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ENVIRONMENTAL REGULATION IN CORPORATE CSR PRACTICES IN INDONESIA

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Abstract

This article explores the influence of environmental legislation on corporate social responsibility in Indonesia. It aims to clarify the regulatory framework surrounding corporate social responsibility, assess how failure to adhere to environmental laws affects corporate reputation and performance, and identify the difficulties companies encounter while implementing corporate social responsibility. The research adopts a normative legal perspective, involving a thorough examination of pertinent laws and regulations, including the 1945 Constitution, Law Number 40 of 2007 concerning Limited Liability Companies, and Government Regulation Number 47 of 2012. Data gathered through desk research and descriptive legal analysis provides a detailed understanding of the relationship between legal frameworks and corporate social responsibility practices in Indonesia. The findings indicate that the corporate social responsibility regulatory framework encourages companies to meet environmental legal requirements, positively impacting corporate reputation. Conversely, non-compliance can damage reputation and public perception, consequently affecting financial outcomes. Companies also face various obstacles in implementing corporate social responsibility, such as insufficient regulatory support and limited resources. Recommendations for companies include enhancing education on corporate social responsibility and fostering collaboration with stakeholders to develop sustainable business practices. These insights are valuable not only for Indonesia but also for other nations examining the link between environmental legislation and corporate social responsibility.

Keywords**: Corporate Social Responsibility (CSR), Environmental Law Regulatory, Framework Non-Compliance**

1. INTRODUCTION

In the era of global economic growth, companies in Indonesia face significant challenges in maintaining a balance between business activities and social and environmental responsibilities. According to the provisions of Law No. 40 of 2007 on Limited Liability Companies (UUPT), there is an obligation for companies, particularly those operating in the natural resources sector, to implement corporate social responsibility (CSR). This provision emphasizes that corporate responsibility is not limited to achieving financial profits but must also encompass broader social and environmental interests. This aligns with the global trend toward sustainable business practices, where companies are expected to contribute to sustainable development, manage environmental impacts, and consider the welfare of the communities surrounding their operations. CSR is no longer seen as an optional obligation but as an integral part of a responsible business strategy. For companies in the natural resources sector, the implementation of CSR plays an even more significant role, given the potential negative impacts on the environment and society that can arise from extractive activities. Thus, business sustainability is now measured not only by the profits generated but also by how well companies can contribute to minimizing environmental impacts and improving social welfare. Effective CSR implementation can be a key factor in building a company's good reputation, reducing legal risks, and fostering harmonious relationships with communities and governments, ultimately supporting the long-term sustainability of businesses in Indonesia.

In the broader world of international business, the impact of environmental law on companies has become increasingly critical, demanding serious attention at the global level. Non-compliance with environmental laws can lead to more than just administrative sanctions; it can also result in civil and criminal liabilities, significantly damaging a company's reputation in the global market. As a result, businesses are now required not only to adhere to existing legal frameworks but also to incorporate sustainability principles into their core strategies. Environmental responsibility is no longer an optional add-on but a fundamental aspect of business operations, particularly in industries with high environmental risks. In this scenario, CSR plays a pivotal role in ensuring that companies contribute positively to the environment and society. Failing to meet CSR obligations can result in reputational damage, loss of consumer trust, and even legal consequences, which ultimately jeopardize long-term business sustainability. Moreover, companies that proactively address environmental concerns and integrate CSR into their strategies are often viewed more favorably by investors and consumers, contributing to their competitive advantage. In essence, aligning business operations with global environmental standards is not just a legal requirement but also a strategic move to ensure long-term success. Moving forward, it is important to examine how the growing emphasis on CSR and environmental compliance continues to shape corporate governance and decision-making processes, especially in sectors with significant environmental footprints.

Violations of environmental laws can result in severe financial losses, tarnished corporate reputations, and diminished public trust. Companies that fail to properly (CSR) initiatives often face mounting pressure from various stakeholders, including local communities, governments, and non-governmental organizations. These companies are also vulnerable to negative campaigns that can be socially and financially detrimental, undermining their long-term sustainability. Stakeholders increasingly demand transparency and accountability, particularly concerning environmental impacts, pushing companies to take CSR seriously as part of their overall strategy. A failure to respond to these demands can lead to costly legal battles, decreased investor confidence, and weakened market positions. In addition to regulatory compliance, businesses must recognize that aligning their operations with sustainability principles not only enhances their market reputation but also mitigates risks associated with environmental harm. Companies that adopt robust CSR strategies tend to build stronger relationships with communities and stakeholders, which in turn fosters goodwill, reduces conflict, and enhances operational resilience. Thus, understanding the interaction between environmental law and CSR is not only crucial for businesses in Indonesia but also for those operating in global markets, as the integration of these principles into corporate governance becomes an essential driver of sustainable growth.

CSR views CSR primarily as a strategic tool aimed at achieving economic objectives, particularly wealth creation for the company. This perspective posits that CSR is not merely a moral obligation but a calculated strategy to maximize profits and enhance the company's market image, aligning with Milton Friedman's assertion that a company's primary responsibility is to increase shareholder profits within legal and ethical boundaries. The economic approach emphasizes efficient resource allocation to meet social goals, with sustainable profits as the anticipated outcome. Companies are encouraged to develop CSR initiatives that yield economic benefits, such as maximizing share value and improving operational efficiency, thus positioning CSR as integral to achieving economic goals. However, this theory faces criticism for neglecting the moral and social dimensions of CSR, as it risks reducing social responsibility to a mere instrument for profit maximization. Critics argue that CSR should extend beyond economic gains to address social justice and environmental sustainability. As noted by Garriga and Mele, instrumental theory focuses on objectives like shareholder value maximization and competitive advantage. Therefore, it is essential to reconsider the implementation of this theory within a broader context, particularly concerning the effects of environmental law on CSR practices in Indonesia.

TBL theory, introduced by John Elkington in 1998, expands the traditional focus on financial profit to include social and environmental performance (Wijonarko & Astuti, 2022). TBL evaluates a company's success based on three dimensions: People, Planet, and Profit, which are interconnected in achieving sustainability (Lock & Araujo, 2020). The "People" dimension emphasizes a company's social responsibility, ensuring fair treatment of employees, ethical relationships with stakeholders, and community engagement. The "Planet" dimension focuses on minimizing environmental impact, encouraging companies to adopt sustainable practices such as resource conservation and waste management. Lastly, "Profit" remains important but within the TBL framework, it is assessed alongside the social and environmental impacts of business activities. TBL helps businesses recognize the interdependence of these factors, encouraging a holistic approach that aligns with long-term sustainability goals. However, implementing TBL poses challenges, including the complexity of measuring non-financial impacts due to the lack of standardized metrics for social and environmental performance. Companies may also experience higher operating costs during the initial stages of integrating sustainable practices, impacting their pricing strategies. Despite these challenges, TBL remains a valuable framework for driving sustainable development.

The research objectives of this study are designed to provide a comprehensive understanding of CSR within the context of Indonesia's environmental law. Firstly, the study aims to examine the regulatory framework governing CSR, focusing on how it interrelates with existing environmental legislation. By analyzing this relationship, the research seeks to uncover the extent to which current regulations facilitate or hinder effective CSR practices among Indonesian companies. Secondly, the study will investigate the ramifications of non-compliance with environmental regulations, particularly regarding corporate reputation and financial performance. Understanding these impacts is crucial, as a tarnished reputation can lead to a loss of consumer trust and subsequent declines in profitability. Lastly, the research will identify specific challenges that companies encounter while trying to implement CSR initiatives. This includes exploring barriers such as lack of awareness, insufficient resources, or inadequate regulatory guidance. Based on the findings, the study will propose actionable recommendations aimed at enhancing regulatory support for sustainable business practices. These recommendations will not only benefit businesses in Indonesia but may also serve as a valuable reference for policymakers seeking to promote CSR and environmental compliance on a broader scale. Ultimately, these objectives contribute to the ongoing discourse on sustainability in business and governance.

2. IMPLEMENTATION METHOD

This research falls under the category of normative legal research, which, according to Marzuki (2021), aims to uncover coherence between existing legal rules and legal norms. It evaluates whether norms, such as commands or prohibitions, align with overarching legal principles, and whether individual behaviors adhere to these norms. The researcher adopts a statute approach, conducting a thorough examination of relevant laws and regulations pertaining to CSR in Indonesia. Primary legal sources, such as the 1945 Constitution, Law No. 40/2007 on Limited

Liability Companies, and Government Regulation No. 47/2012 on Social and Environmental Responsibility, are used alongside secondary legal materials, including books, journals, and commentaries on legal decisions. The descriptive legal analysis method is employed to provide a comprehensive understanding of the research subject and findings. A literature review further supports this analysis by interpreting legal and economic perspectives on CSR. The systematic analysis of these materials aims to offer valuable insights into the intersection of environmental law and CSR in Indonesia

3. RESULTS AND DISCUSSION

CSR in Indonesia is governed by a unique legal framework that mandates CSR for companies involved in natural resources, as stipulated in Article 74 of Law No. 40/2007 on UUPT. This approach makes Indonesia one of the few countries that enforce CSR as a legal obligation, rather than treating it as a voluntary commitment. According to Pisteo, Sugianto, and Agustian (2020), this legal obligation has stirred significant debate, particularly concerning its implications for businesses and their role in society. The legal requirement mandates that companies engaged in natural resource exploitation must fulfill their social and environmental responsibilities, aligning with the constitutional mandate under Article 33 of the 1945 Constitution, which calls for the management of natural resources to benefit the broader community. This mandate is seen as a mechanism to ensure social and environmental justice, especially in addressing the environmental impacts caused by industrial operations. The CSR obligation seeks to balance economic growth with social welfare and environmental protection, making it a pivotal part of Indonesia's corporate regulatory framework (Sirait & Syafi, 2024).

The application of CSR in the environmental context is particularly significant, given the extensive environmental damage resulting from resource exploitation activities. The requirement for mining companies to rehabilitate ex-mining land is an example of CSR obligations aimed at mitigating environmental degradation. This reflects the broader role of CSR in addressing industrial impacts on the environment. Instrumental Theory supports the idea that companies view CSR as a strategic tool to enhance long-term profitability by improving reputation and reducing legal risks (Hamza & Jarboui, 2020). In Indonesia, mandatory CSR implementation under UUPT is viewed as a means for companies to secure operational sustainability, as compliance with CSR regulations helps maintain community trust and mitigate environmental risks. However, the enforcement of CSR as a legal obligation has raised concerns that businesses may perceive it as a financial burden rather than an opportunity for investment in sustainable practices (Pisteo, Sugianto, & Agustian, 2020).

TBL theory, proposed by John Elkington, emphasizes the need for companies to balance economic, social, and environmental objectives. In the Indonesian context, the TBL framework is particularly relevant given the legal requirement for companies to not only pursue financial profit but also address their social and environmental impacts (Lock & Araujo, 2020). CSR obligations under the UUPT align with the TBL principle by promoting sustainable development, encouraging companies to reduce their carbon footprint and contribute positively to the welfare of local communities. Nevertheless, challenges remain in implementing CSR effectively across diverse regions of Indonesia, where the needs of rural communities may differ significantly from those in urban areas. This creates difficulties in applying a standardized CSR approach, as local contexts vary widely, leading to questions about the uniformity and flexibility of CSR practices in different geographic areas. The legal framework encourages companies to contribute to sustainable development, yet the practical application of CSR remains fraught with complexities related to environmental protection and community engagement.

Indonesia’s decision to make CSR mandatory highlights an ongoing debate between voluntary and compulsory approaches to corporate responsibility. Proponents of voluntary CSR argue that social and environmental responsibility should stem from a company’s ethical commitment rather than from legal obligations. They believe that when CSR is mandatory, companies may treat it as a checkbox requirement, thereby reducing the authenticity and potential positive impact of their social and environmental efforts. On the other hand, supporters of mandatory CSR argue that without legal obligations, companies might overlook their social responsibilities, especially in the natural resource sector, where environmental degradation is a serious concern (Pisteo, Sugianto, & Agustian, 2020). The mandatory CSR framework in Indonesia is seen as a tool to ensure that businesses contribute to the public good, reflecting the constitutional values of managing natural resources for the benefit of the people. As such, the regulatory framework represents an attempt to balance corporate interests with societal and environmental needs, fostering a more sustainable business environment in the country.

In today's competitive business environment, corporate reputation is heavily influenced by a company's social and environmental responsibility. Non-compliance with environmental regulations can significantly harm a company's public image, damaging its relationships with key stakeholders, such as investors, consumers, and the government. According to Instrumental Theory, adhering to environmental laws and implementing CSR strategies contribute to corporate sustainability by enhancing reputation and gaining long-term consumer trust. On the contrary, companies that fail to comply with these regulations face public backlash, media criticism, and possible consumer boycotts, which can negatively impact their financial performance. Cases in Indonesia, such as those involving environmental pollution, demonstrate how non-compliance leads to reputational damage, legal challenges, and even the loss of access to international markets due to stricter global environmental standards (Atlas Maulana, 2019).

Companies that comply with environmental regulations and actively implement CSR initiatives based on the TBL framework tend to enjoy stronger relationships with stakeholders and a more positive public image. TBL theory emphasizes that compliance benefits not only the environment but also economic performance by reducing the risk of fines, lawsuits, and operational disruptions. In Indonesia, businesses that follow TBL principles and show commitment to environmental and social responsibility gain competitive advantages, including increased consumer support and enhanced stakeholder trust. Conversely, companies that disregard these aspects risk long-term economic losses, diminished stock value, and strained community relations, which are crucial for business sustainability, especially in resource-dependent sectors.

4. CONCLUSION

Based on the findings of the research concerning the influence of environmental law on CSR in Indonesia, several recommendations can be proposed for companies. Firstly, businesses should incorporate CSR principles that emphasize compliance with environmental regulations into their strategic plans, which will not only enable them to meet legal requirements but also enhance their long-term value by improving their public reputation. Secondly, it is essential for companies to enhance employee training and awareness regarding social responsibility and environmental laws, as proper education fosters a stronger compliance culture within the organization. Additionally, establishing an effective environmental management system is crucial; companies need to identify risks, set clear objectives, and conduct regular monitoring and assessments of their environmental performance. Collaboration with stakeholders is also vital; by partnering with governments, non-governmental organizations, and local communities, companies can more effectively address environmental challenges. Strengthening transparency in reporting environmental impacts and CSR initiatives is important as well, as clear and accurate reports can boost public trust and provide a better understanding of a company’s social responsibility efforts. For future research, it would be beneficial to examine other facets of the relationship between environmental law and CSR, including comparative studies of CSR practices between Indonesia and other nations, as well as investigating the economic impacts of environmental regulation compliance and the effects of public perceptions on consumer behavior. Exploring innovations in CSR that enable companies to navigate environmental legal challenges and studying the impact of new technologies on CSR implementation will also contribute to a more comprehensive understanding of sustainability moving forward.

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