

*Research Article***Legal Mechanisms for Business Accountability: A Comparison of Soft and Hard Law in Indonesia**Henry Aspan<sup>1,2\*</sup>, Rozaini Rosli<sup>2</sup>, Fadlan<sup>3</sup>, Irawati<sup>4</sup><sup>1</sup>Faculty of Business and Accountancy, Lincoln University College, Malaysia<sup>2</sup>Faculty of Social Science, Universitas Pembangunan Panca Budi, Indonesia<sup>3</sup>Faculty of Law, Universitas Batam, Indonesia<sup>4</sup>Faculty of Law, Universitas Diponegoro, Indonesia

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**ABSTRACT**

This research investigates the legal mechanisms for business accountability in the context of Corporate Social Responsibility (CSR) in Indonesia through a comparative study of soft and hard law approaches. The study aims to evaluate the effectiveness of these approaches in promoting business accountability within the Indonesian framework. The research methodology relies on secondary data analysis, including a comprehensive review of existing legal frameworks and regulations related to CSR, as well as an examination of relevant case studies and empirical data. The findings reveal that hard law, characterized by binding regulations and clear sanctions, is more effective in promoting business accountability. However, soft law plays a vital role by offering guidance and incentives for companies to adopt broader social responsibility practices. Cultural factors, the legal environment, and the roles of the government and civil society organizations influence the effectiveness of these approaches. The study highlights the importance of combining hard and soft law approaches in CSR regulation. Recommendations include strengthening monitoring and enforcement by government agencies, offering more substantial incentives, and creating a supportive legal environment. Additionally, companies should understand and respect local culture and commit to anti-corruption efforts. Collaborative efforts among the government, businesses, and civil society are essential for establishing a more sustainable and accountable business environment in Indonesia.

**Keywords:** Legal Mechanism; Business Accountability; Soft Law; Hard Law; Indonesian Law.

**A. INTRODUCTION**

Corporate Social Responsibility (CSR) has become a significant concern in today's business world and society (Dawood, 2021). Companies are expected not only to achieve their business objectives but also to contribute to social and environmental sustainability (Zhao & Wen, 2022). Within this framework, the critical issue of ensuring business accountability in the context of CSR emerges. As CSR has evolved, various legal

approaches, including both soft law and hard law, have been employed to encourage companies to fulfill their social responsibilities (Chambers & Vastardis, 2020; Indriastuti & Chariri, 2021).

Indonesia is one of the emerging nations with a rapidly expanding economy, which has led to increased pressure to establish a framework that effectively regulates and ensures corporate social responsibility (CSR) accountability from

businesses (Berger-Walliser & Scott, 2018). Consequently, this research will focus on the Indonesian context and explore CSR mechanisms based on hard and soft laws. In recent decades, CSR has become a critical component of business strategies worldwide (Benöhr, 2020). This shift aligns with a new business paradigm that emphasizes not only profitability but also the social and environmental impacts of business activities (Benöhr, 2020). Companies are now expected to engage in efforts that support sustainable development, respect human rights, and minimize environmental harm (Robles-Elorza, San-Jose, & Urionabarrenetxea, 2020). As a result, the concept of CSR has become essential for understanding the role of businesses in society and their contribution to achieving sustainable development.

Amid these developments, the law has taken on an important role in regulating business behavior and ensuring corporate accountability in fulfilling social responsibilities. Two main approaches are used to regulate CSR: soft law and hard law (Wirba, 2023). The soft law approach involves guidelines, standards, and non-legal frameworks that guide business practices toward social responsibility (Santoso, 2022). In contrast, the hard law approach includes legally binding regulations, such as laws, rules, and sanctions, that compel companies to comply with specific CSR standards (Zainal, 2019).

In the context of Corporate Social Responsibility (CSR) regulation, a key question

arises: Which legal approach is more effective in achieving corporate accountability in the realm of CSR? Additionally, it is important to consider the influence of various factors, including culture, the legal framework, and the socioeconomic context, on the implementation of these legal methodologies. This research aims to address these questions by analyzing the current situation in Indonesia. Business accountability, CSR, and the distinction between hard and soft law are fundamental concepts in corporate governance. Legal accountability, grounded in the rule of law and enforced by courts, contrasts with soft law accountability, which relies on informal assessments by market participants (Jackson, 2016). In the context of business accountability, the literature examines policies related to psychosocial risks and mental health in the workplace, analyzing both hard and soft law approaches at the EU level (Leka et al., 2015). Additionally, the discussion extends to the interaction between hard and soft law in the implementation of corporate governance codes, particularly in countries with different levels of investor protection (Cuomo, Mallin, & Zattoni, 2015). In relation to CSR and human rights, the literature underscores the importance of balancing soft and hard law approaches. While corporate responsibilities for human rights are largely voluntary and fall under soft law, there is increasing recognition of the need to incorporate elements of hard law to ensure tangible consequences for corporate human rights

violations (Choudhury, 2018; Payne & Pereira, 2016).

Public pressure plays a significant role in motivating multinational enterprises to adhere to human rights standards outlined in soft law instruments, such as the United Nations Guiding Principles on Business and Human Rights (Amengual, Mota, & Rustler, 2021). The distinction between hard and soft law is also evident in the context of lean manufacturing practices. Studies have shown that both soft and hard lean practices positively impact business performance, highlighting the importance of considering both aspects in operational strategies (Sahoo, 2019). Furthermore, the literature explores the influence of organizational culture—defined by a combination of artifacts, values, beliefs, and assumptions—on the successful implementation of lean practices (Bortolotti, Boscari, & Danese, 2015). A review of the literature on business accountability, CSR, and the interplay between hard and soft law underscores the complexity of regulatory frameworks governing corporate behavior. It emphasizes the need for a nuanced approach that integrates elements of both hard and soft law to ensure effective governance and promote ethical business practices.

As the most prominent economic force in Southeast Asia, Indonesia has significant potential to contribute to societal well-being (Pramudianto, 2018). However, the persistent issue of high socioeconomic inequality in

Indonesia remains largely unaddressed. As of 2022, an estimated 9.7 million people were living below the poverty line (Lie & Dewi, 2021). Within this context, the role of Indonesian businesses in reducing socioeconomic disparities is increasingly gaining attention. Despite the substantial potential of Indonesian companies to address these inequalities through Corporate Social Responsibility (CSR), many corporations still fail to effectively implement CSR initiatives (Ho & Sattorova, 2021; Ratmono, Nugrahini, & Cahyowati, 2021). One contributing factor to this issue is the current legal framework surrounding CSR in Indonesia (Sheehy, Tuslian, & Lie, 2021). These policies are characterized as soft law, lacking binding force and significant punitive measures, leading many organizations to feel little pressure or motivation to implement CSR effectively (Dube, 2019).

Indonesia, as the fourth most populous country in the world, is home to a diverse range of ethnic, religious, and cultural communities (Wulandari & Dermawan, 2022). With its rapidly expanding economy, Indonesia has emerged as a key player in the global economy. However, this rapid economic growth has simultaneously brought about various social and environmental challenges that require attention and resolution. In recent years, there has been a growing emphasis on corporate social responsibility in Indonesia (Waagstein, 2020). The Indonesian government has introduced a range of laws and policies addressing CSR, covering areas such as human

rights, environmental protection, and labor practices (Rosser, Macdonald, & Setiawan, 2022). Nevertheless, the implementation of these policies and adherence to CSR remains a significant challenge in Indonesia.

The regulatory framework governing Corporate Social Responsibility (CSR) in Indonesia comprises a combination of soft law and hard law instruments (Kasih et al., 2022). Socially responsible business practices are guided by non-binding norms alongside legally mandated regulations (Yuliantiningsih, Suherman, & Jati, 2021). However, concerns remain regarding the effectiveness of these two approaches in fostering corporate accountability within the Indonesian context (Vlahna & Kuçi, 2022). Exploring legal strategies for achieving business accountability in CSR is highly relevant and crucial in Indonesia (Evanty & Ghufon, 2021). There is a need for a deeper understanding of the implications and efficacy of different legislative approaches on business conduct and CSR fulfillment within the country (Zainal, 2019). This study provides a comprehensive analysis of the strategies that firms in Indonesia might employ to meet their CSR obligations effectively.

Additionally, the research will identify the various determinants that influence the implementation of these legal approaches in Indonesia, including cultural, social, and economic factors. This will facilitate a broader understanding of the contextual factors affecting

CSR practices in both public and private enterprises in Indonesia (Evanty & Ghufon, 2021). The study will focus on a comparative analysis of soft and hard law approaches in achieving business accountability in CSR in Indonesia, assessing their effectiveness and identifying the factors influencing their implementation. It will examine various business sectors and involve multiple stakeholders, including companies, government, NGOs, and civil society (Disemadi, 2022; Rudy et al., 2022).

Identifying gaps in the existing research that require further investigation, as well as the potential contributions and originality of this study, is essential. The current literature highlights a lack of scholarly attention specifically focused on Indonesia, a country characterized by its unique social, cultural, and economic attributes (Ayunda, 2022). While CSR research has gained significant importance, there remains a need for more studies that specifically examine the effectiveness of soft and hard law approaches within the Indonesian setting. This study aims to offer a better-contextualized understanding of the impact of legislation on CSR in Indonesia.

This study makes a valuable contribution by comparing soft and hard law approaches in promoting business accountability within the context of Corporate Social Responsibility (CSR). Prior research often focuses on a singular strategy or neglects a comprehensive comparison of these approaches. There is a knowledge gap that requires exploration to fully understand the

distinctions between these two methodologies and their potential for collaboration or synergy in CSR.

The study emphasizes the significance of cultural and legal contextual factors in shaping the implementation of legal systems in Indonesia and provides a thorough examination of the role these elements play. While previous studies have acknowledged the influence of culture and the legislative framework on CSR practices (Simons, 2023), this research aims to explore these factors in greater depth to enhance our understanding of the complex nature of CSR in Indonesia.

The existing literature recognizes the substantial impact of organizational culture and the legislative framework on CSR practices (Bansal, 2022; Kalyar, Rafi, & Kalyar, 2012). However, to further our understanding of CSR in Indonesia, this research seeks to delve deeper into these elements. The study aims to explore the intricate interplay between organizational culture, legislative mandates, and CSR initiatives within Indonesia's business landscape.

Previous studies have also highlighted the positive influence of a culture that values respect for individuals on the successful implementation of CSR (Bhuiyan, Baird, & Munir, 2020). Additionally, Indonesia stands out as one of the pioneering countries to enact legislation requiring businesses to engage in CSR activities (Halkos & Nomikos, 2021; Zainal, 2019). This unique regulatory framework has sparked debates within academic and business circles

regarding the voluntary versus mandatory nature of CSR (Prasetio et al., 2021; Waagstein, 2010). This research also aims to assess the effectiveness of Indonesia's progressive approach to making CSR a legal obligation and analyze the current regulatory landscape surrounding CSR (Chang, 2018).

Furthermore, this study aims to address the research gap by providing insights into how organizational culture shapes the adoption of Corporate Social Responsibility (CSR) practices and how legislative requirements influence CSR strategies in Indonesia. By synthesizing existing literature on CSR, organizational culture, and legislative frameworks, this research seeks to contribute to the ongoing debate about CSR practices in Indonesia and offer a nuanced understanding of the factors that drive CSR initiatives in the country.

The research findings indicate that hard and soft legislation interact to enhance business accountability and CSR in Indonesia. Hard law establishes a robust framework for corporate behavior through legal requirements and sanctions, ensuring that corporations comply with environmental, labor, and corporate governance laws. However, hard law can impede flexibility and innovation needed to address diverse and evolving social and environmental issues. In contrast, soft law encourages voluntary compliance with higher standards and best practices as a complementary option, allowing businesses to customize their CSR programs and

innovate beyond legal requirements (Rofingi, Rozah, & Asga, 2022; Sitabuana et al., 2023). Soft law measures, such as corporate governance standards and international norms, promote business accountability and responsibility through peer pressure, public scrutiny, and market incentives (Taduri, 2021; Yasa et al., 2022).

According to this research, a hybrid model combining hard and soft law is more comprehensive and adaptable for sustainable business operations in Indonesia. This model ensures that organizations meet legal standards while pursuing continual improvement and social responsibility, leading to more accountable and ethical corporate behavior.

In contrast to the research on the "Legal Effectiveness of Halal Product Certification in Improving Business Economy in Indonesia and Malaysia" (Supriyadi, 2024), which highlights the economic benefits of product certification, the current study explores broader legal mechanisms beyond product certification. It examines how soft law and hard law frameworks impact overall business accountability and ethical practices in Indonesia. This shift in focus contributes to a more comprehensive understanding of business accountability within the Indonesian context.

This research also addresses gaps identified in previous studies, such as "Does Corporate Social Responsibility Matter to Consumers in Indonesia?" (Arli & Tjiptono, 2014), which focused on consumer perceptions in

Yogyakarta. While Arli and Tjiptono's research provides important insights into consumer behavior, this study expands beyond the consumer perspective by analyzing the legal structures underlying business accountability in Indonesia. Consequently, it offers a more holistic view of how businesses can operate responsibly within Indonesia's regulatory framework.

Additionally, this study broadens the scope of existing literature on legal protection for investors by integrating insights from "Legal Protection for Investors on the Lajnah Bisnis Syariah (LBS) Platform" (Lisnawati, 2024), which focuses on investor protection in sharia businesses. The current research compares soft law and hard law mechanisms in the context of business accountability in Indonesia, providing valuable insights into how these two legal mechanisms function to promote accountability across different sectors of the Indonesian economy.

The novelty of this research lies in its comparative approach to soft law and hard law, referencing several important studies. One such study is Parella (2020), titled "Hard and Soft Law Preferences in Business and Human Rights," which highlights that state and non-state preferences in business regulation are influenced by the unique advantages of each legal mechanism and their interaction within the broader regulatory landscape. This research explores how soft law and hard law work together to ensure business accountability in Indonesia

and examines how their interaction can lead to varying impacts across specific sectors.

Furthermore, this study also references the review by Sarah Joseph and Kyriakakis (2023) in "From Soft Law to Hard Law in Business and Human Rights and the Challenge of Corporate Power." Joseph and Kyriakakis highlight that although hard law can address weaknesses in business and human rights regulation, both soft law and hard law are still not fully effective in tackling major challenges related to corporate power. This study examines how hard law mechanisms in Indonesia are employed to fulfill the state's obligation to protect human rights in the business context while noting significant challenges in regulating corporate power, which is often not optimally addressed by either type of law.

The novelty of this research also lies in its in-depth analysis of how soft law and hard law in Indonesia can complement each other, even though both are still not fully successful in addressing corporate power issues. It further examines the potential for internationally binding legal instruments to address these weaknesses, aiming to provide a more comprehensive solution to ensure stronger business accountability and better protection for investors' rights.

By combining insights from Parella (2020) and Joseph and Kyriakakis (2023), this research makes a new contribution to the understanding of the interaction between soft law and hard law in improving business accountability in Indonesia.

The analysis focuses not only on the effectiveness of current regulations but also considers future measures needed to create a balance between the flexibility of soft law and the strict compliance of hard law, especially in the face of increasingly complex challenges posed by corporate power.

In conclusion, the research "Legal Mechanisms for Business Accountability: A Comparison of Soft Law and Hard Law in Indonesia" makes an important contribution by investigating the effectiveness of legal mechanisms in ensuring business accountability in Indonesia. Through a comparative analysis of soft law and hard law, this research offers deeper insights into how these legal mechanisms affect business practices, compliance, and overall accountability. It is hoped that this research can provide valuable contributions to policymakers, businesses, and stakeholders in promoting ethical, transparent, and accountable business behavior within a more effective legal framework in Indonesia.

This study aims to provide a significant contribution to understanding the utilization of legislation to achieve corporate accountability within the framework of corporate social responsibility (CSR) in Indonesia. The findings of this study can offer valuable insights for firms in selecting a legal strategy that aligns with their specific circumstances. Additionally, policymakers can utilize these findings to inform the development of robust legislation that effectively

promotes CSR in the Indonesian context. This study addresses significant inquiries regarding the efficacy of legal strategies in achieving corporate accountability within Indonesia's CSR landscape.

## B. RESEARCH METHODS

This research examines the disparities between soft law and hard law strategies in achieving corporate accountability within Indonesia's corporate social responsibility (CSR) context. The present study employs secondary data sources, including legal statutes and regulations, annual reports from companies, reports from non-governmental organizations (NGOs), prior case studies, and pertinent academic literature. The study methodology is divided into several stages: research planning, data collection, data analysis, and report generation (Putri et al., 2023). This research utilizes a comparative methodology to evaluate the effectiveness of soft law and hard law strategies in promoting corporate accountability for CSR in Indonesia. The primary focus of this research is on secondary data from various sources. Data is obtained from laws and regulations, including national laws, government regulations, government decrees, and local regulations that govern CSR practices. Company annual reports provide information on CSR implementation, social programs, and the social and environmental impacts of corporate activities. NGO reports offer an external perspective on the effectiveness of CSR approaches by monitoring

and evaluating CSR implementation in Indonesian companies (Hartiwiningsih, Gumbira, & Barkhuizen, 2023). Previous case studies are used to identify challenges and lessons learned from past CSR implementation experiences. In addition, relevant academic literature in the fields of CSR, business law, and legal studies also contributes to the secondary data collection.

The data collection process requires the systematic exploration, identification, and acquisition of information from the diverse secondary data sources previously specified (Nurhayati, Ifrani, & Said, 2021). Data will be obtained by consulting legal references, company websites, public reports, NGO reports, academic publications, and other pertinent sources. The data analysis will be conducted using a qualitative methodology. The analysis will critically examine data obtained from secondary sources to identify and evaluate trends, distinctions, and patterns in the execution of corporate social responsibility (CSR) within the frameworks of soft law and hard law. This analysis will facilitate the assessment of the efficacy of each approach.

Utilizing secondary data obtained from reputable sources, such as official legal statutes, corporate annual reports, and scholarly literature, will enhance the integrity of the data (Ali, 2021). Reliability can be further improved by compiling comprehensive notes on the data sources and analytical methodologies used (Nurhayati, Ifrani, & Said, 2021). The study will adhere to research ethics by complying with copyright laws and



norms regarding the dissemination of secondary data. Data utilization will follow relevant regulations and be appropriately referenced. This study aims to offer a comprehensive understanding of the application of corporate social responsibility (CSR) in Indonesia, employing both soft law and hard law methodologies. The analysis will be conducted based on existing secondary data sources. This research methodology is expected to yield significant insights that can inform the development of more impactful corporate social responsibility (CSR) policies and practices in Indonesia. The findings will significantly benefit firms, governments, and non-governmental organizations (NGOs) seeking to enhance their CSR initiatives in the country.

## C. RESULTS AND DISCUSSION

### 1. A Comparison of the Effectiveness of Soft Law and Hard Law in Creating Business Accountability in Indonesia

Soft law and hard law are two complementary approaches to fostering business accountability (Sheehy, Tuslian, & Lie, 2021). Soft law refers to regulations or guidelines that are not legally binding and lack strict legal sanctions (Alvarez, 2018). In contrast, hard law encompasses legally binding regulations that provide a solid legal foundation and often include strict penalties for violations (Baleva, 2018).

Both approaches play a crucial role in regulating business behavior and promoting

corporate social responsibility. Soft law offers flexibility, allowing companies to decide how best to fulfill their social obligations, often encouraging innovation and creativity in their approaches (Sornarajah, 2020). Conversely, hard law provides robust legal protection for the rights of communities and the environment, ensuring that violations are appropriately sanctioned.

In practice, a combination of soft and hard law is often the most effective strategy. Soft law can establish a broad framework and guide companies on their social responsibilities (Disemadi, 2022), while hard law can regulate specific obligations, ensure compliance, and offer strong incentives to prevent violations (Joseph & Kyriakakis, 2023).

The research on legal mechanisms for business accountability in Indonesia focuses primarily on examining soft and hard law approaches within the context of corporate social responsibility (CSR), rather than being grounded in specific theoretical perspectives such as positivism, constructivism, or realism. The study aims to compare the effectiveness of soft and hard law strategies in enhancing corporate accountability for CSR practices in Indonesia. While theoretical frameworks like positivism, constructivism, or realism could offer additional insights, this study does not explicitly adopt any particular theoretical lens. Instead, the methodology emphasizes a practical analysis of legal mechanisms and their impact on business accountability, aiming to provide valuable insights

for companies, governments, and NGOs seeking to improve CSR initiatives in Indonesia.

The concepts of hard law and soft law are central to regulating CSR, as they represent two distinct approaches to promoting corporate responsibility. Hard law refers to legally binding regulations and laws with strong legal force (Simons, 2023). Companies are required to comply with these regulations and may face legal sanctions for violations. In the context of CSR, hard law may include regulations related to corporate responsibility for environmental protection, labor rights, consumer rights, and other social issues. Examples of hard laws in various countries include regulations that mandate corporate reporting on CSR practices, laws governing toxic waste disposal, labor laws, and consumer protection laws (Berning & Sotirov, 2023; Sukdeo, 2019). Hard law assures stakeholders that companies must adhere to

specific standards and that violations will be penalized.

On the other hand, soft law refers to guidelines, principles, and standards that do not carry the force of binding law. While soft law lacks strong legal backing, it is often used to guide companies in implementing CSR (Baleva, 2018). In CSR, soft law can take the form of voluntary guidelines, such as international CSR frameworks, codes of conduct, or principles like the UN Guiding Principles on Business and Human Rights. Soft law allows companies greater flexibility in determining how to fulfill their social responsibilities, often serving as an incentive rather than a legal obligation (Achtouk-Spivak & Garden, 2022; Xiong & Tomasic, 2019). Companies that adopt soft law can gain reputational benefits, mitigate business risks, and build stronger relationships with stakeholders.

**Table 1. Hard Laws Regulating CSR in Indonesia**

Hard Law	Description
Law No. 40 of 2007 on Limited Liability Companies	Article 74 of Law No. 40/2007 on Limited Liability Companies stipulates that companies conducting business in and/or related to natural resources are obliged to implement social and environmental responsibilities.
Government Regulation No. 47/2012 on Corporate Social and Environmental Responsibility	Government Regulation No. 47/2012 on Corporate Social and Environmental Responsibility further regulates the implementation of CSR by companies.
Minister of Environment and Forestry	Regulation of the Minister of Environment and

Regulation P.35/MENLHK/SETJEN/KUM.1/2/2022 concerning Guidelines for the Implementation of Corporate Social and Environmental Responsibility	Number P.35/MENLHK/SETJEN/KUM.1/2/2022	Forestry Guidelines for the Implementation of Corporate Social and Environmental Responsibility is the latest regulation governing CSR in Indonesia.	No. on
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**Sources: Dharmawan et al., 2018; Rinawiyanti, Huang, & As-Saber, 2021; Zhao & Wen, 2022**

Research on legal mechanisms for business accountability in Indonesia focuses on the use of both soft and hard law approaches in regulating corporate social responsibility (CSR). Table 1 summarizes various hard laws that govern CSR in Indonesia, such as Law No. 40 of 2007 on Limited Liability Companies, which mandates that companies involved in natural resources must implement social and environmental responsibilities, and Government Regulation No. 47 of 2012, which further regulates the implementation of CSR by

companies. The latest regulation by the Ministry of Environment and Forestry, Ministerial Regulation No. P.35/MENLHK/SETJEN/KUM.1/2/2022, also provides guidance on CSR implementation. This hard law approach offers legal certainty and clear enforcement mechanisms, both of which are essential for achieving corporate accountability.

**Table 2. Soft Laws Regulating CSR in Indonesia**

Soft Law	Description
Indonesian Code of Business Ethics (KEBI)	<p>KEBI is a document developed by the Indonesian Chamber of Commerce and Industry (KADIN) as a guideline for businesses in conducting responsible business. KEBI includes ten principles, there are:</p> <ul style="list-style-type: none"> <li>▪ Principles of legal compliance</li> <li>▪ Principles of good corporate governance</li> <li>▪ Human rights principles</li> <li>▪ Labor relations principles</li> <li>▪ Environmental principles</li> </ul>

	<ul style="list-style-type: none"> <li>▪ Consumer principles</li> <li>▪ Community principles</li> <li>▪ Principles of business development</li> <li>▪ Principles of fair competition</li> </ul>
Indonesia CSR Basic Principles	<p>The Indonesian CSR Basic Principles is a document prepared by the Coordinating Ministry for Economic Affairs of the Republic of Indonesia to guide businesses in CSR. The CSR Indonesia Basic Principles include five principles, there are:</p> <ul style="list-style-type: none"> <li>▪ Contribution principle</li> <li>▪ Sustainability principle</li> <li>▪ Principle of equality</li> <li>▪ Accountability principle</li> <li>▪ Transparency principle</li> </ul>
CSR Implementation Guidelines	<p>The CSR Implementation Guidelines is a document prepared by the Ministry of Environment and Forestry of the Republic of Indonesia as a guideline for businesses in preparing and implementing CSR programs. The CSR Implementation Guidelines cover six aspects, there are:</p> <ul style="list-style-type: none"> <li>▪ Planning aspect</li> <li>▪ Implementation aspect</li> <li>▪ Monitoring and evaluation aspect</li> <li>▪ Reporting aspect</li> <li>▪ Award aspect</li> <li>▪ Sanctioning aspect</li> </ul>

**Sources: Delalieux & Moquet, 2020; Djayaputra, 2021; George, 2021; Kencana, Sirozi, & Muchtar, 2018; Xiong & Tomasic, 2019**

In contrast, Table 2 outlines various soft laws that guide companies in implementing CSR. Documents such as the Indonesian Code of Business Ethics (KEBI), developed by the Indonesian Chamber of Commerce and Industry (KADIN), and the Indonesian CSR Basic

Principles, prepared by the Coordinating Ministry for Economic Affairs, provide principles that companies are expected to follow. The CSR Implementation Guidelines from the Ministry of Environment and Forestry also offer guidance on planning, implementation, monitoring, evaluation, reporting, rewards, and sanctions in CSR programs.

While soft law is not legally binding, it provides flexibility and enables companies to quickly adapt to changing business practices and social needs. A combination of hard and soft law is often the most effective approach to regulating CSR. Hard law establishes a strong legal framework and protection for affected parties, while soft law offers guidance and incentives for companies to adopt broader social responsibility practices (Sheehy, Tuslian, & Lie, 2021). Ideally, hard and soft laws should complement each other to foster a more sustainable and responsible business environment.

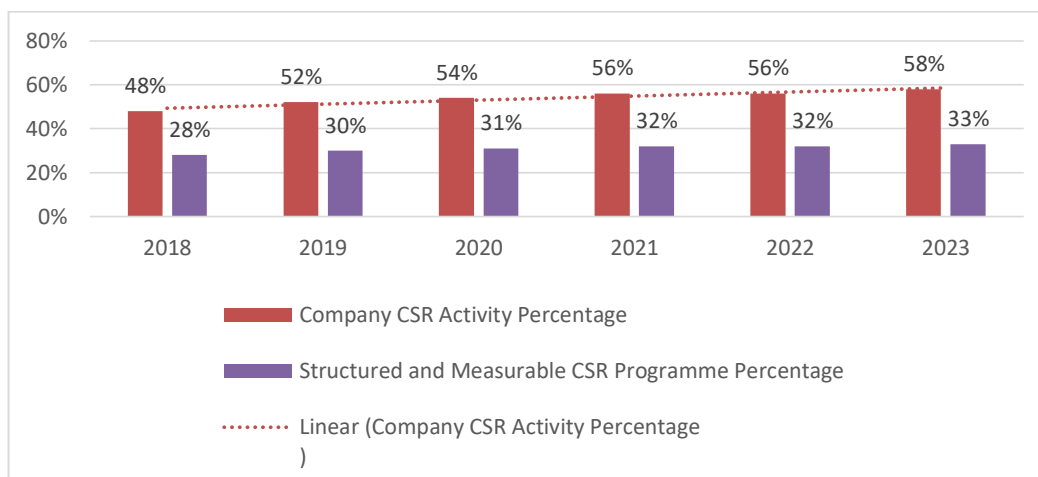
This research employs a comparative analysis of hard law and soft law in the context of CSR in Indonesia. Hard law provides a clear, binding legal framework that ensures companies meet their obligations, with sanctions imposed for violations. This is particularly relevant in terms of legal certainty and strict enforcement. Soft law, on the other hand, encourages innovation and awareness in CSR, playing a crucial role in promoting best practices and social responsibility among companies. The combination of these two approaches can create a more comprehensive

and effective regulatory environment, ensuring that companies act responsibly and contribute positively to society and the environment.

The findings of this research demonstrate that an effective legal mechanism for business accountability in Indonesia can be achieved through a combination of hard and soft law. Hard law ensures certainty and strong enforcement, while soft law provides flexibility and adaptability, striking a balance that encourages companies to fulfill their social responsibilities effectively.

A survey conducted by the Indonesia CSR Network in 2022 offers a revealing glimpse into the state of CSR implementation in Indonesia. The data shows that only 56% of companies operating in Indonesia are actively engaged in CSR programs, indicating room for greater corporate involvement in social responsibility initiatives. Furthermore, of the companies implementing CSR, only 32% have structured and measurable CSR programs (Berning & Sotirov, 2023; Joseph & Kyriakakis, 2023). This suggests that many companies may still lack a clear plan or systematic approach to measuring the social and environmental impacts of their initiatives.

This research focuses on a comparative analysis between soft law and hard law approaches in regulating corporate social responsibility (CSR) in Indonesia. Figure 1 shows the development of CSR implementation in Indonesia from 2018 to 2023.



**Figure 1. Company CSR Implementation Rate**  
Source: (Simons, 2023)

Several key points can be drawn from this graph. First, the increase in corporate CSR activities is evident from the percentage of companies actively implementing CSR, which rose from 48% in 2018 to 58% in 2023. This upward trend indicates that companies are increasingly recognizing the importance of CSR and responding to pressure from communities and stakeholders (Lie & Dewi, 2021; Waagstein, 2020). This rise can be attributed to the influence of hard laws such as Law No. 40 of 2007 and Government Regulation No. 47 of 2012, which require companies to engage in CSR, demonstrating the effectiveness of regulations in driving corporate participation in CSR.

However, despite this increase, the percentage of companies with structured and measurable CSR programs only grew from 28% in 2018 to 33% in 2023. This suggests that many companies still face challenges in developing practical and effective CSR initiatives. It may indicate that while hard law is effective in

increasing CSR participation, the structured implementation of CSR programs requires additional support from soft law. Soft law can provide more detailed and flexible guidance, helping companies develop more effective CSR programs.

In the context of this research, comparing the effectiveness of hard law and the role of soft law is crucial. Hard law provides a clear and binding legal framework with strong enforcement mechanisms, creating legal certainty for companies to implement CSR. Regulations such as Law No. 40/2007 and Government Regulation No. 47/2012 have been instrumental in ensuring that companies are legally obligated to implement CSR, which has proven effective in increasing corporate participation. On the other hand, soft laws, such as the Indonesian Code of Business Ethics and the Indonesian CSR Basic Principles, offer normative guidance without the force of binding law. However, soft law plays a key role in promoting best practices and fostering innovation

in CSR. It helps companies understand and implement CSR in a more structured and in-depth manner, which is crucial given the challenges in developing measurable and effective CSR programs.

Overall, this chart provides valuable insights into the impact of regulation on CSR implementation in Indonesia. The increasing participation of companies in CSR activities demonstrates that the hard law approach is effective in encouraging corporate involvement in social responsibility. However, the challenges in developing structured and measurable CSR programs highlight the importance of soft law in offering more flexible guidance and standards. Therefore, a combination of hard and soft law approaches is essential to create a comprehensive and adaptive regulatory framework. This approach ensures that companies not only participate in CSR but also implement structured and measurable programs, thereby maximizing their positive impact on society and the environment. This research confirms that achieving effective business accountability in Indonesia requires the integration of binding regulations with normative guidance that companies can adapt according to their specific needs and contexts.

These findings emphasize the challenges in motivating companies to strengthen their commitment to CSR. The growing importance of developing structured, measurable, and sustainable CSR strategies is becoming more

apparent in supporting social development and environmental protection. By gaining a deeper understanding of the successes and shortcomings of current CSR programs, more effective measures can be formulated to encourage companies to integrate CSR into their business practices. Such efforts will help to achieve a greater positive impact on society and the environment, fostering a more sustainable business ecosystem. As awareness of social responsibility grows, more companies are likely to tap into the potential of CSR and implement it in a more structured and measurable way.

One of the efforts to increase the percentage of companies with structured and measurable CSR programs is the implementation of hard law, which consists of legally binding regulations. Hard law provides a clear legal framework and firm sanctions for violations in CSR implementation (Zainal, 2019). With strong regulations in place, companies will face greater pressure to develop CSR programs that meet the standards set by law, thus supporting an increase in the number of companies with structured and measurable CSR initiatives.

The regulations governing corporate social responsibility (CSR) in Indonesia play a crucial role in promoting business accountability. Hard law offers legal certainty to companies regarding their CSR obligations. Regulations such as Law No. 40 of 2007 and Government Regulation No. 47 of 2012 clearly define companies' responsibilities. This legal certainty ensures that

companies cannot disregard their social responsibilities without facing legal consequences. Additionally, hard laws are often accompanied by strict enforcement mechanisms and sanctions, such as fines and administrative penalties, which compel companies to take compliance seriously. The consistent and binding standards set by hard law create a level playing field, ensuring that no company gains an unfair advantage by neglecting its social responsibilities.

On the other hand, soft law offers greater flexibility and adaptability compared to hard law. Soft law, such as business codes of conduct and CSR guidelines, can be tailored to meet the specific needs of a particular company or industry sector, allowing businesses to develop CSR programs that are more relevant and effective in their specific business context and environment. Additionally, soft law often serves as a guide to best practices and fosters innovation in CSR, encouraging companies to go beyond mere minimum compliance and aim for higher standards. This approach helps businesses create more value for society and the environment while enhancing their corporate reputation.

Soft law also plays an important role in raising awareness and understanding of the importance of CSR among companies by providing education and training on effective CSR implementation. This increased awareness can motivate more companies to voluntarily adopt social responsibility practices. Furthermore, soft

law can help businesses build stronger relationships with stakeholders, including local communities, customers, and investors. Better relationships with stakeholders can lead to greater trust and support for the company, which, in turn, enhances corporate reputation and long-term sustainability.

Thus, CSR regulations in Indonesia, both in the form of hard and soft laws, have significant influence in promoting business accountability. Hard law provides legal certainty, strict enforcement, and consistent standards, while soft law offers flexibility, encourages best practices, raises awareness, and strengthens relationships with stakeholders. The combination of these two approaches creates a comprehensive and adaptive framework, ensuring that companies not only comply with their social responsibilities but also contribute positively to society and the environment. This research confirms that to achieve effective business accountability, Indonesia must integrate binding regulations with normative guidance that companies can adapt to their specific needs and context.

In Indonesia, Corporate Social Responsibility (CSR) regulations exist in two forms: hard law and soft law. Hard law refers to regulations with binding legal force, including clear sanctions for companies that fail to comply (Wulandari & Dermawan, 2022). In contrast, soft law is voluntary, lacking strong legal force and without sanctions (Delalieux & Moquet, 2020). Hard law forces companies to adhere to specific



CSR standards, with penalties for violations, while soft law provides guidelines and principles that, while not legally binding, guide companies in shaping their CSR practices. Combining these two approaches creates a balanced framework that ensures business accountability, where hard law offers a solid legal foundation and soft law provides the flexibility for companies to innovate

in fulfilling their social responsibilities. As business dynamics and societal demands evolve, a deeper understanding of these two types of regulations is crucial for encouraging companies to effectively and sustainably integrate CSR into their operations.

**Table 3. Comparison of hard and soft laws in Indonesia that regulate CSR.**

Aspect	Hard Law	Soft Law
Nature	Binding	Not binding
Sanctions	Available	Does not exist
Regulation	More detailed and specific	More general and flexible
Effective	Can encourage companies to implement CSR more optimally and responsibly	Can be a reference for companies in carrying out CSR

**Source: a compilation from various sources by the author**

Soft law and hard law represent two approaches to regulating Corporate Social Responsibility (CSR), each with distinct advantages and disadvantages. Soft law offers flexibility, enabling companies to tailor their CSR practices to specific conditions (Pascal, 2021; Yuliantiningsih, Suherman, & Jati, 2021). This flexibility fosters innovation and creativity in how businesses fulfill their social responsibilities. Additionally, soft law is often more economical for companies, leading to cost savings in CSR implementation. However, soft law has its drawbacks. The flexibility it provides can be a double-edged sword, as more general and

adaptable rules can complicate implementation. Moreover, soft law can be challenging for governments to monitor, leading to a lack of transparency and accountability in companies' CSR practices.

In contrast, hard law offers the inherent advantage of incentivizing corporations to adopt and execute CSR initiatives more efficiently and accountably. Hard law establishes clear and precise regulations that provide a framework for companies to fulfill their social responsibilities effectively (Pramudianto, 2018). It also promotes stronger oversight and regulatory measures by governmental authorities, enhancing

transparency. However, hard law has limitations (Dawood, 2021). Strict regulations may constrain CSR initiatives, forcing firms to adhere to rigid frameworks. Furthermore, compliance with stringent rules can require significant financial investments, particularly for small and medium-sized enterprises (SMEs).

When comparing the effectiveness of hard and soft law in creating business accountability, hard law tends to be more effective. This is due to the binding legal certainty it provides, including clear sanctions for companies that fail to comply with CSR provisions (Szablowski, 2019). With strict regulations and strong legal consequences, companies are more motivated to comply with the rules and implement CSR optimally to avoid potential reputational and financial damage.

However, soft law also plays a crucial role in promoting business accountability. While not legally binding, it can offer valuable guidance for companies to implement CSR more responsibly (Alvarez, 2018). Soft law can encourage companies to engage in good CSR practices, especially when supported by stakeholders and communities that demand more responsible business behavior.

A combination of hard and soft law presents an effective solution for achieving optimal business accountability in Indonesia. Hard law can provide a solid legal foundation for the government to enforce stricter oversight of CSR implementation by companies, including the imposition of more severe sanctions for significant

violations. This would further incentivize companies to comply with regulations.

At the same time, developing more structured and comprehensive soft laws is essential. Clearer and more measurable soft law guidelines can provide companies with better direction for fulfilling their social obligations. Additionally, raising corporate awareness and understanding of CSR's importance and positive impact is a critical step toward fostering a more responsible business culture. A synergistic approach between hard and soft law is expected to create a more effective framework for achieving optimal business accountability in Indonesia, benefiting society, the environment, and promoting sustainable business practices.

## **2. Factors Affecting Legal Implementation in Indonesia**

Regulations concerning Corporate Social Responsibility (CSR) in Indonesia possess significant influence in promoting business accountability. By applying Lawrence Friedman's legal systems theory, particularly regarding legal substructure and legal culture, we can gain a more comprehensive understanding of this context. Hard law provides legal certainty to companies regarding their obligations in implementing CSR, as outlined in Law No. 40 of 2007 and Government Regulation No. 47 of 2012. This legal certainty is crucial to ensure that companies cannot ignore their social responsibilities without facing legal consequences. Hard laws typically come with

strict enforcement mechanisms and sanctions, encouraging companies to take regulations seriously. The consistent and binding standards established by hard law create a level playing field for all companies, ensuring that no company gains an unfair advantage by disregarding its social responsibilities.

Conversely, soft law offers greater flexibility and adaptability compared to hard law. Soft law, which includes business codes of conduct and CSR guidelines, can be tailored to meet the specific needs of a particular company or industry sector, allowing for the development of more relevant and effective CSR programs in accordance with their business context and environment. Furthermore, soft law often serves as a guide to best practices and innovation in CSR, encouraging companies to exceed minimum compliance and strive for higher standards. This approach helps companies create greater added value for society and the environment, as well as enhance their corporate reputation. Additionally, soft law raises awareness and understanding of the importance of CSR among companies through education and training on effective implementation. This increased awareness can motivate more companies to voluntarily fulfill their social responsibilities. Moreover, soft law can facilitate the development of better relationships with stakeholders, including local communities, customers, and investors. Stronger relationships with stakeholders can enhance trust and support for the company,

which, in turn, can bolster its reputation and long-term sustainability.

Using Friedman's legal system theory, it is essential to consider both the legal substructure and legal culture in the context of CSR regulation in Indonesia. The legal substructure encompasses the institutions and infrastructure that enforce the law, such as courts, regulatory agencies, and relevant government bodies. These institutions play a key role in enforcing CSR regulations. For instance, the Ministry of Environment and Forestry's oversight of the implementation of Ministerial Regulation No. P.35/MENLHK/SETJEN/KUM.1/2/2022 is critical in ensuring companies adhere to established CSR guidelines. Effective supervision and enforcement mechanisms necessitate strong coordination among various law enforcement and regulatory agencies. This coordination can enhance the effectiveness of supervision and enforcement of CSR regulations, ensuring that companies violating the rules are appropriately sanctioned, which in turn increases compliance.

Legal culture encompasses the norms, values, and attitudes of society toward the law and its legal institutions. In the context of CSR, a legal culture that supports social responsibility and sustainability can encourage companies to be more proactive in implementing CSR programs. When society has a high awareness of the importance of CSR and actively demands accountability from companies, those companies are more likely to comply with CSR regulations.

The level of legal awareness and education among the public and businesses also affects how laws are accepted and applied. Increasing awareness and legal education regarding the importance of CSR among the public and companies can facilitate better implementation of CSR programs. Effective education and outreach programs by the government and non-governmental organizations (NGOs) can enhance understanding of the benefits of CSR for both companies and society at large.

By combining elements of legal substructure and legal culture, we can better understand how CSR regulations can be effectively implemented in Indonesia. Strong law enforcement agencies and effective oversight mechanisms must be supported by a legal culture that promotes social responsibility and sustainability. Coordination between various law enforcement and regulatory agencies, along with increased awareness and legal education among the public and businesses, is key to achieving effective business accountability. Thus, a combination of hard and soft law approaches is essential for creating a comprehensive and adaptive regulatory framework. This approach can ensure that companies not only engage in CSR but also implement structured and measurable programs, thereby maximizing their positive impact on society and the environment. This research confirms that to achieve effective business accountability, Indonesia needs to strengthen law enforcement agencies, improve

oversight mechanisms, and develop a legal culture that supports corporate social responsibility. The integration of these approaches will ensure that companies not only comply with CSR regulations but also contribute positively to society and the environment, aligning with the ultimate goal of corporate social responsibility.

Implementing the law in the context of corporate social responsibility in Indonesia is influenced by cultural elements, the legal environment, and the roles of government and NGOs. Analyzing these factors provides deep insight into the challenges and opportunities in creating better business accountability in Indonesia.

#### a. Cultural Factors

Indonesian culture plays a significant role in the implementation of laws regarding corporate social responsibility (CSR) (Sari et al., 2018). A culture that encourages collaboration and cooperation can facilitate the implementation of laws, particularly soft laws that provide more incentives. Companies often engage in social responsibility initiatives that involve various stakeholders, such as local communities, government entities, and NGOs (Santoso, 2022). This reflects strong participation in social responsibility practices. However, culture can also act as a barrier in some cases. The finding that corrupt practices and nepotism among government officials can negatively impact the implementation of laws serves as a striking

example. Therefore, a deep understanding of local culture, along with efforts to eliminate corruption, is crucial for effectively implementing the law. This highlights the need for a comprehensive approach that incorporates cultural aspects to enhance business accountability.

#### b. Legal Environment

The legal environment in Indonesia plays a vital role in the implementation of laws regarding corporate social responsibility (CSR). Business regulations, taxation, and licensing can significantly affect a company's ability to comply with the law effectively. Cumbersome bureaucracy and ambiguous regulations can hinder social responsibility initiatives (An, 2021; Boki, 2020). However, there are encouraging signs arising from the reform initiatives implemented by the government. Tax and licensing reforms have been proposed as potential mechanisms to enhance firms' compliance with social laws by creating a more favorable legal environment. This highlights the importance of the government's involvement in establishing a legal framework that promotes ethical conduct in commercial operations.

#### c. The Role of Government and NGO

The role of governments and NGOs is critical in encouraging the implementation of laws on corporate social responsibility (CSR) (Gilbert & Huber, 2023). Governments can promote corporate compliance through incentives and sanctions, while NGOs can monitor and report unethical business practices (An, 2021;

Bernasconi-Osterwalder, 2020). However, the results indicate that cooperation between the government, NGOs, and the private sector still needs strengthening. The government should enhance its supervisory role and provide greater incentives for companies that actively engage in social responsibility (Ekhatior & Iyiola-Omisore, 2021). Additionally, NGOs can take a more active role in monitoring and reporting questionable business practices, thereby increasing pressure on companies to comply with social laws.

Cultural factors, the legal environment, and the roles of government and NGOs all influence the implementation of laws regarding corporate social responsibility in Indonesia. These factors are interrelated and affect one another, creating complex challenges and opportunities for achieving better business accountability. To improve business accountability, it is essential to understand and address these factors comprehensively. Close cooperation between governments, companies, and NGOs can foster an enabling environment for responsible business practices. Governments must also strengthen their oversight role and ensure a conducive legal environment. Similarly, companies should understand the local culture and commit to eliminating corrupt practices. By doing so, Indonesia can create a more sustainable and responsible business environment that benefits society, the environment, and the economy.

## D. CONCLUSION

Based on the research background presented, as well as the results and discussions from this study, it can be concluded that in the context of Corporate Social Responsibility (CSR) in Indonesia, both soft law and hard law approaches play important roles in promoting business accountability. This research shows that hard law, with its binding regulations and clear sanctions, is more effective in creating business accountability. However, soft law also plays a vital role by providing guidance and incentives for companies to implement social responsibility practices more broadly.

A combination of hard and soft law approaches can be an effective solution for regulating CSR in Indonesia. Hard law provides a solid foundation through clear regulations and strict sanctions for violations, ensuring that companies comply with minimum CSR standards. Law No. 40 of 2007 and Government Regulation No. 47 of 2012 stipulate companies' obligations in implementing CSR. In contrast, soft laws, such as guidelines and codes of conduct issued by various institutions, encourage companies to adopt best practices and innovate in CSR implementation. Documents such as the Indonesian Code of Business Ethics and the Indonesian CSR Basic Principles offer a flexible framework for companies to develop CSR programs that suit their specific contexts.

Cultural factors, the legal environment, and the roles of government and civil society

organizations influence the effectiveness of both approaches. Culturally, companies need to understand and respect local values, which can enhance the acceptance and success of CSR programs. A supportive legal environment, with strong law enforcement agencies and effective oversight mechanisms, is also crucial for ensuring that CSR regulations are implemented effectively. The roles of government and civil society organizations include creating incentives that encourage companies to go beyond mere compliance and commit to broader social responsibilities.

Therefore, it is important to comprehensively understand and address these factors to create a more sustainable and accountable business environment in Indonesia. Recommendations include improved monitoring and enforcement by government agencies, enhanced incentives, and the establishment of a conducive legal environment. The government should increase the capacity of law enforcement agencies to ensure that CSR regulations are applied consistently and fairly. Additionally, providing incentives such as awards or tax benefits for companies that successfully implement innovative and impactful CSR programs can encourage broader participation.

Companies are also expected to understand and respect local cultures and commit to efforts in preventing corruption. This includes being transparent in their operations and interacting with local stakeholders in an honest

and open manner. Collaboration between the government, companies, and civil society is crucial for shaping a more sustainable and accountable business environment in Indonesia. By working together, these three parties can create strong synergy to encourage responsible and sustainable business practices.

Thus, this research makes an important contribution to strengthening the understanding of legal mechanisms for creating business accountability in the context of CSR in Indonesia. It emphasizes the importance of combining hard and soft law approaches in CSR regulation to foster a more sustainable and responsible business environment. This combination not only ensures that companies comply with their legal obligations but also encourages them to innovate and contribute positively to society and the environment.

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