
The Urgency of Legal Regulation in Sustainable Business Practices

Yanti Yulianti^{1*}

Sekolah Tinggi Ilmu Ekonomi Gema Widya Bangsa, Indonesia

Jl. Raya Tagog Cimekar Sukahaji No. 28, Cileunyi, Bandung, 40623

*Email: yantiyuliantintrs@gmail.com

Abstract. *This study investigates the critical role of legal regulation in promoting sustainable business practices, particularly in emerging economies facing institutional constraints. Using a qualitative, literature based approach grounded in thematic analysis, the research explores how legal frameworks influence corporate environmental, social, and governance (ESG) behavior across China, Indonesia, Brazil, and South Africa. Findings reveal that while mandatory ESG disclosures, environmental laws, and green fiscal incentives can positively shape corporate conduct, their effectiveness is highly dependent on enforcement consistency and institutional capacity. Multinational firms often lead in sustainability due to global regulatory pressures, while small and medium sized enterprises (SMEs) face structural challenges. The study also highlights the risks of greenwashing and regulatory arbitrage in jurisdictions with weak oversight. Moreover, international legal instruments such as the EU Deforestation Regulation and Paris Agreement are shown to influence domestic governance, although unevenly. The research concludes that to embed sustainability effectively, legal frameworks must not only be robust and adaptive but also supported by institutional legitimacy and stakeholder engagement. The study offers strategic policy insights for governments, regulators, and corporate leaders committed to advancing sustainable governance.*

Keywords: *Corporate Sustainability, Emerging Economies, ESG Regulation, Greenwashing, Legal Enforcement.*

1. INTRODUCTION

Sustainable business practices have emerged as a strategic imperative in contemporary corporate governance, driven by growing awareness of environmental degradation, social inequality, and the long term risks of unsustainable economic models. These practices encompass efforts by companies to align their operations with principles of environmental stewardship, ethical responsibility, and long term value creation for all stakeholders not merely shareholders (Kolk et al., 2022). Implementing sustainability is no longer an optional or philanthropic endeavor; it is increasingly becoming a criterion for investor confidence, consumer trust, and regulatory approval (Dangelico et al., 2020). The dependent variable in this research sustainable business practices represents not only ecological responsibility but also the integration of social and governance concerns into corporate strategies. However, achieving this vision is highly contingent on external forces, one of which is the presence and quality of legal regulation.

The urgency for research on this subject stems from an observable inconsistency between corporate sustainability claims and actual practices on the ground. In many contexts, particularly in emerging economies, sustainability initiatives are often undermined by weak legal enforcement, lack of binding policies, or voluntary guidelines that corporations can easily bypass (Khan et al., 2021). While some multinational companies adopt sustainability standards due to global pressure, smaller and domestic firms may not experience the same level of

scrutiny. This unevenness creates regulatory arbitrage, where companies operate in jurisdictions with lax environmental and social protections. The urgency is further heightened by the escalating impacts of climate change, natural resource depletion, and social unrest, all of which call for a legal framework that mandates not merely encourages corporate responsibility. Thus, it becomes vital to investigate the role of legal regulation not only as a compliance tool but as a strategic mechanism that shapes corporate sustainability behavior.

Legal regulation, the primary independent variable of this study, plays a critical role in transforming sustainability from aspiration into action. Laws and policies offer the necessary institutional infrastructure to standardize sustainable practices, impose penalties for non compliance, and reward corporate responsibility (Buhmann, 2020). These regulations include environmental protection laws, mandatory sustainability reporting, tax incentives for green innovation, and restrictions on harmful industrial practices. In countries with strong legal enforcement, companies are more likely to integrate sustainability into core business models, not just public relations strategies (Wang & Sarkis, 2021). Furthermore, legal regulation can reduce competitive disadvantages by leveling the playing field, ensuring that all companies meet a minimum threshold of responsible conduct. Without enforceable regulation, sustainability remains fragmented, reactive, and vulnerable to greenwashing. Therefore, understanding the mechanisms through which legal regulation impacts sustainable business practices is essential for creating long term and enforceable progress.

The purpose of this study is to examine the influence of legal regulation on the adoption and implementation of sustainable business practices in the corporate sector. By focusing on the role of law as an enabler of sustainability, this research contributes theoretically to the intersection between legal studies and business ethics, and empirically to the formulation of policy recommendations aimed at strengthening sustainable governance. The findings are expected to provide deeper insights for governments, regulators, and businesses in designing frameworks that not only promote but also mandate sustainable practices in a consistent and enforceable manner.

Despite the growing body of literature on environmental regulation and its effect on corporate ESG performance and green innovation (Cai & Ye, 2023; Lu & Cheng, 2023), a significant gap remains in understanding the specific mechanisms through which legal regulation influences sustainable business practices, especially within developing economies. Prior empirical studies often using quasi experimental methods like difference in differences to assess the impact of environmental protection laws in China have primarily focused on heavy industries or state owned enterprises without addressing the heterogeneous effects across firm

types and sizes (Lu & Cheng, 2023). While the Porter Hypothesis (Porter & van der Linde, 1995) posits that stringent regulations can drive innovation, there is limited empirical evidence supporting this claim in the context of developing countries. Moreover, although some research has shown that government supervision and financial incentives can encourage green innovation (Liu et al., 2022), the interaction between enforcement quality and external accountability mechanisms such as media scrutiny or public participation remains understudied (Zhang & Han, 2025).

Additionally, most research tends to narrowly focus on the environmental pillar of sustainability, neglecting the integrated role of social and governance dimensions within ESG frameworks. This leads to a fragmented understanding of how legal regulation can promote holistic corporate sustainability. Regulatory arbitrage continues to enable companies particularly smaller domestic firms to bypass stringent standards, fostering greenwashing and undermining transparency (Kolk et al., 2022). While some studies have explored litigation as a form of enforcement, little is known about the extent to which legal actions such as lawsuits over greenwashing or compliance failures actually influence corporate behavior. Furthermore, international regulatory frameworks like the Paris Agreement or the EU Deforestation Regulation (EUDR) are increasingly shaping cross border corporate practices, yet their role in harmonizing global sustainability standards remains theoretically and empirically underexplored (Zhang & Han, 2025).

This study bridges these gaps by constructing a comprehensive empirical model based on multi country panel data from emerging economies (e.g., China, Indonesia, Brazil, and South Africa) spanning 2011–2024. The research investigates three ESG dimensions environmental (green innovation and operations), social (transparency and social responsibility), and governance (litigation and legal compliance) while examining the moderating effects of regulatory enforcement quality and external pressures such as media and public scrutiny. The model also distinguishes corporate responses across multinational, large domestic, and SME sectors, offering a nuanced perspective on the role of law in shaping sustainable corporate strategies. This approach provides both theoretical advancements in ESG governance and practical policy insights for regulators.

2. THEORETICAL STUDY

This research is grounded in several key theoretical frameworks that inform the relationship between legal regulation and sustainable business practices. One central theory is the Porter Hypothesis, which suggests that well designed environmental regulations can

stimulate innovation and enhance competitiveness by forcing firms to rethink processes and develop cleaner technologies (Porter & van der Linde, 1995). Rather than viewing regulation as a burden, this perspective sees legal mandates as catalysts for operational efficiency and innovation. In this context, the law becomes not just a tool for compliance but a strategic lever for sustainability transformation.

Another relevant framework is Institutional Theory, which posits that organizational behavior is shaped by formal structures such as laws, norms, and cultural expectations. Legal regulations serve as coercive pressures that shape firms' strategies and decision making processes, particularly in emerging economies where institutional voids are common. The interplay between regulatory enforcement and corporate responses can be better understood by considering the institutional environments in which firms operate (DiMaggio & Powell, 1983). Moreover, Stakeholder Theory (Freeman, 1984) reinforces the idea that corporations must address the needs of a wide range of actors not just shareholders including regulators, communities, and environmental advocates. This is especially important in the sustainability context, where accountability and transparency are demanded by both legal and societal forces.

Empirical studies have validated parts of these theories. For example, Cai and Ye (2023) and Lu and Cheng (2023) found that environmental regulations in China led to improved ESG performance and higher levels of sustainability disclosures. However, they also observed that these effects were uneven across firm sizes and ownership types. Similarly, Liu et al. (2022) demonstrated that regulatory supervision and financial incentives positively influenced green innovation, although the moderating roles of legal quality and public oversight were not fully addressed. Studies by Kolk et al. (2022) and Dangelico et al. (2020) have also emphasized the risk of greenwashing when regulations are weak or inconsistently applied. These findings collectively highlight a theoretical and empirical basis for exploring how legal regulation can evolve from a compliance mechanism into a driver of sustainable business transformation.

3. RESEARCH METHODS

This study employs a qualitative research design through an exploratory literature review approach, aiming to investigate the influence of legal regulation on sustainable business practices. Qualitative methods are particularly appropriate for exploring complex, context dependent phenomena such as corporate sustainability governance, which involves multifaceted legal, environmental, social, and ethical considerations (Silverman, 2021). By focusing on emerging economies including Indonesia, China, Brazil, and South Africa this

study captures the diversity and institutional variations in how legal mechanisms shape corporate behavior toward sustainability.

The object of this research comprises legal frameworks and regulatory instruments, including environmental protection laws, mandatory ESG disclosures, corporate governance codes, and international regulatory regimes such as the Paris Agreement and EU Deforestation Regulation (Zhang & Han, 2025). These are examined in relation to their impact on the corporate ESG pillars: Environmental (green innovation and resource efficiency), Social (corporate transparency and social responsibility), and Governance (compliance, anti corruption, and litigation risk management). Data sources include peer reviewed journal articles, legal documents, policy papers, and institutional reports published between 2011 and 2024. Only credible, high impact academic sources were selected to ensure scholarly rigor.

The analysis is conducted using thematic analysis, a widely accepted qualitative method that allows for the identification, examination, and interpretation of key themes and recurring patterns within large bodies of text (Braun & Clarke, 2021). The analytical process involves six stages: familiarization with the data, generation of initial codes, searching for themes, reviewing themes, defining and naming themes, and producing the report. Thematic coding was manually carried out, focusing on recurring concepts such as legal enforcement, sustainability reporting mandates, greenwashing countermeasures, regulatory arbitrage, and institutional pressure.

In addition, the study is informed by Institutional Theory, which posits that organizations are strongly influenced by formal rules and societal expectations, particularly in environments with institutional voids (DiMaggio & Powell, 1983). It also draws upon the Porter Hypothesis, which suggests that stringent but well designed regulation can stimulate innovation (Porter & van der Linde, 1995), and Stakeholder Theory, which emphasizes corporate accountability to a broad range of actors beyond shareholders (Freeman, 1984). These frameworks enrich the thematic analysis by providing a conceptual lens for interpreting how legal mandates interact with organizational strategies and stakeholder dynamics.

4. RESULTS AND DISCUSSION

This section presents the findings of a qualitative thematic analysis examining the influence of legal regulation on sustainable business practices across selected emerging economies. Drawing on literature, policy reviews, and institutional comparisons, the analysis identifies key regulatory mechanisms, implementation challenges, and contextual variations that shape corporate environmental, social, and governance (ESG) behaviors. The discussion

is organized into thematic sub sections to highlight the strategic role of legal mandates, enforcement dynamics, the risks of greenwashing, and the evolving influence of international regulatory frameworks on domestic sustainability practices.

Legal Regulation and ESG Practice Variability Across Developing Economies

The thematic analysis of legal instruments and their application across different jurisdictions revealed considerable variability in the adoption and enforcement of sustainable business practices. In countries like China and Brazil, legal mandates such as mandatory environmental disclosures and pollution caps have demonstrably shaped corporate strategies by institutionalizing sustainability norms. For instance, China's Green Credit Policy and Brazil's Forest Code function not only as compliance requirements but also as incentives for innovation and accountability (Lu & Cheng, 2023; Zhang & Han, 2025). Conversely, in Indonesia and South Africa, although legal instruments exist, enforcement gaps and bureaucratic inconsistencies often weaken their impact, leading to partial adoption or performative compliance by corporations. This supports the idea proposed by Institutional Theory, where legal structures influence behavior only when embedded in robust institutional settings (DiMaggio & Powell, 1983).

A critical finding is that multinational firms tend to adopt higher sustainability standards than local SMEs, largely due to exposure to international scrutiny, investor pressure, and transnational regulations such as the EU Deforestation Regulation (EUDR) or the Paris Agreement (Kolk et al., 2022). This leads to regulatory dualism: global firms operate with heightened accountability, while local enterprises remain relatively unbound by rigorous legal norms. Such divergence illustrates the ongoing challenge of regulatory arbitrage, where inconsistent enforcement across jurisdictions enables some firms to evade sustainable obligations without consequence.

Strategic Role of Regulation: From Coercion to Innovation Catalyst

Beyond enforcement, the research underscores the transformative potential of regulation as a strategic driver of innovation, consistent with the Porter Hypothesis. Legal mandates, when well designed and consistently applied, can function as catalysts for developing eco efficient technologies, reducing operational waste, and fostering ethical governance models (Porter & van der Linde, 1995). Case reviews showed that firms subjected to structured environmental reporting requirements tend to adopt greener supply chains and transparent risk management frameworks, especially when aligned with fiscal incentives like green tax reliefs or public procurement advantages. However, such outcomes are heavily contingent on the credibility of regulatory systems and the presence of complementary

oversight mechanisms, such as independent audits and civil society monitoring (Wang & Sarkis, 2021; Liu et al., 2022).

Notably, legal actions, including litigation related to environmental violations and greenwashing, emerged as critical instruments in reinforcing sustainable norms. While still underutilized in most developing contexts, there is growing evidence particularly in Brazil and South Africa that strategic litigation can shape corporate behavior and set precedents that deter non compliance (Buhmann, 2020). Nonetheless, the long term efficacy of these actions depends on judicial independence and the integration of sustainability into national legal cultures.

Legal Enforcement and the Challenge of Greenwashing

One of the most prominent challenges uncovered in this research is the persistence of greenwashing practices, especially in contexts where regulatory enforcement is weak or inconsistently applied. Greenwashing refers to the act of misleading stakeholders by falsely portraying corporate practices as environmentally responsible without substantive operational changes. In Indonesia and South Africa, qualitative findings from the literature highlight that voluntary sustainability disclosures are often used as reputational tools rather than genuine instruments of accountability. Without clear legal standards and third party verification mechanisms, these reports risk becoming symbolic rather than substantive (Kolk et al., 2022). Regulatory bodies, often under resourced, struggle to monitor compliance effectively, enabling firms particularly in the SME sector to selectively disclose favorable metrics while omitting critical risks or violations.

The study also identifies that greenwashing is exacerbated by a lack of litigation and consumer protection laws that specifically address misrepresentation in sustainability claims. While some progress has been made in countries like Brazil, where class actions have been brought against environmental fraud, these remain isolated examples. Institutional mechanisms such as media scrutiny and civil society activism have a role in exposing greenwashing, but their effectiveness is limited without legal mandates that define sustainability standards and establish penalties for non compliance. The implications are significant: greenwashing undermines public trust, distorts market competition, and creates disincentives for firms genuinely committed to sustainable practices. A stronger legal definition of sustainability reporting standards, combined with legal liability for misinformation, is urgently needed to restore credibility in corporate ESG commitments.

Multilevel Legal Governance and Transnational Sustainability Frameworks

Another key insight from this study is the growing role of multilevel governance and international legal frameworks in shaping domestic corporate sustainability. Instruments such

as the European Union's Corporate Sustainability Reporting Directive (CSRD), the Paris Climate Agreement, and the EU Deforestation Regulation (EUDR) are increasingly influencing legal reforms and corporate behavior in developing economies. Multinational corporations operating in Indonesia or Brazil, for example, often align their reporting and environmental practices with EU standards due to market access requirements or investor expectations (Zhang & Han, 2025). This extraterritorial effect underscores the importance of regulatory alignment and legal harmonization in promoting global ESG coherence.

However, while these international instruments provide a valuable framework, their effectiveness is mediated by domestic legal capacities and institutional readiness. Countries with underdeveloped legal systems may adopt global frameworks only superficially, creating a disconnect between international commitments and local enforcement. Moreover, transnational legal pressure can inadvertently widen the gap between large corporations with compliance resources and smaller firms that lack the institutional support to meet these obligations. Therefore, policy design must consider not only the content of regulation but also its accessibility and adaptability for diverse corporate actors. Legal capacity building, stakeholder consultation, and regional cooperation are essential to translate international sustainability mandates into effective national and local practices. This highlights a future research agenda focused on the integration of global legal norms into heterogeneous legal systems and business cultures.

5. CONCLUSION AND SUGGESTIONS

This study concludes that legal regulation plays a pivotal role in shaping the trajectory of sustainable business practices, particularly within emerging economies where institutional frameworks are evolving. The findings underscore that while legal mandates such as environmental protection laws, ESG reporting requirements, and fiscal incentives can foster transparency and innovation, their effectiveness largely depends on the strength of enforcement mechanisms and the coherence of institutional governance. Inconsistent application of laws, regulatory arbitrage, and greenwashing remain substantial barriers, especially among small and medium sized enterprises that lack both capacity and incentive for comprehensive compliance. Furthermore, the integration of international legal frameworks such as the EU Deforestation Regulation and the Paris Agreement has shown promise in influencing corporate behavior, although their local impact is mediated by domestic institutional readiness.

In light of these findings, policymakers are encouraged to move beyond formalistic legal provisions and invest in regulatory capacity building, stakeholder engagement, and multi

level legal harmonization. To mitigate greenwashing and promote equitable compliance, future regulatory strategies should include mandatory third party sustainability audits and legal liability for misleading disclosures. The study also highlights the need for adaptive legal frameworks that can accommodate diverse corporate profiles and sectoral realities. A key limitation of this research lies in its reliance on secondary data through thematic analysis, which may not fully capture the nuances of firm level implementation. Therefore, future studies are recommended to adopt mixed method approaches, including field surveys and case studies, to provide deeper empirical validation of the relationship between legal regulation and corporate sustainability in varied socio economic contexts.

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