

Legal Analysis of Corporate Social Responsibility (CSR) for Labor From the Perspective of Investors and Capital Markets

Yusuf Akbar Khairulah

Pancasila University

Email : yusufakbarkhairulah@gmail.com

The implementation of Corporate Social Responsibility (CSR) in labor aspects has become a key element in modern business practices, which focus not only on profits but also on worker welfare and social sustainability. In Indonesia, although there are legal foundations related to CSR, such as the Company Law and the Capital Market Law, the implementation of labor-related CSR still faces several challenges, especially concerning transparency and weak oversight. Proper labor CSR implementation can strengthen a company's reputation and attract investors, while labor violations risk decreasing stock values and damaging the company's reputation. Therefore, to protect investors and create a transparent capital market, legal reforms are necessary to support clearer labor CSR reporting, as well as strengthening the role of the Financial Services Authority (OJK) and the Indonesia Stock Exchange in oversight.

Keywords: CSR, labor, capital market

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Corresponding Author:

Yusuf Akbar Khairulah

Pancasila University

yusufakbarkhairulah@gmail.com

1. Introduction

In recent decades, business practices are no longer viewed solely in terms of profitability and capital accumulation, but also in terms of corporate social responsibility towards broader stakeholders. One manifestation of this social responsibility is Corporate Social Responsibility (CSR), which reflects a company's commitment to addressing social, environmental, and employment aspects beyond short-term economic profit. CSR embodies a company's commitment to conducting its business activities ethically, responsibly, and in accordance with applicable laws. CSR focuses not only on achieving profits but also on actively contributing to driving sustainable economic growth and improving the quality of life of the community, both within the company, such as employees and their families, and in the external communities surrounding the company's operations. Through CSR implementation, companies demonstrate their social responsibility for the impacts of their business activities, with the goal of creating shared prosperity for all stakeholders involved (Saputra, 2019). Amidst increasing public and stakeholder expectations for sustainability and social justice, CSR has become an integral part of good corporate governance, particularly for public companies whose shares are traded on the capital market (Hadyarti, 2019).

Normatively, the concept of CSR has been progressively adopted in various national legal instruments, including in Indonesia. Law Number 40 of 2007 concerning Limited Liability Companies (UUPT) explicitly regulates CSR obligations, especially for companies whose business activities are related to natural resources. Meanwhile, Law Number 8 of 1995 concerning Capital Markets and its implementing regulations, such as the Financial Services Authority Regulation (POJK), emphasize the importance of information transparency and the principle of social responsibility in building investor trust and capital market stability. In this context, CSR is not only an ethical obligation, but also a legal instrument that directly impacts investment decision-making, risk management, and corporate reputation (Budiarti, 2014).

One important aspect of CSR implementation is employment CSR, which is a company's social responsibility to provide protection, welfare, and development for workers or employees as an integral part of the company's human resources. Employment CSR encompasses not only compliance with normative employment provisions but also strategic corporate steps to create a healthy, non-discriminatory, and sustainable work environment (Hakim, 2016). In practice, employment CSR can include providing decent work facilities, training and competency development, strengthening workers' rights, employment social security, and anti-harassment and gender equality policies in the workplace.

In the world of investment and capital markets, attention to employment issues is becoming increasingly significant, particularly in the era of sustainable finance. Modern investors, particularly global investment institutions, no longer simply evaluate issuers' financial performance but also assess their environmental, social, and governance (ESG) performance. One of the key elements of social indicators within ESG is the employment aspect, which reflects how a company treats its workforce and how these employment practices impact business risk and corporate reputation (Fauziah, 2025).

Therefore, the implementation of employment CSR by companies listed on the stock exchange not only impacts industrial relations between workers and employers but also impacts investor perceptions and trust. Investors concerned with sustainability tend to avoid companies with poor track records in their treatment of employees, such as cases of minimum wage violations, discrimination, union busting, or workplace accidents caused by corporate negligence. Conversely, companies that consistently implement employment CSR transparently and accountably are perceived as responsible, making them more attractive to long-term investors.

However, the implementation of employment CSR in Indonesia still faces various legal and implementation challenges. Although several normative provisions exist, such as Article 74 of the Company Law, the Manpower Law (Law No. 13 of 2003 as amended by the Job Creation Law), and several Financial Services Authority (OJK) regulations, there are no specific legal norms governing minimum standards for implementing CSR in the employment context in the capital market. Many companies still view CSR as a voluntary, philanthropic activity, rather than a legal obligation integrated into long-term business strategies (Hakim, 2023). This is exacerbated by weak oversight and law enforcement systems, as well as low corporate transparency in disclosing CSR information in annual reports or sustainability reports.

This phenomenon has implications for investor protection, both in terms of informational protection and risk governance. Investors require accurate and relevant information regarding CSR policies and practices in employment to evaluate whether a company is exposed to social risks that could impact share value and business continuity (Winardi, 2013). Within the capital market legal framework, investor protection is a fundamental principle realized through transparency, fairness, and market integrity (Siregar, 2023). Therefore, unclear regulations and low standards for CSR reporting on employment can reduce investors' ability to make rational and sustainable investment decisions.

Furthermore, from a capital market legal perspective, disclosure of information regarding CSR, including employment aspects, should be an integral part of the disclosure principle as stipulated in Article 86 of the Capital Market Law and OJK regulations. Public companies are required to submit annual reports and sustainability reports as a form of accountability to the public (Siregar, 2023). Ideally, these sustainability reports should reflect fair labor practices, compliance with national and international labor standards, and internal policies that ensure the safety and well-being of their workforce. However, in reality, many companies still prepare sustainability reports in a formalistic and symbolic manner, thus failing to provide substantive information useful to investors.

On the other hand, the role of the Financial Services Authority (OJK) as the capital market supervisory and regulatory body is also crucial in promoting credible and legally based CSR implementation. Through the Sustainable Finance Roadmap and POJK No. Under OJK Regulation No. 51/POJK.03/2017 concerning the Implementation of Sustainable Finance, the Financial Services Authority (OJK) has provided policy direction for financial market players, including issuers, to consider social and environmental aspects in their business activities. However, these regulations remain general in nature and do not explicitly stipulate the CSR indicators for employment that must be met by public companies. This creates gaps in the implementation and reporting of CSR for employment between companies and creates legal uncertainty for investors.

This issue becomes increasingly complex in the context of economic globalization and accelerating foreign investment flows. Foreign investors, particularly those from countries with high ESG standards, often require compliance with international labor standards, such as ILO conventions, the principles of the UN Global Compact, or social indicators in the Global Reporting Initiative (GRI) (Fauziah, 2022). If Indonesia's capital market legal system is unable to guarantee adequate implementation of CSR for employment, the potential for foreign investment that addresses sustainability issues will be hampered. Furthermore, the reputation of the Indonesian capital market could also be damaged if cases of labor violations emerge at major issuers.

Therefore, it is important to conduct a legal analysis of the implementation of corporate social responsibility (CSR) in the employment sector, particularly from the perspective of investors and the capital market. This study aims not only to examine how existing legal regulations accommodate the implementation of CSR in the employment sector, but also to understand the extent to which such implementation can provide legal protection and certainty to investors. Through a normative approach and analysis of relevant regulations, this paper will examine the relationship between CSR in the employment sector and capital market legal principles and identify the legal implications of CSR implementation on investor trust and legal certainty.

Based on the above background, this study aims to: (1) Determine the regulations for corporate social responsibility (CSR) in the employment sector within the legal framework of the Indonesian capital market. (2) Determine the implications of CSR implementation in the employment sector for investor protection from a capital market legal perspective.

2. Method

This research uses a normative juridical method, an approach that views law as a system of norms contained in statutory regulations. In this perspective, law is seen as a set of written rules that serve as behavioral guidelines for society, as well as being the basis for explaining the legal issues being studied (Amiruddin, 2012). This research is also descriptive analytical, a form of research that aims to provide a comprehensive picture of the characteristics, conditions, and symptoms related to a particular group or phenomenon in a systematic and in-depth manner (Koendjoroningrat, 1997). To support this analysis, the approach used is a statute approach, in which all regulations relevant to the legal issue being studied will be reviewed comprehensively. The analysis is conducted through a review of various legal materials, both primary, secondary, and tertiary, in order to obtain a complete understanding of the legal issues that are the focus of the research (Koendjoroningrat, 1997).

3. Results and Discussion

1. Regulation of Corporate Social Responsibility (CSR) for Employment within the Legal Framework of the Indonesian Capital Market

CSR for Employment as a Dimension of Corporate Social Responsibility

CSR can generally be understood as a company's commitment to behave ethically and socially responsibly, while contributing to sustainable economic development while taking into account the welfare of all stakeholders, including the wider community and the environment. CSR is not merely a charitable activity or a moral obligation, but rather part of a corporate strategy to achieve business sustainability while maintaining a balance between economic, social, and environmental aspects. In this context, CSR is an important instrument for establishing social legitimacy, enhancing a company's reputation, and building constructive long-term relationships between the company and the various parties involved in or impacted by its operations.

Within the framework of the international standard ISO 26000 on Guidance on Social Responsibility, Corporate Social Responsibility (CSR) is not understood narrowly as a company's philanthropic activities, but rather as a comprehensive approach encompassing an organization's responsibility for the impact of its decisions and activities on society and the environment, through transparent and ethical behavior. ISO 26000 defines seven core issues that are the primary focus in CSR implementation, all rooted in the principles of sustainability, accountability, and respect for stakeholder interests (Tristantri, 2025).

First, community development reflects a company's responsibility to contribute to the social and economic progress of communities surrounding its operations. This includes support for education, poverty alleviation, vocational training, MSME empowerment, and social infrastructure development. Second, the consumer aspect emphasizes the importance of protecting consumer rights through the provision of safe products and services, information transparency, and fair complaint mechanisms. Third, healthy industrial practices refer to ethical behavior in the supply chain, business transparency, and the prevention of corruption and fraud in business activities. Fourth, the environmental dimension requires companies to be responsible for natural resource management, waste and emission reduction, and climate change mitigation. Fifth, employment encompasses fair treatment of workers, respect for labor rights, the elimination of discrimination, occupational safety and health, and social dialogue. Sixth, human rights issues are crucial in the context of economic globalization, where companies must ensure they are not involved in human rights violations, either directly or through their business partners. Finally, organizational engagement with the government requires companies to support a fair legal system, refrain from corrupt practices, and establish transparent and accountable relationships with public institutions (Tristantri, 2025).

Specifically, CSR in the employment sector is a key dimension of corporate social responsibility, focusing on the fair and humane treatment of workers. Employees are key stakeholders who play a vital role in the continuity of operations and the achievement of company goals. Currently, in the employment world, workers are the group that must be protected. This is because their position is vulnerable. Protection for workers is stipulated in the Manpower Law, Article 67 on protection for persons with disabilities, Article 68 on protection for children, Article 76 on protection for female workers, Article 77 on protection of working hours, and Article 86 on protection of occupational safety and health. Therefore, companies are required not only to comply with applicable employment regulations, but also to apply ethical principles in managing industrial relations (Hakim, 2016).

The dimensions of employment CSR can be broken down into several key aspects. First, labor protection refers to the fulfillment of basic workers' rights as stipulated in national regulations and international standards, including protection from exploitation, occupational safety and health, and social security.

Second, the welfare aspect requires companies to provide decent wages, benefits, and work facilities that support a work-life balance. Third, training and skills development are an integral part of employment CSR, as companies have a responsibility to improve human resource capacity through training programs, career development, and continuing education opportunities. Fourth, the principle of non-discrimination and equality affirms that all workers must be treated equally regardless of gender, race, religion, social status, or other orientation, and encourages the equitable participation of women and marginalized groups in the workforce.

Within the overall framework of corporate social responsibility, employment CSR occupies a strategic position because it reflects a company's internal commitment to humanitarian values and social justice. Employee-focused CSR not only impacts individual well-being but also directly influences employee productivity and loyalty, ultimately contributing to the company's long-term success and competitiveness. Amidst growing public and stakeholder awareness of social issues, CSR practices that prioritize employment have become a crucial indicator in assessing a corporation's credibility and integrity in the public eye. Therefore, mainstreaming employment aspects in CSR policies is inseparable from efforts to achieve inclusive and socially just economic development.

Legal Basis for Corporate Social Responsibility (CSR) in Indonesia

The implementation of CSR in Indonesia, particularly in the employment dimension, has a strong legal basis in various laws and regulations. This legal framework demonstrates that corporate social responsibility is not merely voluntary but is a legal obligation that must be fulfilled by every business entity, especially those in the form of limited liability companies that impact the workforce and the surrounding environment.

Constitutionally, the basis of CSR can be found in Article 33 paragraph (3) and (4) of the 1945 Constitution of the Republic of Indonesia. Article 33 paragraph (3) states that "The land and water and the natural resources contained therein are controlled by the state and used for the greatest prosperity of the people," while paragraph (4) emphasizes that "The national economy is organized based on economic democracy...with the principles of sustainability, environmental awareness, independence, and maintaining a balance of progress and national economic unity." Work is a human right, as mandated in Article 27 paragraph (2) and Article 28 of the 1945 Constitution which states: "Every citizen has the right to work and a decent living for humanity." Based on the Manpower Law in Chapter 1 Article 1 number 1 states that, "Manpower is everything related to the workforce at the time before, during and after the work period" (Soedarjadi, 2015). This provision provides a philosophical basis that economic activities, including those by corporations, must be oriented towards broader social welfare, including protection of the rights of workers as part of society.

Specifically, CSR obligations are regulated in Article 74 of Law Number 40 of 2007 concerning Limited Liability Companies. This article states that companies conducting business activities in and/or related to natural resources are required to implement social and environmental responsibilities (Suastuti, 2024). The explanation of this article broadens the definition of CSR as a legal obligation for companies to consistently consider social and environmental interests in all their operational activities, including industrial relations and the treatment of workers.

In the employment context, Law Number 13 of 2003 concerning Manpower, as amended by Law Number 11 of 2020 concerning Job Creation and its derivative regulations, regulates various company obligations towards workers. These include meeting minimum wages, protecting occupational safety and health, eliminating discrimination in employment relations, and providing training and competency development. This regulation emphasizes that fair, decent, and humane treatment of workers is a normative and mandatory part of corporate social responsibility. Employment responsibilities are carried out to maintain

good industrial relations between the Company and all employees, which is key to supporting the achievement of various Company targets. In the employment sector, the Company consistently strives to fulfill employee rights in accordance with laws and Company Regulations, and provides various occupational health and safety facilities for all employees (Moratelindo, 2025).

In the financial sector, the Financial Services Authority (OJK) also regulates aspects of social responsibility and sustainability through OJK Regulation Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. This regulation requires reporting on environmental, social, and governance (ESG) aspects in the form of a sustainability report (Armando, 2025). Furthermore, the OJK's Sustainable Finance Roadmap (2021-2025) emphasizes the importance of integrating ESG principles into business activities, including the treatment of the workforce as an indicator of a company's social performance. Furthermore, the Indonesia Stock Exchange (IDX) also requires publicly listed companies to submit sustainability reports as a form of transparency regarding CSR implementation, including in the employment aspect. This requirement refers to Exchange regulations and aligns with global developments regarding non-financial reporting as part of good corporate governance. Sustainability reports serve as an instrument to demonstrate the extent to which a company has implemented its social commitments to its workforce, such as providing a living wage, human resource development programs, gender equality, and occupational health (Armando, 2025).

Thus, the national legal framework demonstrates that CSR in the employment sector is not simply an ethical responsibility, but an integral part of a company's compliance with applicable positive law. The existence of these norms is expected to encourage companies to prioritize social justice and welfare as part of a sustainable and inclusive economic development strategy.

Employment CSR in Capital Market Law

Corporate social responsibility (CSR) in the employment sector is a crucial aspect of good corporate governance, particularly for issuers and public companies that raise public funds through the capital market. In the context of Indonesian law, regulations regarding information disclosure related to CSR, including employment aspects, can be found in Law Number 8 of 1995 concerning Capital Markets. This law requires every issuer and public company to disclose material and relevant information to the public in a timely, complete, and accurate manner. This obligation includes information that may influence investor decisions, including employment conditions and the company's CSR practices.

One of the primary instruments companies use to fulfill this disclosure obligation is the annual report and sustainability report. The annual report, which is mandatory for all issuers and public companies, contains comprehensive information on the company's financial condition, organizational structure, and social responsibility activities, including employment aspects such as employment policies, workers' rights and welfare, and efforts to create a decent working environment. Meanwhile, sustainability reports serve as more focused documents describing a company's non-financial performance, including sustainability practices related to workers' rights, gender equality, training, and human resource development. The Financial Services Authority (OJK), through OJK Regulation Number 51/POJK.03/2017, even requires sustainability reports for financial services institutions, issuers, and certain public companies, as part of their commitment to sustainable development (Armando, 2025).

However, in practice, CSR reporting standards in the employment sector still show significant variation between companies. Some companies provide general and normative information, without measurable performance indicators. This presents a challenge in evaluating the extent to which companies are truly fulfilling their social responsibilities to employees. The absence of legally binding standards also makes the disclosure of employment information in CSR reports tend to be declarative and lack objective verification.

Therefore, evaluating existing reporting standards is crucial to promote greater transparency and accountability in the capital markets sector.

In comparison, international standards such as the Global Reporting Initiative (GRI Standards), the UN Global Compact, and ISO 26000 have provided a more systematic and measurable reporting framework on labor issues. The GRI Standards, specifically the GRI 401 to GRI 407 series, regulate labor-related reporting, such as recruitment, employment relations, occupational health and safety, training and education, and freedom of association (Amalia, 2024). The UN Global Compact, through its human rights principles and labor standards, encourages companies to respect and protect workers' rights. Meanwhile, ISO 26000 provides general guidance on social responsibility, including fair labor practices, worker capacity development, and respect for human rights. By adopting or referring to these international standards, companies in the Indonesian capital market are expected to improve the quality of their labor CSR reporting and strengthen investor and public trust.

Although CSR has become part of the discourse and practice of corporate law in Indonesia, particularly in the context of the capital market, regulations regarding employment aspects within the CSR framework still face several fundamental weaknesses. One major problem lies in the lack of clarity in legal norms mandating CSR implementation in the employment sector. While several regulations, such as Law Number 40 of 2007 concerning Limited Liability Companies and Law Number 8 of 1995 concerning Capital Markets, generally address corporate social responsibility, they do not explicitly establish binding provisions regarding the fulfillment of workers' rights or employment obligations within the CSR realm. The norms used tend to be advisory or declarative in nature, leaving companies with broad scope for interpretation in interpreting and implementing social responsibility in the employment sector.

Furthermore, another equally significant challenge is the inconsistency in implementation and weak oversight mechanisms. Many issuers and public companies submit CSR reports merely as an administrative formality, without truly reflecting the actual employment conditions within their companies. This situation is exacerbated by the suboptimal oversight by capital market authorities of the content and quality of CSR reports, particularly those related to labor protection, employee welfare, and the fulfillment of workers' normative rights. The absence of strict sanctions for inaccurate or non-substantive reporting reinforces the perception that the implementation of CSR in the labor sector is not yet a priority in corporate governance.

Another challenge is the lack of standardized and measurable legal indicators that can be used to assess the implementation of CSR in the labor sector for issuers and public companies. In practice, assessments of social responsibility in the labor sector still rely heavily on qualitative approaches and company self-assessments, which often lack objective and verifiable data. The absence of operational legal standards—whether in the form of minimum performance indicators, evaluation parameters, or quantitative reporting requirements—makes it difficult to monitor and evaluate CSR implementation in the labor sector fairly. This creates a gap between the ideals of CSR norms and the reality of practice on the ground.

Therefore, strengthening CSR regulations for employment in capital market law requires a more progressive approach, including clarifying mandatory norms, improving oversight and enforcement, and formulating clear and measurable indicators to ensure accountable CSR implementation that focuses on worker protection. These efforts are crucial to ensuring that CSR is not merely an image-building tool but is truly implemented as part of a company's social and moral responsibility to its employees and the community.

2. Implications of Employment CSR Implementation for Investor Protection from a Capital Market Law Perspective

Investor protection is a fundamental principle in the capital market legal system, aiming to ensure a sense of security, fairness, and trust for parties investing in financial markets. Generally, investor protection is

defined as a systematic effort to prevent practices detrimental to investor interests, through regulation, supervision, and law enforcement against market participants (Masyarah, 2025). Investors, particularly public or minority investors, are vulnerable to misuse of information, market manipulation, and corporate failures to implement good governance. Therefore, the capital market legal system is designed to create mechanisms that guarantee investor rights, including the right to obtain accurate and timely information, and the right to equal treatment in all capital market transactions.

Within the Indonesian capital market regulatory framework, the principles of transparency, fairness, and accountability are key pillars of investor protection (Lubis, 2019). The principle of transparency requires issuers and public companies to disclose material information honestly, openly, and in a timely manner, so that investors can make rational and informed investment decisions. Meanwhile, the principle of fairness emphasizes the importance of equal treatment for all investors, without discrimination or preferential treatment for certain parties, including controlling shareholders. The principle of accountability requires every market participant, including company directors and commissioners, to be accountable for the policies and actions they take, particularly those that impact investor interests. These three principles are explicitly stipulated in Law Number 8 of 1995 concerning Capital Markets and reinforced through various implementing regulations issued by the Financial Services Authority (OJK) (Lubis, 2019).

Along with the development of the sustainable and responsible investment paradigm, non-financial aspects are now receiving increasing attention in investment decision-making, including CSR policies. Information regarding CSR implementation, particularly in the areas of employment, the environment, and corporate governance (ESG), is a crucial indicator in assessing the quality and long-term prospects of an issuer (Irnawati, 2023). For sustainability-oriented investors, CSR information reflects a company's commitment to business ethics, social responsibility, and sound risk management. Therefore, the link between CSR and investor protection is increasingly strengthening, as accurate and transparent CSR reporting not only reflects regulatory compliance but also serves as a means of protection against potential reputational risks and litigation that could harm investors. Therefore, investor protection under capital market law is not limited to financial and procedural aspects but also encompasses the ethical and social dimensions of a company (Purboningtyas, 2019). Modern capital market regulations must integrate sustainability principles within a comprehensive investor protection framework to achieve a fair, efficient, and trustworthy capital market.

From a capital market perspective, CSR related to employment is viewed not only as a moral or social obligation but also as an integral part of sustainability and risk management strategies that can influence investment decisions. In an increasingly transparent and globally connected business world, investors are increasingly recognizing that a company's social performance, including its employment management, has a direct impact on its reputation and share value.

Employment CSR as Part of Corporate Reputation

A company's reputation is an intangible yet highly valuable asset that influences public and stakeholder perceptions, including investors (Sumatriani, 2021). In the employment context, sound CSR can strengthen a company's reputation by demonstrating that it cares about the welfare of its workers and fulfills its obligations as a fair employer. This encompasses various aspects, such as fulfilling workers' rights, providing decent wages, providing safe facilities, skills training, and policies that respect the principles of non-discrimination and gender equality.

Companies with a good employment reputation tend to be more attractive to investors because they demonstrate internal stability, which will impact productivity and long-term sustainability. Conversely, companies involved in labor disputes or known for not fulfilling basic worker rights risk a decline in investor

confidence. Therefore, employment CSR not only benefits workers but is also a strategy for creating a positive image that can increase the company's attractiveness to investors.

A company's good reputation for labor management also increases brand loyalty and customer trust, which in turn can impact the company's financial performance (Uyun, 2024). In this regard, investors often view reputation as an indirect indicator of a company's resilience in the face of external and internal challenges. A good reputation protects investors from potential losses resulting from unethical actions or legal violations that could undermine the company's integrity in the capital market.

The Impact of Labor Violations on Stock Fluctuations and Market Sentiment

Labor violations, whether related to inadequate wages, labor rights violations, or occupational safety issues, can have a direct impact on a company's stock price and market perception. In many cases, scandals involving labor rights violations often trigger significant stock price declines as investors worry about long-term financial losses, whether from legal fines, lawsuits, or loss of reputation.

For example, consider the labor abuse cases at multinational companies like Nike in the 1990s, which involved poor working conditions in factories that used child labor and extremely low wages. Although Nike eventually attempted to repair its image through stronger CSR programs, the initial impact of the controversy was significant. Nike's stock experienced a sharp decline in the stock market, demonstrating how labor abuses can erode investor confidence in the short term (Nugraha, 2018).

Another example is the case of major electronics manufacturers like Samsung and Foxconn, which frequently received media attention for their inhumane working conditions in their factories. Although these companies eventually implemented labor reforms, the decline in their stock prices during times of reputational crisis indicates how much investors perceive these labor issues as a risk to be aware of. Such scandals affect overall market sentiment, and investors often avoid stocks implicated in negative labor issues.

Conversely, companies that successfully manage labor issues effectively and transparently, and demonstrate their commitment to implementing high-quality labor CSR (CSR) programs, can gain recognition from the capital market, driving share prices higher and attracting investors concerned with social and sustainability factors. Well-executed labor CSR can alleviate market concerns and create stock price stability.

CSR as an Indicator in ESG (Environmental, Social, and Governance)-Based Investments

ESG (Environmental, Social, and Governance)-based investments are increasingly becoming a primary focus for many global investors. ESG is a framework used by investors to assess non-financial risks that can impact a company's long-term performance. One important aspect of ESG is social factors, which include labor conditions within the company. Therefore, labor CSR becomes a key indicator in assessing a company's social performance. Investors who adopt ESG principles believe that companies that care about social aspects, including labor protection and worker welfare, have a greater chance of long-term success (Rahman, 2024). This not only demonstrates corporate social responsibility but also demonstrates that the company has good governance, which reduces legal, social, and reputational risks that could harm investors.

Many large institutional investors, such as pension funds and asset managers, now include employment CSR criteria as part of their evaluation of companies they intend to invest in. For example, ESG-based stock indices like the MSCI ESG Leaders Index or the FTSE4Good Index assess companies based on sustainability criteria, including employment aspects. Companies that meet high ESG standards, including employment CSR, are more likely to receive funding from investors focused on sustainable investing. ESG-based

investing is not only beneficial from a moral or social perspective, but also financially, as companies committed to sustainability and sound employment management tend to have more stable performance and reduce potential risks that could negatively impact investment returns. Therefore, employment CSR not only boosts investor confidence in the short term but also helps ensure the long-term viability of investments.

Thus, CSR related to employment is not only an ethical obligation for companies but also a crucial instrument in building trust and attractiveness in the capital market. In ESG-based investing, CSR related to employment plays a crucial role in mitigating social and reputational risks, which directly impact stock value and market stability. Investors who understand the importance of these social factors can make more informed and sustainable investment decisions.

Social Risks of CSR Related to Employment and Its Implications for Investor Protection in the Capital Market

In the capital market context, companies are measured not only by their financial performance but also by how they manage the social aspects of their operations, particularly those related to employment. Social risks, particularly those related to workforce management, are a crucial factor that can impact a company's financial stability and reputation in the market. These employment risks encompass a wide range of issues, such as violations of workers' rights, inadequate wages, poor working conditions, discrimination, and conflicts between workers and management. These risks not only impact industrial relations but can also impact the company's overall performance.

Employment risk, which is part of business risk, has the potential to reduce productivity and disrupt company operations (Panggabean, 2024). When a company fails to properly manage labor issues, for example by facing strikes or lawsuits related to workers' rights violations, this can cause operational disruptions that are detrimental to the company. Furthermore, companies that fail to meet applicable labor standards risk facing legal sanctions that impact their finances and reputation. This creates significant uncertainty for investors, potentially reducing the company's stock value and investment attractiveness.

Stable industrial relations between companies and workers are key to avoiding labor risks that can impact operations and financial prospects. Companies that can create a safe, fair, and equitable work environment that complies with applicable labor standards tend to have more harmonious industrial relations, which in turn supports their operational stability. Investors tend to seek out companies with low social risk, as stable industrial relations often indicate smooth long-term operations and minimize disruptions that could impact financial performance. Companies that maintain good industrial relations typically also demonstrate more stable and sustainable financial results, which is a crucial factor in attracting long-term investors.

However, the legal implications for investors become very real when companies fail to properly implement CSR in employment. Such failure not only leaves the company vulnerable to lawsuits or fines but also risks harming investors who own shares in the company. For example, when a company is involved in significant labor violations, its stock price can plummet due to a decline in market confidence and increased legal and reputational risks. Furthermore, companies facing significant labor issues can experience long-term revenue reductions, increased operating costs, and losses from potential lawsuits or decreased market demand.

Therefore, to protect investors from social risks arising from negligence in labor management, legal reforms that support mandatory reporting and transparency in CSR aspects of labor are crucial. One step that needs to be taken is the formulation of mandatory CSR indicators for labor in companies' sustainability reports. These indicators could include fair wage management, occupational health and safety policies, worker training, and respect for workers' rights. With clear reporting requirements, investors will have access to

more transparent information regarding labor conditions in companies and can make more informed investment decisions.

Furthermore, companies should be required to be more transparent about their labor practices, including the policies implemented to create a fair and safe working environment. Expanding this requirement for information disclosure related to labor issues will provide investors with a clearer picture of how companies manage a social factor that significantly impacts their reputation and business risk. Such transparency is crucial for investors to avoid companies that do not comply with applicable labor standards and to understand the potential social risks that could impact a company's financial performance. To support this implementation, the role of the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX) needs to be strengthened in overseeing and enforcing compliance with CSR obligations related to employment in the capital market. The OJK and IDX should have a clear mechanism to verify sustainability reports submitted by companies, ensuring that they comply with established labor standards. This could also include an obligation to adopt international standards, such as the principles outlined in ILO conventions or the UN Global Compact, which ensure that companies fulfill their social obligations to their workforce.

Appropriate legal reforms regarding CSR reporting on employment and stricter oversight by the OJK and IDX can prevent labor violations that harm companies' reputations and finances, and improve investor protection from social risks. With these measures, the Indonesian capital market can create a more transparent, fair, and sustainable investment climate, while ensuring that listed companies comply with their obligations to workers and other stakeholders.

4. Conclusion

The implementation of corporate social responsibility (CSR) in Indonesia, particularly in the capital market context, still faces several challenges that hinder its optimal regulation. Although there is a legal basis for CSR obligations, such as in the Limited Liability Company Law and the Capital Market Law, there are no provisions explicitly setting minimum standards for CSR implementation in employment. This contributes to variations in CSR reporting and implementation across companies, ultimately creating uncertainty for investors in evaluating companies. Low disclosure of information regarding employment practices and the lack of strict oversight from capital market regulators, such as the Financial Services Authority (OJK) and the Indonesia Stock Exchange, make it difficult for investors to make informed and sustainable investment decisions. Companies that fail to meet labor standards may face adverse reputational and legal risks, which in turn can impact stock price stability and investor attractiveness. The implications of CSR implementation in employment for investor protection are significant. Investors assessing corporate social performance, including employment, are increasingly considering CSR as a key indicator in investment decisions, particularly in the context of ESG-based investments. Companies that effectively implement CSR in employment will enhance their reputation and investor confidence, which in turn will impact stock price stability and investment sustainability. Conversely, poorly managed labor violations can lead to declining stock values and increased social and reputational risks, potentially harming investors. Therefore, it is crucial to strengthen regulations governing CSR reporting and transparency, as well as increase oversight by capital market authorities to protect investor interests and create a fairer and more sustainable market.

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