

Business Legal Framework and Challenges in Implementing Social Responsibility towards Local Communities in Large Investment Projects

Endra Andie Aryanto, Didit Darmawan, Mochamad Irfan

Universitas Sunan Giri Surabaya, Indonesia

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ABSTRACT

This study discusses the legal framework for business and the challenges of corporate social responsibility (CSR) towards local communities in large investment projects. Regulations in Indonesia have affirmed CSR as a legal obligation for companies engaged in or related to natural resources, as stipulated in the Limited Liability Company Law, Investment Law, and Environmental Protection and Management Law. In practice, the implementation of CSR faces challenges related to the interpretation of norms, weak supervision, and minimal participation of local communities. This research highlights the need for standardisation of implementation, transparency in reporting, and strengthening the capacity of local communities to ensure that the goals of social justice and environmental sustainability are truly achieved. This study is expected to serve as a reference for policy refinement and synergy between the government, business actors, and the community to achieve harmony between investment and the protection of local community rights.

INTRODUCTION

Indonesia is experiencing rapid economic growth with the influx of large investments in strategic sectors such as mining, energy and infrastructure. This dynamic economic development brings new opportunities and questions regarding the distribution of benefits, legal frameworks and governance of relations between corporations and local communities. Large-scale investment projects often operate in areas that previously had relatively stable social, economic and cultural lives. The presence of investors demands legal guarantees and business certainty while maintaining the rights and position of local communities, so that the legal realm of business continues to evolve to respond to the complex relationship between investment and social responsibility (Carroll, 2016).

The business legal framework in Indonesia has undergone a number of significant revisions since the enactment of the Investment Law, the Limited Liability Company Law, and the development of implementing regulations on Corporate Social Responsibility (CSR). These regulations are designed to create a balance between business interests and the

protection of local community rights. However, implementation in the field still leaves various gaps and challenges, especially in ensuring community involvement in strategic corporate decision-making that has a broad impact. The relationship that is formed is not only between companies and the state, but also an intense encounter between economic forces and social realities that are vulnerable to marginalization (Wardhani et al., 2017).

Adequate investment implementation procedures require multi-stakeholder involvement and strict supervision to prevent systemic problems. At the implementation stage, the business world is often faced with demands for transparency, accountability, and the enforcement of social justice principles in the community. The importance of law enforcement to prevent irregularities and corrupt practices in investment is also emphasized in the research by Saputra et al. (2021) on preventing corruption through effective law enforcement in investment activities. The success of large investments requires collective awareness from all parties in interpreting and implementing applicable business legal norms.

* Corresponding author, email address: dr.diditdarmawan@gmail.com

However, policy formulation often ignores the voices of local communities, giving rise to potential resistance and prolonged conflicts that pose a risk to business continuity (Sukmono et al., 2018).

Controversy and debate surrounding corporate social responsibility in Indonesia have become increasingly relevant as a number of companies are required to fulfil CSR not only as a formal obligation, but as a practice that is internalized in corporate culture. The social role of companies in supporting environmental sustainability and conservation is also closely related to the spirit of social entrepreneurship studied by Nuraini et al. (2022), which emphasizes innovative strategies in addressing sustainability challenges. Often, large projects bring structural changes to local lifestyles, whether in economic, social, or environmental aspects. This requires literalness and inclusive interpretation of business regulations so that all parties, especially affected communities, feel the benefits and can participate equally in the development process (Setiawati & Soepatini, 2022).

A crucial issue that often arises relates to the lack of local communities in obtaining real benefits from large investment projects. Not all companies take their social responsibilities seriously, causing some communities to experience injustice or even lose their living space. This issue is in line with Marsal and Da Silva's (2023) discussion on the implementation of ESG principles in Indonesian business law, which emphasizes the challenges of implementing social responsibility in practice amid pressure to integrate sustainability into corporate operating models. Thus, the reconstruction of business law becomes increasingly important to establish transparent and accountable mechanisms in balancing business interests and social justice.

The main issue in this topic stems from the disharmony between the interests of companies and local communities. Companies often focus on achieving investment targets and financial profits, while communities are more concerned with preserving their rights to resources, the environment, and deeply rooted cultures. The importance of cultural identity as the foundation of social cohesion, as studied by Oluwatosin and Rojak (2023), is particularly relevant here, given that tensions often arise when large investments ignore established local values and social structures. The imbalance of power between these two actors necessitates a re-evaluation of the implementation of social responsibility as mandated by law. According to Rahardjo (2014), weak community participation in decision-making has an impact on the vulnerability of communities in

facing social and economic changes resulting from investment projects.

Information asymmetry also remains a significant problem, given that companies usually control access to licensing documents, environmental impact analyses, and company strategies, while local communities often lag behind in obtaining accurate information. The level of education and understanding of licensing procedures also affects the community's ability to access information independently, as analyzed in the research by Mardikaningsih and Arifin (2021). The effectiveness of investment licensing services, which is the starting point for interaction between business actors and authorities, also influences the transparency of this information, as measured in the research by Sudja'i et al. (2023). Other studies, such as that conducted by Suryanto et al. (2023) on public participation in infrastructure investment, also show that limited access to information for the community can lead to marginalization and reduce the social legitimacy of a project. This triggers the potential for manipulation and policies that are biased towards corporate interests. Therefore, regulatory evaluation should not only address the formalities of regulation but also the effectiveness of implementation as tested at the community level. Legal protection for local communities still faces obstacles when the negotiation and implementation processes of investments are not transparent and inclusive.

Another key issue is the low effectiveness of law enforcement mechanisms related to the implementation of corporate social responsibility. Legal instruments are available, but sanctions for violations are often not strict enough, even in cases of substantial impact on communities. The gap between regulation and implementation is often caused by a lack of oversight from authorities, weak community reporting mechanisms, and economic and political pressures that tend to maintain the status quo.

Examining this topic is highly relevant at present, given the increasing flow of global investment into Indonesia and growing public pressure for corporate accountability. The role of companies is no longer limited to being economic drivers, but also as social actors who must demonstrate a commitment to environmental sustainability and social justice in the communities surrounding their operations. The public demands that companies internalize social responsibility values in their governance and business decision-making.

In addition, recent regulatory developments are driving transformation in corporate practices and community participation. The government and

industry players must work together to create an adaptive legal environment so that business-local community relations are transparent and fair. Up-to-date business law studies are needed to explain how regulations continue to evolve and to identify implementation gaps for the sake of mutual prosperity and investment sustainability.

This study aims to analyse the business law framework in regulating corporate social responsibility towards local communities in large investment projects, while exploring the main challenges of its implementation based on applicable positive regulations. This study is expected to contribute theoretically to the development of scientific understanding of the relationship between business law and social justice, as well as practically to policymakers, industry players, and local communities in effectively implementing the principles of social responsibility.

RESEARCH METHOD

This study employs a normative legal approach, which is a method that focuses on literature review through analysis of legislation, legal literature, and legal precedents related to corporate social responsibility and the protection of local communities in large investment projects. The study analyses legal texts and official documents as primary data, with an in-depth comparison of the norms regulated in the Limited Liability Company Law, the Investment Law, and their implementing regulations. All legal documents, scientific journals, and academic textbooks are systematically examined to map out regulations, field practices, and business law challenges. A thematic synthesis process was conducted to interpret the legal data constructively as recommended by Creswell (2014).

The literature search strategy in this study included searching sources from reputable scientific databases such as Sinta and Google Scholar. The inclusion criteria included academic publications and regulations published in the last 20 years, containing discussions on business law, social responsibility, and large investments in Indonesia. Each search result was verified by testing official links and checking the credibility of the publisher.

To ensure the quality of the research, the coding method was carried out by separating thematic categories from reports, journals, official documents, and books, then discussing each finding to reach an interpretative consensus. Source triangulation was carried out by comparing data between different literature and regulations in order to strengthen the analysis results and maintain objectivity. Validation

was carried out by referring to the recommendations for normative research procedures as described by Suteki and Taufani (2018), so that the research results were accurate and free from analytical bias.

RESULT AND DISCUSSION

Regulations on Corporate Social Responsibility towards Local Communities in Large Investment Projects

The legal framework for business in Indonesia places corporate social responsibility as an integral part of sustainable corporate practices, especially in large investment projects that have the potential to cause social and environmental impacts on local communities (Zainal, 2019). Law No. 40 of 2007 on Limited Liability Companies explicitly regulates the obligation of companies to implement social and environmental responsibility (CSR) as stated in Article 74. This norm affirms the obligation of companies engaged in natural resource activities to implement CSR as a form of legal commitment to the surrounding community. Research by Indrawati and Hermawan (2021) strengthens this argument, showing that legal enforcement of CSR provisions contributes significantly to community welfare and reduces social conflicts in mining areas. Thus, this provision is not merely declarative, but also carries legal consequences for business entities. Therefore, CSR is not merely a moral choice, but has become a legal obligation that must be fulfilled by companies (Sutedi, 2012).

Corporate social responsibility towards local communities is further regulated through several sectoral instruments, including Law No. 25 of 2007 on Investment, which requires every investor to pay attention to the social and cultural aspects of the communities surrounding their investment area (Aldila & Santiago, 2018). In addition, Law No. 32 of 2009 concerning Environmental Protection and Management also regulates the importance of an environmental impact assessment (EIA) before a large investment project can be carried out. Through the EIA process, companies must identify the potential social and environmental impacts in concrete terms and design mitigation plans that involve the participation of local communities (Wibisono, 2007).

Furthermore, the normative regulation of CSR in Indonesian business law reflects the application of the principles of distributive justice and sustainability (Hidayah et al., 2020). Companies that invest heavily are required to make real contributions to the welfare of local communities, whether in the form of infrastructure development, empowerment programmed, or environmental

conservation. The importance of creating a fair and sustainable investment climate through the role of legal authorities is also raised in the research by Firmansyah et al. (2023). The main objective of this regulation is to prevent inequality between corporate interests and the rights of communities affected by business activities. With clear norms in place, the state acts as a regulator that ensures companies do not only pursue financial gains but also uphold social and environmental sustainability. Thus, CSR in large investment projects in Indonesia is the result of the integration of private and public interests guaranteed by positive law (Muchlis, 2015).

Other legal instruments that reinforce corporate social responsibility are reflected in various implementing regulations, such as Government Regulations related to CSR implementation, as well as sectoral policies in the mining and forestry sectors. The implementation of multi-level governance encourages coordination between the central government, local governments, and companies in responding to the impact of investment on local communities. In practice, some local governments have even issued additional regulations to ensure the protection and active involvement of the community in decision-making regarding large investment projects (Muchlis, 2015).

CSR compliance is not only assessed based on the amount of funds spent by the company, but also on the extent to which the programmed is relevant to the needs of the local community. CSR activities designed without community involvement are prone to being seen as mere administrative formalities rather than sustainable social transformation. Therefore, several districts and cities in Indonesia have developed models of public participation in determining CSR programmed priorities (Wibisono, 2007).

It is also important to note that many multinational companies investing in Indonesia are required to implement CSR standards that not only refer to national regulations but also follow applicable international practices. This can be seen in the harmonization of CSR activity reporting through the Global Reporting Initiative (GRI) or ISO 26000 standards, which demonstrate companies' commitment to transparency and accountability in their relationships with local communities and the environment (Sutedi, 2012).

The role of the government as a facilitator and supervisor of CSR activities is a key factor in the implementation of business law policies at the local and national levels (Setiawati & Soepatini, 2022). The government has the authority to impose

administrative sanctions on companies that neglect their CSR obligations or do not comply with AMDAL provisions, in the form of fines, license suspensions, or operational shutdowns. These sanctions serve as a control instrument to ensure that companies pay close attention to social and environmental aspects as mandated by law (Muchlis, 2015).

Although the regulations are quite comprehensive, the challenges in practice stem from weak supervision and implementation in the field. There are many cases where CSR implementation is merely a formality to meet licensing requirements, without any real efforts to improve the welfare of the affected communities. This shows the need for synergy between regulatory strengthening, reporting transparency, and accountability mechanisms so that legal norms are not just empty rhetoric, but become effective instruments of change (Wibisono, 2007).

In addition to regulations at the national level, international provisions on corporate social responsibility have also inspired the development of regulations in Indonesia. Companies with cross-border investments tend to implement stricter CSR practices based on global standards, including recognition of indigenous peoples' rights and the principles of sustainable development (Sutedi, 2012). The combination of national, regional, and international regulations is a major force for achieving justice and balance between business needs and the existence of local communities (Gunawan, 2021).

Provisions in laws, implementing regulations, and corporate practices demonstrate explicit recognition of local communities' rights to participate in large investment processes. Commitments to sustainability and restorative justice are now not only part of corporate rhetoric, but are embedded in regulations as a legal requirement for sustainable business practices. The application of ethical principles in investment, including a commitment to justice and sustainability, has become the focus of relevant studies, as analyzed by Putra and Arifin (2023). This is in line with the legal approach to managing investment risk and protecting the public interest, which is also the focus of the study by Sahid et al. (2023). Companies that neglect these provisions risk facing legal sanctions and losing public trust, which could ultimately affect the continuity of their investments (Disemadi & Prananingtyas, 2020).

However, not all companies place CSR as a top priority in their business strategies. Some companies still carry out their social responsibilities as mere legal formalities without intensive involvement from the local community (Ar Raidah, 2021). Therefore, strengthening legal instruments

accompanied by increasing community capacity is necessary so that the rights of local communities can be truly guaranteed and the potential for conflict can be minimized.

In recent developments, CSR evaluation and reporting mechanisms have been increasingly prioritized to ensure corporate accountability in carrying out their social role within the community (Zainal, 2019). Companies are encouraged to periodically conduct social audits, public consultations, and actively involve all stakeholders. Only then can the goals of sustainability and harmonization of business and community interests be achieved (Ismayawati & Nurhisam, 2022).

Overall, regulations concerning corporate social responsibility (CSR) within the Indonesian business legal framework have adopted a comprehensive approach through the integration of national regulations, implementation mechanisms, and supervision. This framework is designed to ensure that business practices are not only oriented towards economic profit, but also contribute to social welfare and environmental sustainability. This effort reflects Indonesia's legal commitment to align economic development with the principles of sustainability and social justice, as mandated in various laws and sectoral policies.

Consistent implementation of regulations by the government and business actors is key to building fair, transparent, and sustainable relationships between companies and local communities. Without strict enforcement and an effective monitoring system, the established norms risk becoming nothing more than rhetoric without any real impact. Therefore, collaboration between stakeholders the government, companies, communities, and civil institutions is essential to ensure that CSR is not only viewed as a legal obligation, but also as a long-term investment in creating social harmony and environmental sustainability.

Challenges in Implementing Corporate Social Responsibility in Large Investment Projects

The main challenges in implementing corporate social responsibility (CSR) in large investment projects in Indonesia can be found from both a normative and practical perspective within the framework of positive law. From a normative perspective, Law No. 40 of 2007 on Limited Liability Companies, through Article 74, requires companies engaged in or related to natural resources to implement CSR. However, this regulation often raises debates about the scope of obligations and the form of CSR implementation that companies are

required to carry out. A study by Pratama and Nugroho (2023) highlights that this ambiguity is exacerbated by the absence of detailed implementing regulations, which allows companies to adopt minimalistic interpretations of CSR obligations, often focusing on charitable activities rather than sustainable community empowerment. Ambiguity in regulations regarding the definition and standards for implementing CSR creates real legal challenges, given that this gives rise to various interpretations among companies, communities, and the government (Sutedi, 2012). This lack of clarity is one of the factors contributing to legal uncertainty and reducing the effectiveness of protection for local communities.

Coordination and supervision are also fundamental challenges in the implementation of CSR. Law No. 25 of 2007 on Investment requires investors to pay attention to the social and cultural environment of the surrounding community, while Law No. 32 of 2009 on Environmental Protection and Management requires an environmental impact assessment (EIA) before the implementation of an investment project. Although the regulatory framework appears to be strict, in reality, the supervision of CSR implementation has not been accompanied by solid mechanisms (Hidayah et al., 2020). Many companies only implement CSR as a means of fulfilling administrative requirements, without ensuring that it benefits local communities (Gunawan, 2021). Weaknesses in the monitoring and evaluation systems of local and central governments mean that the effectiveness of CSR implementation often falls short of expectations, so that the goal of achieving a balance between business interests and community rights is never optimally realized (Muchlis, 2015).

Conflicts of interest between companies and local communities also frequently arise in the implementation of large investment projects. Mega-projects often have social impacts such as relocation, changes in the structure of life, and environmental damage that cannot be fully anticipated by CSR programs. Academic regulations have emphasized the importance of community participation in the preparation of environmental impact assessments (EIA), but in practice, such participation is often merely a formality, while the actual space for the community to express their aspirations is very limited. A recent study by Hendriyanto and Dewi (2024) confirms this gap, finding that procedural participation in EIAs often fails to translate into substantive influence, leaving communities vulnerable to the adverse effects of large-scale

projects without adequate recourse. The lack of space for dialogue and meaningful participation often triggers dissatisfaction and has the potential to cause increasingly complex social conflicts. From a legal perspective, this condition shows a gap between legal norms regarding CSR and the reality in the field (Wibisono, 2007).

Empirically, the implementation of CSR poses challenges in terms of accountability and consistency, particularly in integrating corporate business interests with the expectations of affected communities. The tendency for companies to implement CSR solely due to regulatory pressure, rather than ethical awareness, contributes to the lack of positive impact felt by local communities (Ar Raidah, 2021). Weak supervision means that sanctions for CSR violations are often not imposed strictly, so that many programmes merely serve as a means of social legitimization for companies, rather than long-term mechanisms that empower communities (Ismayawati & Nurhisam, 2022).

Another factor that poses a challenge is the overlap of regulations and weak coordination between law enforcement agencies and related institutions. The implementation of CSR regulations is not only the domain of companies and communities, but also the central government, local governments, and environmental agencies (Aldila & Santiago, 2018). The lack of integration and synergy between agencies causes policies to often run independently, resulting in inconsistent implementation and the emergence of grey areas in the accountability of each stakeholder.

The problem of identifying local needs is an important aspect that is often overlooked (Setiawati & Soepatini, 2022). Companies have formally implemented CSR programmes, but these are often not in line with the real needs of the community. The lack of involvement of local communities in the process of identifying needs has resulted in top-down programmes that have little significant impact. In some cases, the assistance or facilities provided are irrelevant to the socio-economic context of the community, creating the perception that CSR programmes are merely an administrative formality.

In addition, obstacles to transparency in reporting are often discussed by both legal activists and business practitioners. In practice, CSR implementation reports are often compiled without a robust audit mechanism, leaving the potential for data manipulation or inflation wide open (Hidayah et al., 2020). This makes it difficult for the public to exercise control, as access to CSR reporting documents is limited to certain groups affiliated with companies or government authorities (Gunawan, 2021).

The weak empowerment and participation of the community in monitoring is another challenge that has not been fully addressed (Ar Raidah, 2021). Communities that lack legal literacy and advocacy capacity will find it difficult to fight for their rights if there are irregularities in the implementation of CSR. Complaint or mediation systems often do not work effectively due to the lack of legal assistance and access to information for vulnerable communities, especially in disadvantaged and remote areas.

The uncertainty of implementation standards and the weakness of sanction mechanisms show that the legal norms governing CSR still need to be reformulated and reinforced in order to become a truly effective tool for social control. The challenges of implementing sustainable business strategies amid this regulatory uncertainty are also the focus of research by Mardikaningsih and Darmawan (2021), which examines how companies can design adaptive approaches to deal with policy dynamics. Discourse in the field of business law emphasizes the need to strengthen regulations, particularly in establishing indicators of success, implementation audits, and strict sanctions for companies that neglect their social obligations (Ismayawati & Nurhisam, 2022).

Finally, the main challenges in implementing CSR in large investment projects in Indonesia stem from three key issues: regulatory clarity, effective supervision, and local community involvement. All of these elements are interrelated and must be improved simultaneously so that the main objective of CSR, namely to achieve a balance between corporate profits and social justice for the affected communities, can be truly achieved.

In facing these challenges, the government and companies need to strengthen synergies and develop a participatory oversight model, involving local communities in every stage of CSR programme planning and implementation. There is a need to reinforce implementation standards, open reporting systems, and legal education for the community in order to achieve an equal reciprocal relationship between business actors and beneficiary communities.

Enhancing the capacity of communities in advocacy and control over the implementation of CSR will greatly help to ensure that the benefits of large investments are truly felt evenly. Policy reform, strengthened oversight, and a culture of transparency are important foundations for the realization of sustainable and inclusive corporate social responsibility in the midst of national economic development.

CONCLUSION

The regulation of corporate social responsibility (CSR) in large investment projects in Indonesia has been accommodated normatively through a number of regulations, including Law No. 40 of 2007 concerning Limited Liability Companies, Law No. 25 of 2007 concerning Investment, and Law No. 32 of 2009 concerning Environmental Protection and Management. However, serious challenges arise at the implementation level, particularly regarding the clarity of definitions, the effectiveness of supervision, and the genuine involvement of local communities. Ambiguous interpretations and weak coordination of supervision have meant that the objective of CSR as a balance between corporate and public interests has often not been optimally achieved.

The fulfilment of business legal obligations in the form of CSR must be realized through active collaboration between stakeholders, transparency in reporting, and strengthening the capacity of local

communities in the process of formulation, implementation, and supervision. The affirmation of implementation standards and the strengthening of audit mechanisms, both by government authorities and the community, are necessary to ensure social sustainability and fair distribution of benefits. Only then can the role of business law as a guarantor of justice and sustainability be realized in the midst of large-scale investment practices.

The government and business actors should update and harmonize CSR implementation regulations to avoid multiple interpretations and clarify success indicators. Legal education programmed and local community empowerment should be expanded so that affected communities can actively participate in monitoring and policy formulation. Improving CSR reporting data and openness of information access are also key elements in fostering equal and sustainable relationships between companies and communities.

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