor law and personal document retention, finding

that ambiguous regulations lead to inconsistent enforcement and reduced worker protections. In the Indonesian context, the Job Creation Law provides a framework for employment relationships, but its lack of specific provisions addressing diploma retention highlights a regulatory gap. This study positions itself within these ongoing discussions by critically analyzing diploma withholding practices and proposing regulatory reforms to align employment practices with national labor laws and international standards. By integrating insights from recent global and local research, this study seeks to contribute to a more nuanced understanding of the legal and ethical dimensions of diploma retention in employment relationships.

Employers' withholding of original diplomas has been a contentious issue in employment relationships, as it often places employees in a vulnerable position. A notable case occurred in Indonesia, where employees complained against a prominent company for retaining their diplomas as collateral for employment contracts. These employees argued that this practice restricted their ability to seek better opportunities and pursue further education, leading to career stagnation and financial distress. The case highlighted significant gaps in labor law, as no explicit legal framework addressed the permissibility or conditions for such practices. The company justified its actions to ensure employee loyalty and prevent abrupt resignations; however, the lack of clear regulations left the affected workers with limited recourse to reclaim their documents. This incident underscores the need for legal clarity and protections surrounding diploma retention practices. By examining such cases, this study aims to shed light on the implications of withholding diplomas in employment and offer actionable solutions to safeguard employee rights while addressing employer concerns.

## **METHOD**

The normative juridical research method is used in legal studies to examine legal documents and norms (Kotzé et al., 2022). This method analyzes the existing legal rules and how these rules are applied or interpreted within a specific regulatory framework. In normative juridical research, the primary sources used are legislation and other legal literature. This approach is highly relevant for investigating legal issues that are theoretical and conceptual, such as the legal dilemmas surrounding the use of diplomas as collateral in employment relationships. It also seeks to identify the weaknesses in regulations regarding withholding diplomas as collateral in employment relationships. It explores ways to address the legal dilemmas of using diplomas as collateral in these relationships. One of the approaches employed in this method is the statute and conceptual approaches. The statute approach involves reviewing and analyzing rules governing specific issues, such as the Job Creation Law. Through this approach, researchers can analyze and identify the legal dilemmas associated with the use of diplomas as collateral in employment relationships, as well as identify the weaknesses in the regulations regarding diploma withholding as collateral in employment relationships and explore efforts to resolve the legal dilemmas related to the use of diplomas as collateral in these employment contexts.

## **RESULT AND DISCUSSION**

### **Regulatory Uncertainty Regarding Legal Sanctions in Cases of Building Failures**

According to the Job Creation Law, an employment agreement is a consensus between workers or laborers and employers that regulates working conditions, as well as the rights and obligations of each party (Cui et al., 2018; Ramos et al., 2022). Before the enactment of this law, the definition of an employment agreement referred to Article 1601a of the Civil Code, which defined an employment agreement as a pact in which the worker commits to work for the employer for a

specified period in exchange for wages. Under the Job Creation Law, the employment agreement constitutes an agreement that governs the terms of employment and the rights and obligations of both parties. This agreement becomes the basis for the employment relationship, ensuring both sides understand and agree to their responsibilities and rights. The terms governed in the employment agreement include, among others, working hours, types of work, wage amounts, social security, leave entitlements, and obligations related to the execution of the job. The Job Creation Law also regulates provisions that provide flexibility in employment relationships, such as arrangements for fixed-term contracts.

The contents of an employment agreement include substantive elements, such as types of work that must comply with applicable legal provisions and social norms. According to Article 52, paragraph (1) of the Job Creation Law, the employment agreement is formulated considering the mutual agreement of both parties, their legal capacity, the existence of a mutually agreed work, and compliance with legal and ethical standards. As the foundation of the employment relationship, the employment agreement is part of the obligation that must satisfy the principles of contract law and the valid conditions for obligations. Contract law has three main principles: the principle of freedom of contract, the binding nature of contracts, and the principle that contracts only bind the parties who have agreed to them. The principles of contract law include the principle of consensualism, the principle of freedom of contract, the principle of binding force, the principle of good faith, the principle of privity of contract, the principle of equality in contracts, and the principle of good faith as a foundational element of law as a whole. These principles should be realized equally in every agreement without prioritizing one over another, as inequality among the principles can lead to an imbalance that harms one party.

The principle of freedom of contract grants parties the freedom to determine the agreement's content, terms, and form as long as they do not contradict applicable legal provisions. This freedom reflects the rights of the parties to arrange their respective rights and obligations according to their interests while adhering to legal boundaries and moral norms. The principle of the binding nature of contracts states that agreed-upon contracts have a legal force that must be upheld by the parties involved. In other words, this contract serves as a law for them, obligating both parties to fulfill the commitments they have agreed upon in the agreement. This is also known as the principle of *pacta sunt servanda*, meaning agreements must be respected and fulfilled responsibly. The principle that an agreement binds only the parties that have consented or the principle of privity of contract asserts that a contract only creates rights and obligations between the parties who sign it and does not bind third parties. This protects the rights of third parties from being harmed by contracts they did not create and ensures obligations in the agreement do not extend to parties uninvolved. Besides these three main principles, several other principles also affect the validity and effectiveness of a contract, such as the principle of consensual emphasizing that a contract is formed based on honest agreement from both parties and the principle of equality in contracts ensuring that no party is unjustly favored or harmed unilaterally. All these principles, perfect faith, must be implemented collectively in every agreement. If one principle is overly prioritized, it can lead to imbalances that may result in injustice and potential harm to one party. Equal application of these principles creates a healthy and just contractual relationship.

The terms of employment agreements in Article 52 of the Employment Law, which the Job Creation Law has now repealed, bear similarities to the valid conditions of an agreement according to Article 1320 of the Civil Code. Specifically regarding the agreement condition or the principle of consensualism regulated in Article 1320 paragraph (1) of the Civil Code, various theories assert that

the agreement condition is only considered fulfilled if both parties have the freedom to express their will without any force or pressure, whether physical or psychological, in agreeing. The agreement condition is only deemed fulfilled if this freedom is met. If the condition related to the agreement's subject, the freedom to make agreements, is not met, the agreement can be annulled. This follows the provisions of Article 1321 in conjunction with Article 1323 of the Civil Code, where Article 1321 states that there is no valid agreement if the agreement is reached due to error, coercion, or fraud. Article 1323 further explains that coercion against a person agreeing may serve as grounds for annulment, even if such coercion was carried out by a third party for the interest of the agreement.

By adopting this provision, employment agreements made without free consensus between the parties should also be eligible for annulment in court. If the court decides that the agreement is annulled, then the agreement is considered null and void. Thus, the parties bound by the agreement are not obligated to pay penalties or other provisions. However, if the agreement is not declared null, then Article 62 of Law No. 13 of 2003, which the Job Creation Law repealed, applies, stating that if one party terminates the employment relationship before the term of the fixed-term employment agreement, the terminating party must pay compensation to the other party equivalent to the worker's wages until the term of the agreement expires. This does not apply if there are exceptions such as the death of the worker, expiration of the employment agreement, court decisions, or decisions by industrial relations dispute resolution bodies that have legal force, or specific events as stipulated in the employment agreement, company regulations, or collective labor agreements.

Referring to the Job Creation Law, no provisions require the diploma to be submitted to the company. This diploma retention policy may be practiced by several companies that ignore the provisions in employment regulations. The practice of diploma retention by companies can occur as long as there is an agreement between the worker and the employer, generally articulated in the binding employment agreement, either verbally or in writing. However, in this context, the worker's position tends to be weaker, so this agreement could potentially harm the worker. Although employment law does not explicitly regulate the diploma retention policy, some companies still withhold employees' diplomas as security in the employment agreement. In practice, this diploma retention often serves as a tool to pressure employees to comply with the rules and terms of the employment contract, such as maintaining their work commitment or avoiding resignations without notice. However, clear regulations regarding this practice make employees vulnerable, mainly when the agreement is unbalanced. The lack of strict legal rules often compels employees to feel forced to accept these terms to secure employment, even though the ramifications could be detrimental if they wish to terminate their employment relationship.

Regarding the diploma as collateral in employment relationships, this collateral concerning construction is an additional or accessory security. Security is understood as any form the creditor receives from the debtor concerning the debt relationship between them. Article 1131 of the Civil Code defines collateral or security as all property owned by the debtor, both movable and immovable, that exists or will exist in the future, which is subject to the entire personal obligation. Using diplomas as collateral in employment relationships is often considered additional or accessory security. In collateral law, this extra security serves as a mechanism to ensure that obligations agreed upon between both parties can be fulfilled. However, since a diploma is a personal document without direct economic value, its use as contractual collateral faces several limitations and challenges in its implementation. According to Article 1131 of the Civil Code, collateral or security is anything owned by the debtor, either movable or immovable, that has existed or will exist, which is

subject to the entire personal obligation. In the context of debts, this applies to all debtor assets as collateral for the creditor. Although diplomas are not assets with easily measurable economic value, some companies still use diplomas as collateral to ensure that employees do not leave jobs without permission or violate contracts.

Using diplomas as contractual collateral can be valid if both parties agree upon a binding contract. However, its compliance with the principles of collateral in the Civil Code remains debated. Collateral regulation in the Civil Code should ideally have a tangible nature, possess economic value, and be transferable. However, diplomas need to meet these criteria as they cannot be transferred and lack direct sale value. The purpose of withholding diplomas by companies is to make the employee's original diploma the object of collateral in the employment agreement between the company and the employee. This reflects a broad interpretation of the concept of collateral objects. Essentially, a tangible collateral object can be transferred and has economic value. However, diplomas as collateral only partially satisfy these criteria because they lack transferability and market value. Nevertheless, some companies now use copies of employees' diplomas as collateral for employment contracts.

According to Article 1320 of the Civil Code, the valid conditions for an agreement include the parties' consensus. Thus, using diplomas as employment collateral is considered valid as both parties, the company and the worker, approve it, resulting in a legal bond (Article 1331 of the Civil Code). Until now, no government regulation has explicitly prohibited using diplomas as collateral, so legally, the status of diplomas as contractual collateral can be considered valid. The diploma can be treated as collateral for tangible assets, even though it does not fall into the category of pure property collateral.

As a collateral object, a diploma only holds power over its original document, an authentic letter. Generally, the company only requires the original diploma to be compared with the copies kept by the company. The function of the diploma as collateral is to ensure that workers fulfill their obligations under the employment contract, serving as a coercive tool. However, a diploma can only be collateral for employment obligations, not debts. This necessitates a notarial deed in Indonesian for the imposition of fiduciary collateral. Employment regulatory legislation, including the Job Creation Law, does not address companies' rights or prohibitions regarding withholding employees' documents, including diplomas. However, based on collateral law, an object used as a general guarantee must meet specific criteria, such as possessing economic value and being transferable. If the company requires the submission of diplomas as employment collateral in a document separate from the employment agreement, this needs to be reviewed against the relevant legal basis. According to principles in collateral law, documents such as diplomas cannot serve as collateral due to their lack of economic value, typically found in valuable securities such as land certificates, shares, and bonds. Therefore, diplomas, which do not possess direct monetary value, need to meet the requirements to be considered collateral.

Regulations regarding diploma retention as collateral in employment relationships in Indonesia have several significant weaknesses that impact the protection of employee rights. First, the absence of provisions that explicitly regulate or prohibit the practice of diploma retention in the Job Creation Law allows this practice to operate in a "gray area," often leading companies to misuse it to coerce workers into adherence to employment contracts. Concerning collateral, diplomas do not possess direct economic value and are not transferable objects. Thus, their use as collateral does not align with the principles of property collateral in the Civil Code. The withholding of diplomas without clear regulations poses potential harm to employees, especially if there is an imbalance of

bargaining power between the company and the employees, possibly forcing workers to agree to diploma retention terms that could be better for them. This legal vacuum also complicates employees' efforts to demand the return of their diplomas when disputes arise, leaving them in a vulnerable position without adequate legal protection. This highlights the need for more specific and stringent regulations concerning diploma retention in employment laws to balance rights and obligations between employees and companies.

### **Weaknesses in Regulations Regarding Diploma Retention as Collateral in Employment Relationships and Efforts to Address Legal Dilemmas Related to the Use of Diplomas as Collateral in Employment Relationships**

The absence of specific regulations prohibiting the retention of diplomas as collateral in employment relationships creates a legal loophole that certain companies often exploit. Current labor regulations do not explicitly govern this practice, leaving companies that choose to withhold employees' diplomas without clear legal consequences. This practice becomes a security measure for companies to ensure that employees remain committed or fulfill specific obligations in their employment contracts, even though there is no solid legal basis to support such actions. In this situation, employees' bargaining positions tend to be weak, as they often feel compelled to agree to the terms of diploma retention to obtain or maintain their employment. Moreover, this practice is frequently carried out without written consent or transparent requirements, meaning employees are not assured when their diplomas will be returned. As a result, employees wishing to terminate their employment or move to other companies unilaterally often find it challenging to reclaim their diplomas, which are vital personal documents—retaining diplomas as collateral raises ethical and practical dilemmas regarding employees' rights to their papers. A diploma serves as proof of educational attainment that should be in the possession of its holder, not held by a third party such as a company. However, due to the lack of specific prohibitions within the law, this practice has become a habit that is difficult for employees to contest, even if they feel aggrieved.

The absence of binding regulations regarding diploma retention further complicates employees' ability to litigate this issue in court, as no solid legal basis explicitly governs it. In the workplace, especially in the formal sector with high competition, employees often find themselves in a weaker bargaining position than companies. This situation is exacerbated by employees' dependence on their jobs, which usually leads them to overlook employment contract terms that may disadvantage them. Diploma retention as collateral frequently adds to this imbalance. Employees typically feel pressured to accept unfair company policies due to fear of job loss, particularly in challenging labor market conditions. This situation creates significant psychological pressure for employees. The retention of diplomas can be seen as a form of control exerted by the company, which ensures that employees remain within the constraints set by the employer. With the retention of diplomas, companies can leverage a stronger bargaining position to coerce employees into agreeing to terms that may not align with their interests. Employees often feel trapped and have little choice but to accept the requirements offered, even when they recognize that doing so could negatively impact their careers and futures. This imbalance may lead employees to feel powerless in asserting their rights. Although they may realize that diploma retention is not aligned with fair practice, many believe asserting their rights may lead to negative consequences, such as job loss or damage to their reputation within the industry. In the long term, this situation harms individuals and creates an unhealthy work culture where employees feel trapped and pressured by unjust practices.

In civil law, collateral or guarantees should fulfill specific criteria, including possessing economic value and being transferable. A diploma, a personal document that proves educational attainment, needs to meet these requirements. Although diplomas can be viewed as symbols of academic achievement, they cannot be sold and lack measurable monetary value. Consequently, using diplomas as contractual collateral raises doubts regarding their validity and legality as collateral objects. This issue becomes even more complex when differing interpretations arise concerning the status of diplomas in employment relationships. Some parties may argue that diplomas can be collateral to ensure employees do not breach contracts.

In contrast, others may oppose this usage because diplomas do not meet the criteria of valid collateral. This uncertainty can lead to prolonged legal disputes, in which employees pressed by diploma retention policies find themselves needing more legal protection. In such cases, employees need legal certainty regarding their right to lose their diplomas. Therefore, legal resolution can be complex if a dispute arises between the employee and the company concerning the status of the diploma as collateral. Courts may need to consider various factors, including the purpose of using diplomas as collateral, agreements between both parties, and general principles of civil law. This uncertainty can often disadvantage employees who do not adequately understand their rights. This creates a scenario where employees feel they lack the power to seek justice, further deteriorating their bargaining position with the company.

The lack of legal protection for employees about diploma retention creates extremely disadvantageous conditions, especially in labor disputes. Employees often find themselves in a weak position when conflicts arise between employees and companies, particularly regarding the retention of diplomas as collateral. They need clear and definitive regulations governing this practice to obtain justice. The absence of rules protecting their rights leaves many employees feeling trapped, with no option to demand the return of their diplomas without risking termination or retaliation from the company. This situation is exacerbated by diplomas being essential documents for various purposes, including further education, applying for new jobs, or fulfilling other administrative requirements. Employees lose proof of their education when diplomas are withheld and forfeit opportunities to enhance their quality of life and careers. This has social and economic repercussions, leading employees trapped in such situations to experience reduced income, career instability, and even psychological impacts due to feelings of powerlessness. The ambiguity surrounding the status of diploma retention also complicates the dispute resolution process. Employees may find asserting their rights in court challenging due to the need for clear legal precedents. Without adequate legal support, employees often feel compelled to accept unjust conditions, ultimately exacerbating dissatisfaction and frustration in the workplace. This can result in a high turnover rate, with employees choosing to leave the company rather than risk losing their diplomas.

Therefore, there is a need to establish clear regulations regarding diploma retention as collateral in employment relationships, which is an essential step toward creating legal certainty and protection for both parties, workers and employers. These regulations should detail the provisions that must be adhered to, including the conditions to be met for diploma retention to be considered valid. With such regulation, workers will clearly understand their rights and obligations concerning diploma retention, preventing them from feeling pressured or compelled to agree to detrimental terms. One aspect that needs to be addressed is the emphasis on agreements that must be free from coercion. This is crucial to ensure that any deal involving diploma retention is made voluntarily and is not tainted by psychological or physical pressure. This provision could include the necessity of



written evidence showing that workers agreed to hand over their diplomas as collateral, as well as mechanisms to ensure that workers understand the consequences of their decisions. Regulations could also include provisions for regular review of agreements, allowing workers to reconsider their choices without fear of negative repercussions.

Clear regulations will also assist companies in implementing diploma retention practices more responsibly. With definite guidelines, companies will refrain from retaining employees' diplomas recklessly and will be compelled to consider the legal implications of their actions. This may reduce the risk of future legal disputes and foster a more harmonious employer-employee relationship. Companies can avoid the negative reputation that may arise from unethical or harmful diploma retention practices. These regulations could include sanctions for companies that violate provisions regarding diploma retention (Ding et al., 2022). Such sanctions would not only serve as disincentives for companies to engage in harmful practices but would also assure workers that there is legal protection they can rely on. Thus, establishing clear regulations regarding collateral in employment relationships will protect employees' rights and create a fairer and more balanced workplace environment for all involved parties.

Enhancing the socialization and understanding of employee rights is crucial to creating a fair and balanced work environment (Hernandez-Lopez et al., 2020). This education should clearly explain employees' rights in employment relationships, including the right to retain personal documents such as diplomas without pressure from employers. Employees can feel more empowered and confident to ask questions or reject detrimental agreements with a solid understanding of these rights. Government programs and labor unions are essential in conveying this information to employees. Through workshops, seminars, and awareness campaigns, information regarding workers' rights can be widely disseminated. For instance, labor unions could hold workplace informational sessions to discuss legal provisions related to diploma retention and other employee rights. The government can publish educational materials in brochures, videos, or accessible websites for all employees, providing clear guidance on their rights and obligations in the workplace. Educating employees about their rights not only raises awareness but also assists them in determining their bargaining positions. By understanding their power, employees can be more confident negotiating with employers. They will realize they can reject unjust terms, including diploma retention. In this case, educated employees can become agents of change, inspiring their colleagues to recognize and advocate for their rights. Adequate socialization can help to reduce the potential for workplace conflicts. When employees understand their rights and feel supported by labor unions or government agencies, the likelihood of legal disputes related to diploma retention can be minimized. Employers will also be more motivated to implement fair practices, knowing employees are well-informed about their rights. Thus, enhancing socialization and understanding employee rights will create a more harmonious and respectful work relationship.

Companies should consider employing other more relevant collateral with economic value as an alternative to retaining diplomas as collateral in employment relationships. One approach could be the application of proportional fines or penalties for employees who violate terms in their employment agreements. In this way, companies can still ensure employee compliance without relying on retaining personal documents that should not be used as collateral. The fines or penalties imposed can be clearly defined in the employment contracts and should reflect the nature of the violations committed, creating justice and transparency for both parties. Implementing a bonus or incentive system for employees who perform well or meet work expectations could also be an appealing alternative. This motivates employees to work better and fosters a more productive work

culture. By emphasizing performance-based rewards, companies can encourage employees to comply with work rules and conditions while reducing the risk of disputes regarding diploma retention.

Therefore, the government needs to reinforce the role of industrial relations dispute resolution institutions (PHI) by providing mechanisms for complaints that are more accessible to employees. These institutions must be able to handle complaints related to diploma retention and detrimental work practices. Employees can report issues without complex and costly legal processes by providing a clear and structured complaint channel. This will make them feel more protected and heard when confronting unfair practices. Easy and affordable dispute resolution also has the potential to reduce tensions between employees and employers. When employees know they have access to quick and efficient resolutions, they are more likely to bravely raise complaints about diploma retention or other inappropriate practices. In this regard, the government's role is crucial to ensure that dispute resolution institutions have sufficient resources and expertise to handle the various issues that may arise. Thus, these measures will enhance employee protection and create a fair and harmonious work environment.

## **CONCLUSION**

The practice of retaining diplomas as collateral in employment relationships in Indonesia presents significant legal and ethical issues. The absence of explicit regulations in the Job Creation Law creates a legal loophole that allows companies to exploit employees, particularly those in weaker bargaining positions. Diplomas, as personal documents with no economic value and non-transferable, do not meet the requirements for valid collateral under the Civil Code. This practice harms individual employees and perpetuates injustices in the employment relationship.

Clear and comprehensive regulations are urgently needed to address this issue. Retaining diplomas creates legal uncertainty and disrupts the balance of power between employees and employers, often compelling employees to accept unfair terms. It is essential that any employment agreements are free from coercion and respect employees' rights to their personal documents. Employers should explore alternatives such as proportional fines or rewards for high performance, promoting fairness in the workplace. To empower employees and protect their rights, greater socialization of employees' rights is necessary, alongside enhanced access to industrial relations dispute resolution institutions. Strengthening these institutions will ensure that employees can easily file complaints and seek redress when their rights are violated. By implementing these measures, Indonesia can foster a fairer and more harmonious employment environment that respects the rights and dignity of all workers.

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