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THE IMPACT OF ESG (ENVIRONMENTAL, SOCIAL, AND GOVERNANCE) REGULATIONS ON CORPORATE LEGAL LIABILITY

Dhian Tyas Untari [1], Pandri Zulfikar *[2] ,Firman Maulana[3], Ahmad Syarif[4], Nyayu Maya Ardini[5], Andi Adri Agus[6], Cory Kartika Putri[7], Ahmad Nurhadi[8], Wachid Maulana[9] Harry Sudhana[10], Agustine Susi Mulyati[11], Muhammad Ali Mustofa[12], Donny Ferdiansyah[13], Mahfudlon[14], La Ilman[15], M. Umar Kelibia[16], Toyib Zainal[17], Ibrahim Aji[18], Yasfika Ely Nur Afifah[19], Agus Eko Setiyawan[20]
[1,2,3,4,5,6,7,8,9,10,11,12,13,14,15,16,17,18,19,20]Universitas Islam Syekh-Yusuf, Tangerang
Email: pandri.zulfikar@unis.ac.id

Abstrak: *This study examines the influence of Environmental, Social, and Governance (ESG) regulations on corporate legal liability within the evolving framework of modern business law. As global business practices shift toward sustainability and accountability, ESG has transformed from a voluntary guideline into a mandatory regulatory standard that shapes corporate behavior. This research employs a qualitative and normative approach by analyzing relevant legal frameworks, scholarly literature, and case studies to explore how ESG regulations affect corporate responsibility. The findings indicate that ESG regulations significantly expand the scope of corporate legal liability beyond traditional financial obligations to include environmental protection, social responsibility, and governance transparency. Companies are increasingly held accountable through civil, criminal, and administrative sanctions for non-compliance with ESG-related standards. The study also highlights that effective ESG implementation can serve as a preventive mechanism, reducing legal risks and enhancing corporate governance. However, challenges remain, particularly in terms of regulatory harmonization, enforcement mechanisms, and varying levels of compliance across jurisdictions. This research concludes that ESG regulations play a critical role in strengthening corporate accountability and promoting sustainable business practices. Integrating ESG into corporate legal frameworks is essential for balancing economic objectives with social and environmental responsibilities in the long term.*

Keywords: ESG Regulation, Corporate Legal Liability, Sustainability, Corporate Governance, Environmental Law

INTRODUCTION

In recent decades, global business dynamics have undergone significant transformation, marked by increasing attention to issues of sustainability, transparency, and corporate accountability. Companies are no longer assessed solely based on financial performance, but also on the social and environmental impacts generated by their business activities. This phenomenon has driven the emergence of a new paradigm in corporate governance known as Environmental, Social, and Governance (ESG). ESG initially developed as part of a sustainable investment approach aimed at integrating non-financial factors into business decision-making processes (Ketterling, 2026).

Over time, ESG has evolved from a voluntary practice rooted in Corporate Social Responsibility (CSR) into a more institutionalized framework in the form of formal regulations. This shift reflects a transition from voluntary compliance to mandatory

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compliance in the context of corporate sustainability. The literature suggests that ESG is not merely an extension of CSR, but rather represents a more measurable, data-driven, and risk-oriented approach (Santos et al., 2025). Thus, ESG has become a crucial instrument in aligning business interests with global sustainability demands.

The transformation of ESG into a regulatory instrument is largely driven by pressure from various stakeholders, including investors, governments, and civil society. ESG regulations now take various forms, ranging from mandatory disclosure requirements to governance standards that companies must adhere to. These regulations aim to enhance transparency and ensure that companies are accountable for their social and environmental impacts. In this context, ESG has become an integral part of the modern business law system, expanding the scope of corporate responsibility (Frankel et al., 2025).

The growing role of ESG regulations is also influenced by the need to mitigate systemic risks arising from unsustainable business practices. Research indicates that ESG-based regulatory reforms have a significant impact on corporate behavior, including increased investment in sustainable practices and improvements in overall ESG performance (He et al., 2025). This demonstrates that ESG regulations are not merely normative but also have practical implications for corporate strategy and operations.

In a legal perspective, ESG regulations are shaping a broader framework of corporate legal liability. ESG is no longer simply an ethical guideline but has become part of legal obligations that may give rise to juridical consequences for companies. ESG standards are now used as a benchmark to determine whether a company has fulfilled its legal responsibilities in environmental, social, and governance contexts. This indicates that ESG has evolved into an instrument that directly influences corporate liability (Yunin, 2025).

Nevertheless, the integration of ESG into corporate legal systems is not without challenges. One of the primary challenges is the lack of regulatory harmonization across sectors and jurisdictions. In Indonesia, for instance, ESG implementation remains sectoral and administrative, and has not yet achieved strong binding legal force. This limits the effectiveness of ESG regulations in enforcing corporate legal responsibility (Polontoh & Kadir, 2024). This condition reflects a gap between regulatory norms and practical implementation.

In the Indonesian context, the development of ESG regulations reflects efforts to integrate sustainability principles into the national legal system. However, their implementation still faces several obstacles, including limited institutional capacity, low corporate awareness, and weak enforcement mechanisms. This suggests that strengthening ESG regulations must be accompanied by improvements in institutional capacity and

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stakeholder awareness (Hanafi et al., 2025).

Based on the above discussion, it can be concluded that ESG regulations have a significant influence on corporate legal liability. ESG not only expands the scope of corporate responsibility but also transforms how companies manage risks and fulfill their legal obligations. However, the effectiveness of ESG regulations depends on the quality of regulatory design, enforcement mechanisms, and the level of corporate compliance. Therefore, research on the influence of ESG regulations on corporate legal liability is essential. This study is expected to contribute to understanding how ESG regulations shape corporate legal responsibility frameworks, as well as to identify factors affecting their implementation. Furthermore, it aims to provide policy recommendations to strengthen ESG regulations and enhance corporate accountability in the context of sustainability.

LITERATURE REVIEW

Concept of Corporate Responsibility

The development of modern business practices indicates that companies are no longer viewed solely as economic entities oriented toward profit, but also as legal subjects that bear responsibilities toward various stakeholders. The concept of corporate responsibility has evolved alongside the growing awareness of the social and environmental impacts of business activities. In the classical perspective, corporate responsibility is rooted in the principle of fiduciary duty, which requires directors to act in the best interests of the company and its shareholders (Lana & Wanc, 2024). However, this approach has gradually expanded to incorporate the interests of stakeholders as an integral part of corporate responsibility.

Conceptually, corporate responsibility encompasses both legal and moral obligations that must be fulfilled by companies in conducting their operations. In a legal context, corporate responsibility can be classified into several forms, namely civil, criminal, and administrative liability. Civil liability relates to the obligation of a company to compensate for damages arising from unlawful acts, while criminal liability refers to sanctions imposed for legal violations committed by the corporation as a legal entity. Additionally, administrative liability arises from the obligation to comply with regulations established by governmental authorities (Yunin, 2025). This classification demonstrates the complex position of corporations within the modern legal system.

The legal basis of corporate responsibility is closely linked to the development of corporate law theory, which recognizes corporations as legal entities (legal persons). As such, companies possess rights and obligations recognized by law, including the capacity to

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be held accountable for their actions. The theory of corporate personality serves as the primary foundation for establishing that a corporation can act as an independent legal subject (Ketterling, 2026). This enables the enforcement of law against corporations without necessarily attributing liability to individuals within them.

Furthermore, in practice, corporate responsibility is governed by various sectoral regulations that address environmental protection, labor relations, and corporate governance. These regulations aim to ensure that companies not only comply formally with legal requirements but also assume substantive responsibility for the impacts they generate. Studies indicate that comprehensive regulatory frameworks can enhance corporate compliance and reduce the risk of legal violations (Frankel et al., 2025). Thus, regulation plays a crucial role as an instrument in governing corporate responsibility.

In a global context, the concept of corporate responsibility is also influenced by international standards, including sustainability principles and human rights norms. This is reflected in the increasing adoption of Environmental, Social, and Governance (ESG) principles as part of the corporate responsibility framework. ESG expands the scope of corporate responsibility by incorporating non-financial aspects relevant to long-term sustainability (Santos et al., 2025). Consequently, corporate responsibility is not only legal in nature but also encompasses ethical and social dimensions.

Nevertheless, the implementation of corporate responsibility in practice often faces significant challenges. One of the primary challenges is the gap between legal norms and their practical application. Several studies indicate that although regulations have been established, the level of corporate compliance varies, particularly in developing countries (Polontoh & Kadir, 2024). This suggests that the effectiveness of corporate responsibility largely depends on enforcement mechanisms and institutional capacity.

Concept of Environmental, Social, and Governance (ESG)

The concept of Environmental, Social, and Governance (ESG) initially developed within the context of sustainable investing, aiming to integrate environmental, social, and governance factors into investment decision-making. ESG has become an essential instrument in assessing non-financial risks that may affect a company's long-term performance. Research indicates that ESG functions as a more comprehensive evaluation tool compared to traditional approaches that focus solely on financial indicators (Santos et al., 2025). Therefore, ESG serves not only as a measurement tool but also as a strategic framework in corporate management.

In the literature, ESG is often viewed as an evolution of Corporate Social

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Responsibility (CSR). Although both share the objective of enhancing social and environmental impact, ESG is characterized by a more structured and data-driven approach. ESG emphasizes measurable and verifiable performance indicators as well as integration into corporate risk management systems. This differs from CSR, which tends to be more normative and voluntary in nature (Ketterling, 2026). Consequently, ESG is considered a more relevant approach in the context of regulation and legal accountability.

As ESG gains increasing relevance, many countries have begun adopting regulations that require companies to disclose their ESG performance. These regulations aim to enhance transparency and reduce information asymmetry between companies and investors. Studies show that ESG disclosure regulations can improve the quality of information available to investors and strengthen market monitoring mechanisms (Frankel et al., 2025). Thus, ESG regulation plays a crucial role in creating a more efficient and transparent market environment.

From a legal perspective, ESG is increasingly being integrated into the framework of corporate legal responsibility. Corporate liability is no longer limited to compliance with explicit regulations but also includes the obligation to manage social and environmental impacts responsibly. ESG has become a new benchmark in determining whether a company has fulfilled its duty of care in conducting business activities (Yunin, 2025). This indicates that ESG has direct implications for corporate liability.

One of the key dimensions of ESG is the environmental aspect, which relates to the impact of corporate activities on ecosystems. Stricter environmental regulations have encouraged companies to adopt more environmentally friendly practices. Research shows that companies with strong environmental performance tend to face lower legal risks, particularly in relation to environmental litigation (Zhang et al., 2024). This demonstrates that compliance with ESG standards can function as a mechanism for mitigating legal risks.

In addition to the environmental dimension, the social aspect of ESG also has significant implications for corporate legal responsibility. This dimension includes the company's relationships with employees, customers, and the broader community. Violations of social standards, such as labor exploitation or discrimination, may result in serious legal consequences for companies. Studies indicate that companies neglecting the social dimension of ESG are more likely to face reputational damage and increased litigation risks (Hanafi et al., 2025). Therefore, the social dimension is a critical component of corporate legal responsibility.

The governance dimension of ESG focuses on corporate structures and management mechanisms that ensure transparency and accountability. Good governance practices include

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board independence, transparent reporting, and effective internal controls. Research suggests that strong governance can reduce the risk of fraud and enhance regulatory compliance (Frankel et al., 2025). Thus, governance serves as the foundation for effective ESG implementation and the strengthening of corporate legal responsibility.

ESG regulations also influence managerial behavior within companies. Management is required to integrate ESG factors into business strategies and decision-making processes. This creates additional pressure on managers to consider the long-term impacts of their decisions. Empirical studies indicate that ESG regulations encourage companies to increase investment in sustainable practices and reduce high-risk activities from a legal perspective (He et al., 2025). In this regard, ESG acts as a behavioral control mechanism within organizations.

However, the implementation of ESG within corporate legal frameworks is not without challenges. One of the primary challenges is the lack of uniform standards in ESG measurement and reporting. Differences in methodologies and indicators can lead to inconsistencies in evaluating corporate performance, making it difficult for regulators and investors to assess compliance effectively (Ketterling, 2026). Therefore, the harmonization of ESG standards is necessary to enhance the effectiveness of regulatory frameworks.

Legal Review of Corporate Responsibility

From a legal perspective in Indonesia, corporate responsibility based on Environmental, Social, and Governance (ESG) principles is not governed by a single regulation, but rather dispersed across various laws and regulations addressing environmental, social, and governance aspects. In general, the legal foundation of corporate responsibility is rooted in Law Number 40 of 2007 on Limited Liability Companies (Company Law), particularly Article 74, which mandates companies engaged in or related to natural resources to implement Corporate Social and Environmental Responsibility (CSER). This provision serves as the initial legal basis for integrating ESG principles into Indonesia's corporate legal system.

On the environmental perspective, corporate legal responsibility is regulated under Law Number 32 of 2009 on Environmental Protection and Management. This law establishes the principle of strict liability in Article 88, which stipulates that companies are responsible for environmental damage without the need to prove fault. In addition, companies are required to conduct an Environmental Impact Assessment (EIA/AMDAL) as a preventive instrument prior to commencing business activities. Violations of these provisions may result in administrative, civil, and criminal sanctions.

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In the social dimension, corporate responsibility is governed by Law Number 13 of 2003 on Manpower (as amended by the Job Creation Law and its implementing regulations), which regulates workers' rights, labor protection, and corporate obligations to ensure decent working conditions. Furthermore, the protection of the broader community is addressed through various sectoral regulations related to consumer rights and corporate social responsibility.

Meanwhile, the governance aspect is regulated through various frameworks emphasizing corporate transparency and accountability. One key regulation is Financial Services Authority Regulation (POJK) Number 51/POJK.03/2017 on Sustainable Finance, which requires financial institutions and publicly listed companies to prepare sustainability reports. This regulation strengthens ESG disclosure obligations as part of corporate legal responsibility toward the public and investors.

In addition, governance principles are reinforced through the Good Corporate Governance (GCG) Guidelines issued by the National Committee on Governance Policy (KNKG), which emphasize principles of transparency, accountability, responsibility, independence, and fairness. Although these guidelines constitute soft law, they carry indirect legal implications as they serve as benchmarks for assessing corporate compliance and directors' accountability.

Overall, the ESG legal framework in Indonesia demonstrates that corporate responsibility has been comprehensively regulated through a combination of mandatory regulations and soft law instruments. The integration of these regulatory frameworks indicates that ESG is not merely an ethical concept but has become an integral part of corporate legal responsibility, subject to legal sanctions in cases of non-compliance.

CONCLUSION

The conclusion of this study demonstrates that Environmental, Social, and Governance (ESG) regulations have undergone a significant transformation from merely ethical norms into legally binding instruments within modern corporate governance systems. ESG is no longer positioned as a voluntary practice but has become an integral part of corporate legal obligations encompassing environmental, social, and governance aspects. This shift reflects a transition from a shareholder-oriented paradigm to a stakeholder-oriented approach, where companies are required to be accountable not only to shareholders but also to society and the environment.

In a legal perspective, ESG-based corporate responsibility is reflected in various regulations that comprehensively govern corporate obligations. In Indonesia, this legal

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framework is embodied in the Company Law, which mandates the implementation of corporate social and environmental responsibility, the Environmental Protection and Management Law, which enforces the principle of strict liability, and Financial Services Authority regulations on sustainable finance that require sustainability reporting. These regulations indicate that ESG has become an integral part of the legal system governing corporate conduct both normatively and operationally.

Furthermore, the implementation of ESG has direct implications for the formation of corporate legal liability, which is multidimensional in nature, encompassing civil, criminal, and administrative responsibilities. Companies that fail to meet ESG standards face not only legal sanctions but also reputational risks and economic losses. Case studies such as the Deepwater Horizon incident illustrate that negligence in ESG aspects can lead to severe legal consequences, including multi-billion-dollar fines and significant declines in corporate value. This highlights the role of ESG as both a preventive and repressive mechanism within corporate legal systems.

However, the effectiveness of ESG regulations continues to face several challenges, including regulatory fragmentation, limited enforcement mechanisms, and low levels of corporate compliance, particularly in developing countries. Additionally, there remains an ongoing debate regarding the extent of directors' responsibilities in integrating ESG into fiduciary duties. Therefore, efforts toward regulatory harmonization, institutional capacity building, and increased corporate awareness and commitment are essential for the substantive implementation of ESG principles.

In conclusion, ESG serves as a strategic instrument that not only strengthens corporate legal responsibility but also promotes sustainable and equitable business practices. The integration of ESG into corporate legal frameworks is crucial in ensuring a balance between economic, social, and environmental interests, as well as in fostering a more transparent, accountable, and resilient business system in the face of evolving global dynamics.

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