

The Role of Law in Regulating Corporate Obligations to Environmental and Social Welfare

Irwan Saputra*, Irfan Rizky Hutomo, Tri Susilowati

Universitas Darul Ulum Islamic Centre Sudirman GUPPI, Ungaran, Indonesia, irwanputra2138@gmail.com

Universitas Darul Ulum Islamic Centre Sudirman GUPPI, Ungaran, Indonesia, irfansky94@gmail.com

Universitas Darul Ulum Islamic Centre Sudirman GUPPI, Ungaran, Indonesia, tri.susilowati.undaris@gmail.com

DOI:

<https://doi.org/10.47134/jcl.v3i3.1.5866>

*Correspondence: Irwan Saputra

Email: irwanputra2138@gmail.com

Received: 29/05/2026

Accepted: 29/06/2026

Published: 29/06/2026



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Abstract: *In the era of globalization and rapid industrial development, the role of companies includes social and environmental responsibilities in addition to financial gain. This responsibility is realized through various policies aimed at maintaining a balance between business interests, community welfare, and environmental sustainability. Therefore, the law plays a very important role in regulating corporate obligations to contribute to sustainable development. Various legal instruments, both nationally and internationally, have been designed to ensure companies comply with applicable environmental and social standards. These regulations include the Environmental Law, the Sustainable Development Goals (SDGs) and the principles of Good Corporate Governance (GCG) through the Limited Liability Company Law and other Corporate Social Responsibility (CSR) legislation. This study strives to analyze the role of law in regulating corporate obligations towards environmental and social welfare by reviewing various laws and relevant international legal instruments. The approach used in this study is the normative juridical method, namely by analyzing applicable legal regulations and legal doctrines related to corporate responsibility. This study was conducted through a literature review of primary legal sources, such as laws and regulations, as well as secondary legal sources in the form of journals, books, and other legal documents. Using this approach, the study aims to give a summary of how well the law regulates corporate obligations and to pinpoint the difficulties encountered when*

putting these requirements into practice. It is anticipated that the findings of this study will aid in the creation of more efficient legislative regulations for overseeing and upholding corporate social and environmental commitments.

Keywords: *Role of law; corporate obligations; social responsibility; environment*

Introduction

In the modern era, the concept of corporate social and environmental responsibility (CSR) has increasingly evolved and become a crucial part of business practices (Nopriyanto, 2024). Companies are no longer solely focused on economic profit but must also consider the social and environmental impacts of their business activities (Adrai & Perkasa, 2024). This aligns with growing global awareness of the importance of sustainability and public welfare. Corporate social and environmental obligations aim to create a balance between business interests and public needs, and the law plays a vital role in ensuring these responsibilities are effectively implemented (Anisa & Sisdianto, 2024).

The role of law in balancing business interests and public welfare is crucial. On the one hand, the law must provide certainty and protection for companies so they can operate their businesses without unnecessary obstacles. On the other hand, the law also functions to control and limit corporate activities to prevent harm to society and the environment (Oktora, 2023). Through clear regulations, the law can create mechanisms that encourage companies to contribute to sustainable development without sacrificing social welfare and environmental sustainability. Thus, law is a crucial tool in maintaining a balance between economic growth and protecting the public interest (Sirait, 2019).

In the context of corporate social responsibility, environmental and social law theory plays a role in establishing legal obligations for companies. Environmental law theory emphasizes that companies have a responsibility to ensure that their operational activities do not damage the environment (Irawan, 2024). It relates to the precautionary principle and the polluter pays principle, where companies that cause environmental damage are held accountable for their impacts (Purwendah & Erowati, 2021). Meanwhile, social law theory emphasizes that companies have a role in improving community welfare, such as through CSR programs focused on education, health, and economic empowerment (Andriana & Suhermin, 2024).

One important concept in managing a socially and environmentally responsible company is Good Corporate Governance (GCG) (Zulfa et al., 2024). GCG refers to the principles of good corporate governance, where companies are expected to operate transparently, accountably, responsibly, and fairly (Njatrijani, Rahmanda, & Saputra, 2019). This idea guarantees that businesses take into account the interests of other stakeholders, like workers and the local community, in addition to shareholder earnings, and the government. By implementing GCG, companies can build a good reputation and improve their long-term business sustainability.

In addition to GCG, the Sustainable Development Goals (SDGs) also serve as an important guideline for corporate social and environmental responsibility. The SDGs are a global agenda that encompasses various aspects of sustainable development, including environmental protection, poverty eradication, and social and economic well-being (Pangestu et al., 2021). Companies committed to the SDGs are expected to adopt more sustainable business practices, such as the use of renewable energy, carbon emission reduction, and social programs that positively impact society (Yasah et al., 2024). In this way, companies not only contribute to achieving global goals but also build a positive image in the eyes of the public and investors.

In implementing corporate environmental and social obligations, relevant legal principles play a crucial role. One of the key principles in environmental law is the principle of sustainability, which emphasizes that natural resources must be utilized wisely so that they can be used by the current generation without compromising the interests of future generations. This principle requires companies to consider the long-term impacts of their business activities and implement sustainability-oriented strategies, such as energy efficiency, waste recycling, and environmentally friendly resource management (Wahanisa & Adiyatma, 2021).

In addition to the principle of sustainability, the principle of balance in business regulation and social welfare is also an important principle in governing corporate

obligations. This principle emphasizes that the law must strike a balance between economic interests and the social interests of society. Overly stringent regulations can hinder business growth and investment, while overly lax regulations can lead to the exploitation of natural resources and social inequality (Mustaan, 2022). Therefore, laws must be designed to encourage companies to operate responsibly without hindering economic growth.

By understanding the relationship between the concept of corporate social responsibility, environmental and social legal theory, and relevant legal principles, it can be concluded that the law plays a fundamental role in guiding companies towards more sustainable and responsible business practices. The implementation of GCG principles and the SDGs further strengthens companies' commitment to maintaining a balance between business interests and public welfare (Yusuf & Febrian, 2024). Effective regulations and strict oversight mechanisms are needed to ensure companies carry out their responsibilities effectively and have a positive impact on society and the environment.

Method

In this study, the method employed a normative juridical method, which is an approach that focuses on the study of applicable legal norms. It is conducted by analyzing various laws and regulations, legal doctrines, and legal principles related to corporate obligations towards environmental and social welfare. This research is descriptive-analytical, meaning it not only explains existing regulations but also examines how these legal norms are formulated and implemented within the applicable legal system. Primary and secondary legal sources make up the study's data sources. National laws and rules like the Environmental Law, the Limited Liability Company Law, and Corporate Social Responsibility (CSR) requirements that bind businesses in conducting their operations are examples of primary legal sources. In addition, this study also refers to relevant international legal instruments, such as the OECD Guidelines for Multinational Enterprises, the United Nations Global Compact, and ISO 26000 on corporate social responsibility. Secondary legal sources include scientific journals, books, and previous research that discuss the legal aspects in regulating corporate obligations towards the environment and society. The data collection technique in this study was conducted through library research, namely by reviewing and interpreting various legal literature related to the research topic. The analysis used in this study is qualitative, meaning that the data obtained is not presented in the form of numbers or statistics, but is analyzed based on its content and normative substance. Using this method, this study aims to provide a deep understanding of how the law plays a role in regulating and enforcing corporate obligations in social and environmental aspects and identify challenges in implementing these regulations.

Result and Discussion

Legal Regulations on Corporate Obligations to Environmental and Social Welfare

In the national legal system, corporate environmental and social obligations are regulated through various laws and regulations aimed at ensuring that business activities do not harm the environment and society. Law Number 32 of 2009 concerning Environmental Protection and Management is one of the primary laws controlling environmental matters. This law establishes the basic principle that every business activity

with the potential to impact the environment must conduct an Environmental Impact Analysis (AMDAL) and apply the precautionary principle in its operations (Karuniani, 2022). Furthermore, there are provisions regarding corporate responsibility for environmental pollution and destruction, including environmental restoration obligations and the imposition of administrative and criminal sanctions for companies that violate these provisions.

Law Number 40 of 2007 respecting Limited Liability Companies is an important regulator of corporate social responsibility in addition to environmental rules. According to Article 74 of the Limited Liability Company Law, businesses involved in or connected to natural resources must adopt social and environmental responsibility (TJSL). This duty, which requires businesses to donate a percentage of their revenues to CSR initiatives, is both morally and legally binding. The use of CSR seeks to ensure that corporate operations do not adversely affect the environment and to enhance the wellbeing of nearby communities (Capah, Rachim, & Raharjo, 2023).

Furthermore, various implementing regulations reinforce companies' obligations regarding social protection for communities impacted by industrial and business activities. For example, Government Regulation Number 47 of 2012 concerning the Social and Environmental Responsibility of Limited Liability Companies regulates the mechanisms for implementing CSR and corporate responsibility in supporting sustainable development. This regulation provides guidance for companies in developing social programs, such as community empowerment, public infrastructure development, and protecting the rights of workers and affected communities. With this regulation, companies are expected to pursue not only economic profit but also to contribute to improving the quality of life of the community.

In addition to the national legal framework, companies' environmental and social obligations are also regulated by various international legal instruments. One of the main guidelines used globally is the OECD Guidelines for Multinational Enterprises, which provides standards for responsible business behavior, including aspects of human rights, environmental protection, and transparency in corporate operations. These guidelines emphasize that multinational companies must respect the laws of the countries in which they operate and must not neglect their social responsibilities for the sake of business interests alone (Sholikhah, 2017).

In addition to the OECD Guidelines, the United Nations Global Compact also serves as an important reference in international regulations regarding corporate social responsibility. The UN Global Compact is a voluntary initiative that encourages companies to apply sustainability principles in their business operations. This initiative encompasses ten core principles, divided into four areas: human rights, labor, the environment, and anti-corruption (Darajati & Syafei, 2017). In the environmental sector, companies are encouraged to implement business strategies that support sustainability, such as energy efficiency, reducing greenhouse gas emissions, and implementing environmentally friendly production practices.

Furthermore, ISO 26000: Guidance on Social Responsibility is an international standard that provides guidance for companies in integrating social responsibility into their business strategies. Unlike other ISO standards, which are certification-oriented, ISO 26000 focuses more on best practice guidelines for implementing CSR, including aspects of transparency, accountability, and stakeholder engagement. This standard helps companies understand how they can positively impact the environment and society without compromising their business objectives (Rahmi, 2011).

The implementation of international norms in national law is a crucial step in ensuring that regulations in Indonesia align with global standards. Several national regulations have adopted principles from international instruments, such as the implementation of the precautionary and polluter pays principles in the Environmental Law, which align with OECD and UN Global Compact guidelines. Furthermore, various companies in Indonesia have begun implementing the ISO 26000 standard in their CSR practices to increase competitiveness and build a responsible corporate image globally.

With regulations that adhere to international standards, Indonesian companies are not only required to comply with national legal provisions but are also expected to adapt to evolving global regulations. This is crucial in facing the dynamics of international trade, which increasingly prioritize sustainability and social responsibility. Therefore, strengthening regulations and harmonizing national laws with international standards are necessary steps to ensure that companies' obligations to environmental and social well-being can be implemented effectively and sustainably.

Evaluation and Analysis of this Law Implementation

The level of corporate compliance with environmental and social regulations is significantly influenced by various factors, both driving and inhibiting. The primary driving factor is growing corporate awareness of the importance of sustainability and the long-term impacts of responsible business practices. Furthermore, government incentives, such as tax breaks for companies actively participating in Corporate Social Responsibility (CSR) programs, also encourage regulatory compliance. However, various barriers contribute to suboptimal compliance, such as low legal awareness among business actors, the high cost of complying with environmental regulations, and the lack of strong economic incentives for companies to invest in sustainable business practices.

In terms of oversight and law enforcement, sanctions mechanisms are the primary instrument to ensure companies do not neglect their social and environmental obligations. Indonesian regulations stipulate various types of sanctions, ranging from administrative sanctions such as fines and revocation of business licenses to criminal sanctions for companies causing significant environmental damage. However, the effectiveness of these sanctions is often questionable, especially when large companies are able to evade punishment through legal loopholes or corrupt practices. Furthermore, inconsistent application of sanctions across cases often creates legal uncertainty, ultimately weakening the regulatory framework's binding power on companies.

The role of oversight in the implementation of environmental and social regulations is not solely the responsibility of the government, but also involves the public and non-

governmental organizations (NGOs). The government plays a role in setting regulatory standards, conducting inspections, and taking action against violations committed by companies. Meanwhile, the public and NGOs act as independent monitors, able to exert pressure on companies to be more accountable. Public reporting through the media and advocacy by environmental organizations are also important instruments in increasing transparency and encouraging changes in company policies. However, limited access to information and weak protection for whistleblowers often hinder the effectiveness of external oversight.

One of the main obstacles to regulatory implementation is weak law enforcement and sanctions. Many cases of environmental pollution or social violations are not prosecuted decisively, either due to a lack of law enforcement resources or political and economic interests that limit decisive action against large companies. In some cases, legal proceedings against companies that violate regulations are lengthy and often result in light sanctions that have little deterrent effect. This leads many companies to choose to pay fines rather than change their business practices to be more compliant with applicable regulations.

In addition to weak law enforcement, the gap between legal norms and business practices also poses a challenge in implementing regulations. Although regulations have been developed in a fairly comprehensive manner, in practice, many companies still view compliance with environmental and social regulations as an additional burden that can reduce their profits. The lack of integration between regulations and corporate business strategies results in many policies being implemented merely as a formality without any real changes to company operations. Furthermore, minimal coordination between the central and regional governments in oversight also contributes to ineffective regulatory implementation in various regions.

To improve regulatory effectiveness, a more holistic approach to the oversight and law enforcement system is needed. The government needs to strengthen its oversight capacity by increasing transparency and ensuring a more stringent and consistent sanction mechanism. Collaboration between the private sector, civil society, and international organizations also needs to be strengthened to create a more effective oversight mechanism. With an improved oversight and law enforcement system, it is hoped that companies will improve their compliance with environmental and social regulations, thereby more optimally achieving sustainability goals.

Conclusion

The role of law in regulating corporate environmental and social obligations is crucial in creating a balance between business interests and environmental sustainability, and the well-being of society. Through a variety of legal tools, including the Environmental Protection and Management Law and the Limited Liability Company Law, current national and international rules give businesses a legal foundation to fulfill their social and environmental obligations, and various other supporting regulations. Furthermore, global principles such as the OECD Guidelines, the UN Global Compact, and ISO 26000 further strengthen the standards for companies to operate responsibly. However, evaluations of the

effectiveness of existing regulations have identified various challenges, such as weak law enforcement, low levels of corporate compliance, and gaps between legal norms and business practices. The lack of firm and effective sanction mechanisms, as well as inconsistencies in regulatory implementation, often make companies more likely to neglect their social and environmental obligations, thus preventing the full achievement of sustainability goals.

To address these challenges, strategic steps are needed to strengthen the effectiveness of regulations and oversight of corporate compliance. One effort that can be made is strengthening regulations by ensuring that applicable laws are strongly binding and accompanied by stricter sanction mechanisms to provide a deterrent effect for companies that violate them. Furthermore, harmonizing national regulations with international standards is also crucial to ensure that regulations in Indonesia are in line with global developments in sustainability and social responsibility. The government also needs to increase transparency and accountability in oversight, including by strengthening the role of communities and non-governmental organizations in monitoring corporate compliance. Through active public participation, the use of technology in oversight systems, and increased education regarding corporate social responsibility, it is hoped that regulatory implementation will be more effective. Thus, stricter regulations and an improved oversight system will ensure that companies are not only oriented towards economic profit but also contribute to creating sustainable development for the environment and society.

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