

Analysis of the Mechanism for Implementing Corporate Social Responsibility (CSR) in Relation to Applicable Laws and Regulations in Batu Bara Regency

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Abstract

This study examines the implementation of Corporate Social Responsibility (CSR) in Batu Bara Regency, focusing on its alignment with applicable laws and regulations. The main objective is to identify gaps between legal expectations and actual practices in CSR implementation, particularly regarding program budgeting, beneficiary selection, proposal submission, and reporting obligations. A qualitative approach using a case study design was employed, involving companies in the region that are required to carry out CSR under national and local regulations. In-depth interviews were conducted with company representatives, local government officials, and community stakeholders. The findings reveal that CSR implementation in Batu Bara Regency often deviates from legal norms, with significant issues in transparency, accountability, and compliance. Companies frequently fail to report CSR budgets and activities as required by regulations, and the beneficiary selection process lacks consistency. Additionally, there is a lack of effective monitoring and weak enforcement of sanctions for noncompliance. The study recommends strengthening regulations, improving coordination between companies and local governments, simplifying submission processes, and increasing community participation to ensure that CSR programs meet legal standards and effectively promote community welfare.

INTRODUCTION

A company is an organization, both micro and macro, whether conventional or modern, that engages in the production of goods or services to achieve its objectives, be it a trading, service, or manufacturing company. The company's primary goal is to generate profits and promote long-term growth, ensure sustainability, and create a positive public image to support economic progress, particularly for the Indonesian nation. To achieve these goals, companies require effective and efficient strategies and policies so that they can develop into large and resilient entities (Casalino et al. 2019; Fiksel et al. 2015; Sheffi 2015). Companies are also obligated to demonstrate concern for the communities surrounding them; this is a form of moral responsibility for the impacts of business activities on communities and the environment. To address these impacts, companies or parties engaged in industrial activities are considered to have a social responsibility to contribute to community welfare, known as CSR (Arsyad, 2017).

The concept of CSR emphasizes that the success of a business is not solely measured by economic profit, but also by its contribution to the well-being of society (Barauskaite et al. 2021; Hategan et al. 2018; Popa et al. 2015). Howard R. Bowen stated that businesses should prioritize community welfare, not merely their own interests. CSR is a social initiative

undertaken by companies or business actors, both large and small, as a form of responsibility to the community by considering social, environmental, and economic aspects as part of sustainable practices, with the aim of preventing economic crises and maintaining the company's reputation and image.

CSR programs are expected to create a conducive environment for companies while also improving the economic development of business actors in various aspects, ranging from the business climate to society and regulatory compliance. CSR can be understood through a concept introduced by Elkington (1997) in the book *Cannibals with Forks: The Triple Bottom Line in 21st Century Business*, which identifies three core values in CSR implementation: Profit, People, and Planet.

Globally, CSR is guided by the International Organization for Standardization (ISO) 26000, which provides guidelines for CSR management. It explicitly states that when CSR programs are properly managed, they can enhance a company's image, broaden its branding, and strengthen relationships between the company and the government, customers, and the community (Le 2023; Sharma 2019; Srivastava 2024). In addition, several current compliance frameworks also require corporate responsibility in environmental management, such as Indonesian National Standard (SNI) certification, SMETA, URSA, SEDEX, RSPO, and ISPO (Judijanto 2025; Michida 2023).

Another regulatory foundation is reflected in Indonesia as a state based on law, as stated in the 1945 Constitution of the Republic of Indonesia, Article 1, paragraph (3). The function of law includes serving as a mechanism for social control and supervision, dispute resolution, and social engineering (Lesmana 2022). Beyond its function, the law also aims to achieve justice, utility, and legal certainty for the entire community (Hidayat et al. 2018).

From a positive legal perspective, Article 1, paragraph (3) of Law Number 40 of 2007 concerning Limited Liability Companies defines corporate social and environmental responsibility as a commitment by the company to participate in sustainable economic development to improve the quality of life and the environment, benefiting the company itself, the local community, and society at large. Given that limited liability companies are key pillars of national economic development, further regulation is essential as a guideline for business actors implementing CSR programs (Buhmann 2016; Lu et al. 2018).

CSR regulations are further elaborated in Government Regulation of the Republic of Indonesia Number 47 of 2012, Articles 1–4, which state that every company, as a legal subject, bears social and environmental responsibility both within and outside its operational environment. These responsibilities are carried out based on the company's annual work plan after approval from the Board of Commissioners or the General Meeting of Shareholders (GMS), with due regard to propriety and reasonableness (Afrianty et al. 2021; Amrulloh 2025; Johan 2022). Therefore, the amount of CSR funding is not specifically regulated and is determined based on the company's financial condition (Sethi et al. 2017; Soetrisno 2021).

Further developments under the Job Creation Law Number 6 of 2023, Article 109(1), amended Article 1(3) of Law Number 40 of 2007, reaffirming that "Social and Environmental Responsibility is the Company's commitment to participate in sustainable economic development in order to improve the quality of life and the environment, benefiting the Company itself, the local community, and society at large." This provision was subsequently reaffirmed in the Job Creation Law. CSR implementation must align with the principle of

justice, ensuring protection for all stakeholders, including the community, companies, and the government. This requires the government to establish clear and enforceable regulations that ensure equitable rights for all parties without disadvantaging others.

Communities have the right to receive CSR programs that are beneficial to them. On the other hand, companies have the right to legal certainty regarding the requirements and limitations of CSR implementation. The government has the authority to provide recommendations for CSR programs aligned with its vision and mission, to address community issues through corporate initiatives, and to minimize overlap between programs implemented by different companies.

CSR regulations need to be clarified and strengthened to ensure that both companies and the public can understand and implement CSR programs fairly and in accordance with legal provisions. Currently, Government Regulation Number 47 of 2012 governs CSR, but it lacks comprehensive provisions regarding sanctions for companies that fail to implement CSR programs. Therefore, it is necessary to establish clear rules regarding:

- 1) CSR program implementation systems, including planning, execution, and evaluation processes.
- 2) CSR program reporting systems, including reporting formats and frequency.
- 3) Evaluation mechanisms and rewards for companies that effectively implement CSR programs.
- 4) Sanctions for companies that fail to implement CSR programs, including types of sanctions and the government authorities responsible for enforcing them.

Thus, companies and communities can have a clear framework for implementing CSR programs and ensure that such programs are carried out fairly and in accordance with legal provisions.

This study aims to analyze the mechanism for implementing Corporate Social Responsibility (CSR) in Batu Bara Regency, focusing on its alignment with applicable laws and regulations. The research seeks to identify gaps between expected legal norms (*das sollen*) and actual practices in the field (*das sein*), particularly in relation to CSR program budgeting, beneficiary selection, proposal submission mechanisms, and reporting requirements. Additionally, this study aims to assess the effectiveness of the current CSR implementation framework in promoting community welfare, transparency, and accountability, while proposing recommendations to strengthen regulatory compliance, improve community participation, and enhance the overall impact of CSR initiatives in the region.

METHOD

This research employed a qualitative approach with a case study design, focusing on the implementation of Corporate Social Responsibility (CSR) in Batu Bara Regency. The qualitative approach allowed for an in-depth exploration of CSR implementation mechanisms within the context of local laws and regulations. A case study design was appropriate, as it provided the opportunity to investigate the specific case of Batu Bara Regency, with particular attention to how CSR programs were planned, implemented, and evaluated. The research analyzed the relationship between regulations outlined in local and national laws and the practical application of these policies by companies in the region.

The population for this study consisted of companies in Batu Bara Regency that were required to implement CSR programs under Government Regulation No. 47 of 2012 and Regent Regulation No. 104 of 2020. The sample included companies from various sectors, such as manufacturing, mining, and services, that had ongoing CSR activities. A purposive sampling technique was used to select companies that actively engaged in CSR and had documented records of CSR implementation. In-depth interviews were conducted with company representatives, local government officials, and community stakeholders who were involved in or impacted by CSR programs. The research instrument included semi-structured interview guides, which allowed for flexibility in exploring participants' perspectives while ensuring consistency across interviews.

For data analysis, the study used thematic analysis to identify and interpret patterns related to CSR implementation mechanisms, the role of regulations, and discrepancies between legal expectations and real-world practices. The validity of the research was ensured through triangulation, combining data from interviews, documents, and direct observations, while reliability was maintained using consistent interview protocols and coding procedures. Data collection involved a literature review, interviews, and document analysis, with the use of NVivo software for qualitative data management and analysis. The procedures involved collecting secondary data from relevant regulations, followed by primary data collection through interviews and field observations, ensuring comprehensive insight into the CSR implementation process in Batu Bara Regency.

RESULTS AND DISCUSSIONS

CSR has several legal regulations that regulate it in the existing positive law (*Ius Contitutum*) both that apply nationally in Indonesia, to derivative regulations that regulate the details of its implementation through several regulations that are under it in accordance with the implementation according to the hierarchy of laws. The mechanism for implementing CSR can be understood and implemented through various perspectives, including the legal basis applicable at the National level, such as Government Laws and Regulations, as well as the legal basis applicable at the Regional level.

In the implementation of CSR distribution in Batubara district, it is regulated in Regent Regulation Number 104 of 2020 concerning the Implementation of Corporate Social and Environmental Responsibility/CSR in Batu Bara Regency, which contains a frame of reference on procedures for implementing CSR at the regional level, including the mechanism for requesting assistance, implementing activities, reporting, and supervision. This regulation also aims to increase transparency and accountability in the distribution of CSR funds, as well as prevent overlapping programs between companies and the government. In the context of regional autonomy, this Regent Regulation is a concrete form of the implementation of regional authority to adjust legal policies to local needs without ignoring the principles of national law.

In accordance with the provisions of Regent Regulation 104 of 2020 concerning the Implementation of Corporate Social and Environmental Responsibility/CSR in Batu Bara Regency, the mechanism for implementing the Annual CSR program carried out by the company must be in accordance with the following points:

Annual CSR Program Budget,

The annual CSR program must be budgeted and calculated by the company with the principles of propriety and fairness, as stipulated in Article 5 of this Regent Regulation, which is still related to the mechanism for implementing CSR in accordance with Article 4 and Article 5 of Government Regulation Number 47 of 2012 concerning Social and Environmental Responsibility of Limited Liability Companies. This means that companies must consider the aspects of propriety and fairness in allocating CSR budgets, as well as ensuring that the CSR programs implemented are in accordance with the needs and priorities of the community.

However, in its implementation, not all companies in the Batubara district comply with this rule. Large, national-scale companies allocate funds in accordance with company rules, but there is no specific information on the amount of CSR costs set by these companies. One of the reasons is because government monitoring has not strictly required companies to report their budget plans at the beginning of each fiscal year.

Government evaluation and monitoring need to be present here as a form of actualization of the regional regulations that have been issued, through

1. Require companies to report their CSR budget plans at the beginning of the fiscal year
2. Conduct regular audits and inspections
3. Sanctioning companies that do not comply with CSR rules

Furthermore, in Article 16 of the Regent Regulation, it is stated that the amount of the CSR budget must meet 3% of the net profit every year. However, in fact, according to some sources, the amount of CSR budget that is commonly practiced is around 2-4% of the company's total profits in a year, some are even much lower. And there are even indications of the company's lack of disclosure in the accountability of its net profit income, to avoid these expenses.

Requirements for CSR program recipients

Requirements Recipients of the CSR program are individuals or community groups who are domiciled in the area where the company is located, have never received similar assistance, and are prioritized to have a relationship with supporting local government programs, as stipulated in Article 5 of this Regent Regulation. This means that companies must ensure that the recipients of CSR assistance are people who really need it and have a connection with local government programs.

Facts on the ground show that not all companies comply with these requirements. Some companies may provide CSR assistance to people who do not meet the requirements, such as people who have received similar assistance or have no connection with local government programs. In fact, most of the actualizations are only donations or proposals for requests for assistance from the community which are generally not in accordance with the vision and mission of the local government. Examples are the implementation of the organization's annual meeting, the organization's birthday celebration, the application for individual business capital assistance, the application for organizational uniform assistance, and so on. This shows that there is still a gap between expectations and reality in the implementation of CRD in Batubara district, so it is necessary to evaluate and improve to increase the effectiveness and efficiency of the program.

However, there are also companies that are very selective in selecting CSR aid recipients and ensuring that they meet the set requirements. They also conduct surveys and evaluations to

ensure that the CSR assistance provided is effective and beneficial to the community. Companies like this are generally considered less sociable and give a negative impression of choice.

Another issue that arises is the existence of social inequality regarding the implementation of CSR. Companies generally only focus on providing CSR in the area around the company up to a certain radius, which then creates social inequality and leaves people outside that radius without access to CSR programs. This can exacerbate social and economic inequality in the area.

Some companies may not realize that their focus on the area around the company can lead to social inequality. Therefore, the government needs to be present to increase supervision and evaluation of CSR implementation to ensure that CSR programs are more inclusive and can reach a wider community.

CSR carried out by companies is assessed like competition between companies and is often compared and this can cause companies to focus more on promotional and branding aspects rather than on actual social impact. Companies may be more interested in showing that they are doing CSR rather than making a difference. This can also lead companies to choose CSR programs that are more "easy" and "easy" to promote, rather than more complex programs that require long-term investment. Therefore, it is important for the government and the community to understand that CSR is not a competition, but a social responsibility that must be carried out seriously and transparently.

CSR Program Reporting Obligations

The obligation to report CSR Programs and CSR Program Plans for the following year, as stipulated in Article 11 of this Regent Regulation. This means that companies must report the implementation of CSR programs and CSR program plans for the following year to local governments, so that the government can monitor and evaluate the implementation of CSR programs.

In fact, not all companies report the implementation of CSR programs and CSR program plans the following year to local governments. Some of the reasons that may cause companies not to report are:

1. Lack of awareness of the importance of CSR reporting
2. Ambiguity about the reporting process and the format to use
3. Worried about transparency and accountability
4. There are no clear sanctions for companies that do not report

Mechanism for the Implementation of CSR Programs through Proposals

In accordance with the provisions in the Regent Regulation, the mechanism for implementing CSR programs in the form of proposal assistance submitted by the community must be in accordance with the Regent's validation through the facilitation team. The facilitation team is a team from the Regency Government whose goal is to assist the Regent in facilitating the implementation of CSR programs and activities in Batu Bara Regency. The procedure is illustrated in the diagram below. This mechanism is considered to make it difficult for the community to reach assistance from companies, so this is the root cause that the CSR implementation mechanism does not run in accordance with what is regulated by the Regent regulation.

The community prefers to send proposals directly to the company because without going through a strict selection and verification process, it is possible for proposals that are not in accordance with the priorities and needs of the community as regulated by the regent's regulations to pass and be funded by the company. The negative is the lack of transparency and accountability in the proposal selection process, the funds provided can be misused by irresponsible parties.

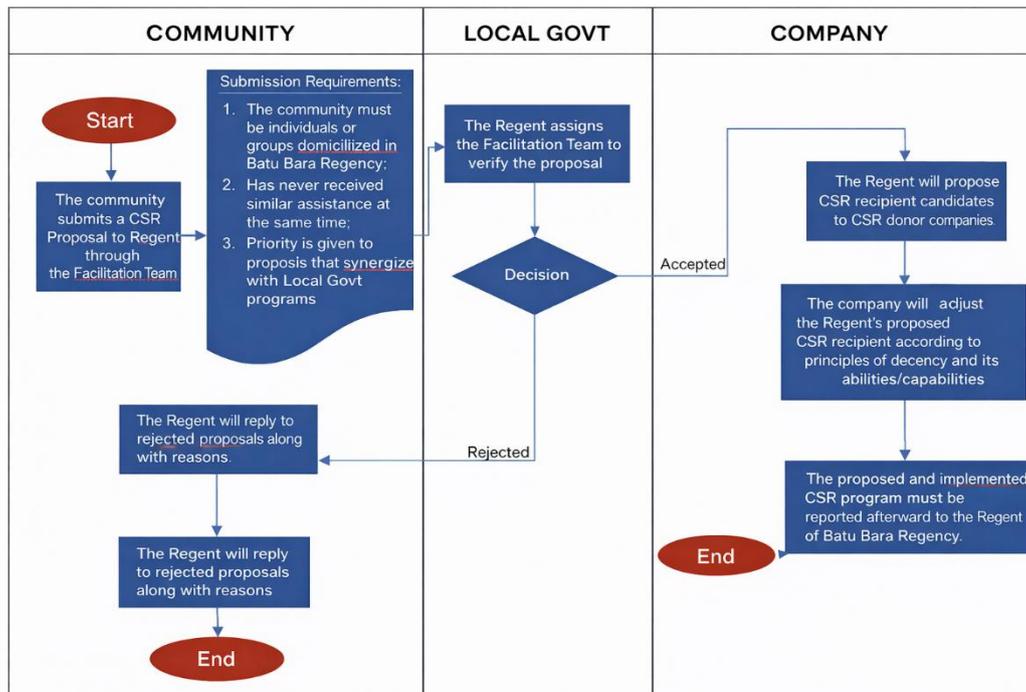


Figure 1: Diagram of the mechanism for submitting CSR Proposals by the Community regulated by the regent's regulations

There is a lack of synchronization between CSR programs implemented by companies and priority programs determined by the Regional Government. This can happen due to a lack of coordination between companies and local governments, as well as a lack of corporate awareness of the importance of aligning CSR programs with local government priority programs. Therefore, efforts need to be made to improve coordination between companies and local governments, as well as increase company awareness of the importance of aligning CSR programs with local government priority programs.

From the discussion of the mechanism for implementing CSR in Batu Bara Regency by comparing the expected social conditions in accordance with the regulations (Das Sollen) with the actual conditions that occur in the community (Das Sein) can give rise to several things with the following explanations:

1. The implementation of CSR/TJSLP in Batu Bara Regency tends not to be carried out in accordance with applicable provisions in accordance with Regent Regulation Number 104 of 2020 concerning the Implementation of Corporate Social and Environmental Responsibility/CSR in Batu Bara Regency. This can be seen from several aspects, such as the lack of transparency in the implementation of CSR programs, the absence of effective supervision mechanisms, and the lack of community participation in the process of planning

and implementing CSR programs. This inconsistency can cause various problems, including a lack of public trust in companies and local governments.

2. This inconsistency will have the potential to harm the principles of justice, legal certainty and the expected benefits. If the implementation of CSR is not in accordance with the applicable provisions, it will cause injustice to the community who do not benefit from the CSR program, and can damage the image of the company and local government. Therefore, it is necessary to make efforts to improve the suitability of CSR implementation with applicable provisions.
3. The occurrence of thuggery actions carried out by the community to the company if the proposal submitted is not approved/not assisted. This can happen because people are dissatisfied with the company's decisions and feel that they are not being treated fairly. To avoid this, companies need to increase transparency and accountability in the decision-making process of giving CSR approval to the people who apply, even though in practice the application flow does not go through the facilitation team.
4. It will cause a horizontal conflict between the community and the entrepreneur if the proposal submission by the community is not approved by the company. This conflict can occur because people feel that they do not get the same opportunity to benefit from CSR programs. Therefore, it is necessary to make efforts to increase community participation in the process of planning and implementing CSR programs.
5. It will cause a conflict of interest, where the tendency to give approval for assistance provided by the company to the community who applies will be based on the principle of proximity between the applicant (the community) and the grantor (the company). This can happen due to a lack of transparency and accountability in the decision-making process. Therefore, efforts need to be made to increase transparency and accountability in the decision-making process.
6. The tendency to validate applications made by companies is unfair to the community and/or only uses elements (like or dislike). This can happen due to the lack of effective oversight mechanisms and the lack of community participation in the application validation process. Therefore, efforts need to be made to improve effective supervision mechanisms and community participation in the application validation process.
7. Lack of data transparency when the company does not provide notification of the implementation of CSR programs that have been carried out in accordance with the core substance that must be reported in accordance with the Regent's regulations. This can happen due to a lack of company awareness of the importance of transparency and accountability. Therefore, efforts need to be made to increase company awareness of the importance of transparency and accountability.
8. The lack of government activity to provide socialization/understanding about the implementation of CSR/TJSLP to companies and the community. This can happen due to a lack of resources and a lack of government awareness of the importance of socialization and understanding of CSR/CSR. Therefore, efforts need to be made to increase the government's activeness in providing socialization and understanding of CSR/TJSLP.
9. Lack of monitoring and supervision of the implementation of CSR by the facilitation team mandated by the Regent. This can happen due to a lack of resources and a lack of awareness of the facilitation team on the importance of monitoring and supervision. Therefore, it is

necessary to make efforts to increase monitoring and supervision of the implementation of CSR by the facilitation team.

10. The lack of legal certainty about the provision of sanctions and the giving of appreciation to companies that are parties providing CSR assistance, so that it will conclude the lack of a sense of responsibility for companies to carry out CSR programs seriously in accordance with applicable regulations. This can happen due to a lack of clear regulations and a lack of corporate awareness of the importance of social responsibility. Therefore, it is necessary to make efforts to increase legal certainty about the provision of sanctions and appreciation to companies.

CONCLUSION

The study concluded that the implementation of Corporate Social Responsibility (CSR) in Batu Bara Regency, as regulated by Regent Regulation Number 104 of 2020, had not fully aligned with applicable legal provisions, revealing a gap between expected legal norms (*das sollen*) and actual practices (*das sein*), particularly in budgeting, beneficiary selection, proposal mechanisms, and reporting and supervision. These shortcomings were influenced by weak government monitoring and evaluation, the absence of strict sanctions, limited transparency, and inefficient bureaucratic processes, which in turn contributed to potential injustice, conflicts of interest, social inequality, and declining public trust. Moreover, CSR practices tended to prioritize administrative compliance and corporate image rather than the principles of justice, legal certainty, and societal benefit. Therefore, strengthening regulatory frameworks and implementation mechanisms—through improved coordination, simplified procedures, enhanced oversight, clear sanctions and incentives, and greater transparency and community participation—was necessary to ensure more effective and accountable CSR practices. Future research is recommended to examine comparative CSR implementation across different regions or sectors, as well as to explore the impact of stricter regulatory enforcement on improving transparency, equity, and sustainable community development outcomes.

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