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THE ROLE OF LABOR LAW ON BUSINESS SUSTAINABILITY AND WORKERS' WELFARE IN INDONESIA

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Abstract

This research discusses the Role of Labor Law on Business Sustainability and Workers' Welfare in Indonesia. In the context of economic growth and technological development, labor law serves as a tool to maintain a balance between business sustainability and the protection of workers' rights. This research uses a literature study method with a content analysis approach to examine various labor regulations such as Law No. 13 of 2003, the Job Creation Law, and the Workers' Welfare Law. Year 2003, the Job Creation Law, and the BPJS Law. The results show that compliance with labor law has a positive impact on operational stability, employee loyalty, and company competitiveness. However, implementation challenges such as lack of supervision, unlawful employment contracts, and low legal literacy of workers are still an obstacle. Therefore, synergy between the government, companies, and workers is needed to create a healthy and productive work environment

Keywords: *Labor Law, Business Sustainability, Worker Welfare, Rights Protection, Industrial Relations.*

1. Introduction

Employment relations in Indonesia reflect the evolving complexity between the needs of profitability and efficiency-oriented businesses and the rights of workers who demand fairness, protection and welfare. As one of the most populous countries in the world, Indonesia faces great challenges in providing sufficient employment opportunities to accommodate the growing workforce. In addition, pressures from globalization and technological developments also create new dynamics in employment relations, such as changes in work patterns, workforce flexibility, and increased competition between companies. In facing these challenges, labor law has a very important role as an instrument to ensure that the relationship between employers and workers runs fairly, harmoniously, and sustainably. This law serves as a guideline in creating a work environment that not only supports productivity, but also pays attention to the basic rights of workers, including the right to decent work, fair treatment, and social protection (Sania, 2025).

Labor law in Indonesia is designed with the aim of guaranteeing workers' rights, such as getting a decent wage in accordance with minimum standards, access to social security, protection from various forms of exploitation, and a balance between the rights and obligations of workers and employers. In addition, the law also aims to ensure that businesses can operate productively, competitively, and contribute to national economic growth. However, the implementation of this law often faces various obstacles in the field. This is because there are still many cases of violations of workers' rights that occur due to weak supervision, non-compliance with regulations, or lack of awareness of the importance of equitable employment relation (Sari et al. 2025). Some of the main issues that often arise are the non-fulfillment of minimum wage standards, limited access of workers to social security, and mass termination of employment (PHK) which is often carried out without following legal procedures. This situation raises big questions about the extent to which labor law in Indonesia is able to support business sustainability while providing adequate protection to workers.

The urgency of this research arises from the need to evaluate the strategic role of labor law in bridging the interests of businesses and workers, especially in the midst of changing economic dynamics. Well-designed and consistently implemented regulations will not only help create national economic stability through harmonious industrial relations, but will also have a significant social impact. Such regulations can improve the quality of life of workers by ensuring that they have access to basic rights and proper protection. On the other hand, effective regulations can also create a healthier business climate, where companies are able to run operations efficiently without sacrificing workers' rights. Thus, this research is expected to contribute in identifying the challenges faced in the implementation of labor law as well as offering

relevant recommendations to strengthen equitable, productive, and sustainable employment relations in Indonesia.

2. Literature Review

2.1 Theory of Labor Law

Labor law is a branch of law that regulates the relationship between workers and employers, including the rights and obligations of both parties. According to (Sania, 2025), labor law functions as an instrument to create a balance between the economic interests of the company and the protection of workers' rights, so as to create harmonious and sustainable industrial relations.

Social justice theory in labor law emphasizes the importance of protecting workers as vulnerable parties in employment relations (Singadimedja, 2020). This is reflected in basic principles such as minimum wage, social security, and protection against termination of employment (PHK) which are regulated in Law Number 13 Year 2003 on Manpower and its derivative regulations.

2.2 Business Sustainability

According to Narayana (2018) Business sustainability is a business concept designed to minimize negative impacts on the environment and social aspects, so that future generations can still enjoy the availability of sufficient resources to meet their needs. Success in a global market that is oriented towards high quality can support environmentally friendly business sustainability.

Based on this definition, business sustainability can be defined as the ability of a business entity to sustainably maintain its existence over a long period of time, even across generations, through the consistent implementation of leadership strategies. This includes the ability of business actors to maintain the quality of products produced, not only by relying on knowledge of financial management, but also by integrating and applying knowledge and management strategies that are already available in the company structure.

According to (Agustina et al., 2021), it can also be interpreted as a business model that is able to maintain its existence in a sustainable manner, maintain the core values of the organization, or have a strong organizational culture. In addition, this concept also includes the company's ability to achieve profit stability and create sustainable growth over time.

2.3 Worker Welfare

According to Midgley (as cited in Suharto, 2006), welfare can be defined as a condition or state of human well-being. Welfare is considered achieved when people are happy, safe, and basic needs such as nutrition, health,

education, shelter, and income are met. In addition, welfare also means protection against major risks that can threaten human life.

But according to Smith himself in Batara (2017), he means that the efforts of humans when following the path to get welfare are achieved by fulfilling their needs and being comfortable in life. Then the level of welfare itself can be measured at the level of fulfillment of one's primary, secondary, and tertiary needs. In line with this idea, the measure of welfare is something abstract, but it can be measured through the determination of a measure that is represented in various indicators related to the ability of humans to fulfill their needs.

2.4 Previous Research

Several previous studies have discussed the impact of labor law implementation on businesses and workers. (Sari et al, 2025) highlighted that adequate legal protection of workers, especially through social security programs, can increase labor loyalty and productivity. Another study by (Ali et al, 2023) shows that the role of labor unions in upholding workers' normative rights is crucial to creating fair working relationships and reducing industrial conflicts.

In addition, research by (Lubis et al., 2024) concluded that company compliance with labor regulations has a positive impact on the stability of business operations and company reputation in the eyes of the public. However, implementation challenges such as weak supervision and low legal literacy among workers are still major obstacles in realizing optimal protection.

2.5 Research Conceptual Framework

Based on theory and previous research, this research conceptual framework places labor law as the main variable that affects two important aspects, namely:

- a. Business Sustainability: Includes operational stability, competitiveness, and corporate reputation.
- b. Workers' Welfare: Includes protection of rights, social security, living wages, and safe working conditions.

Compliance with labor laws is expected to create synergy between the business world and workers, which in turn supports national economic growth and improves the quality of life of workers.

3. Research Methods

This research uses a literature study research method. In (Ridwan et al., 2021) defines literature study as research conducted by examining various literature studies needed in research. The purpose of using the literature study method in this study is as an initial step in planning the research by utilizing literature to obtain data in the field without the need to go directly. The data sources that become references in this research are relevant literature sources as primary data sources (research results, research reports, scientific journals) and secondary

data sources (basic government legal regulations, books, etc.). After obtaining data sources as references, it is continued with the analysis of literature review data carried out using content analysis. Content analysis is where researchers explore a text objectively to get an overview of the content as it is, without the intervention of researchers (Ahmad, 2018). In this case, researchers will conduct an in-depth discussion of the content of information on data sources that need time to read and examine the data so that there is a result. These results are then expected to answer the problem and be used as a consideration in researching the role of labor law on business sustainability and worker welfare in Indonesia.

4. Results and Discussion

4.1. The Role of Labor Law on Business Continuity

Labor law plays an important role in maintaining the internal stability of the company, which in turn impacts the continuity of business operations. Companies that comply with labor laws tend to find it easier to build a reputation as a socially responsible company (Ali et al. 2023). Compliance with applicable regulations, such as the payment of appropriate wages, the provision of social security, and the provision of a safe working environment, has a positive impact on employee loyalty, motivation, and productivity. Employees who feel their rights are protected will be more committed to the company, leading to reduced absenteeism, avoidance of labor conflicts, and extended tenure of quality employees. In the long run, this will improve cost efficiency and strengthen business stability. In addition, good labor law implementation will strengthen the company's competitiveness, especially in the context of international trade, which is increasingly paying attention to labor and human rights issues in the global supply chain.

Although Indonesian labor law has made significant progress, there are still many obstacles in its implementation that prevent the maximum protection of workers' rights. One of the main challenges is the lack of supervision conducted by relevant agencies. In many regions, the number of labor inspectors is not proportional to the number of companies that need to be monitored, so many violations go undetected. In addition, some companies try to circumvent regulations through contracting and outsourcing systems that are not in accordance with the law, thus reducing workers' normative rights. Information inequality and lack of understanding of the law among workers is also a problem, as many workers do not know their rights, and therefore cannot legally claim their rights. On the other hand, employers also complain that regulations are considered too complicated and burdensome, so they try to find ways to avoid legal obligations. Thus, these challenges show that the success

of labor law in supporting business is highly dependent on the commitment of all relevant parties, namely, the government, employers, and workers, to make the law a moral and operational guide in carrying out business activities.

Therefore, to make labor law an effective instrument in supporting business sustainability, a well-organized strategy and approach is needed. First, the government should strengthen the capacity of labor inspection agencies by increasing the number of competent inspectors, as well as utilizing technology to conduct online audits and reporting. Second, companies should build a culture of legal compliance within the organization by providing regular labor law training to management and workers. Companies can also conduct periodic legal audits by engaging independent consultants to identify potential violations and develop follow-up measures. Third, increasing the role of trade unions in social dialog and in the company's policy-making process is also very important. The involvement of workers in decision-making will strengthen trust and create harmonious industrial relations. Fourth, education must also play a role in improving the legal literacy of workers through curricula and training aimed at prospective workers and young entrepreneurs. If all these strategies are implemented in an integrated manner, a healthy labor system will be established, laying the foundation for sustainable business growth.

4.2. The Role of Labor Law on Workers' Welfare

Indonesian labor law is based on several laws designed to protect workers' rights and improve the welfare of workers. Law No. 13/2003 on Manpower is the primary basis for regulating employment relations in Indonesia, covering the rights and obligations of workers and employers (Agista et al. 2023). The law includes provisions on minimum wages, which are designed to ensure workers earn a decent income in accordance with the minimum living needs in their region. It also regulates working hours and rest periods to maintain a balance between work and personal life, including provisions on annual leave, sick leave, and maternity leave. Occupational safety and health (OHS) protection is also regulated to ensure a safe and healthy working environment. In the event of termination of employment (PHK), the law provides fair procedures and compensation for workers to prevent exploitation or abuse of power by employers.

Furthermore, Law No. 11/2020 on Job Creation, specifically the employment cluster, introduced various changes aimed at increasing flexibility and efficiency in the labor market while promoting economic growth. The law reforms the contract work and outsourcing system with clearer rules to protect workers without reducing the flexibility required by employers. One important innovation introduced through this law is the Job Loss Guarantee Program

(JKP), which provides financial protection and retraining for laid-off workers, so that they can return to the job market immediately. Procedures related to layoffs and industrial relations dispute resolution are also simplified to expedite conflict resolution between workers and employers (Hermawan et al. 2024).

In addition, Law No. 24/2011 on Social Security Organizing Agency (BPJS) provides a legal basis for a national social security program that guarantees the welfare of workers as a whole. The National Health Insurance Program (JKN) provides access to health services for workers and their families, regardless of economic status, the Old Age Security (JHT) and Pension Security (JP) provide financial security for workers in retirement, with the aim of ensuring they continue to have an income even when they are no longer actively working, the Work Accident Security (JKK) offers financial and medical protection if workers experience accidents or occupational diseases, while the Job Loss Security Program (JKP) provides temporary assistance in the form of financial benefits and skills training to help workers who have lost their jobs get back into the workforce (Kaimudin, 2019).

Thus, strategic measures to create a conducive, productive, and sustainable work environment are also indispensable to support labor welfare while strengthening economic stability. Economic stability is the foundation for employment sustainability because stable economic conditions allow companies to maintain their operations, provide decent salaries, and provide additional facilities that improve workers' welfare (Mutiarra et al., 2024). On the other hand, increased labor productivity creates greater added value, which in turn drives economic growth and allows for better allocation of resources to meet workers' needs.

To realize this, a synergy between supportive regulations, a healthy work environment, and high labor productivity is required. Labor regulations play an important role in creating economic stability by providing a fair and balanced framework between the interests of workers and employers, thus avoiding economic inequality that can trigger social instability. In addition, productivity improvement in the labor system must be done in a multi-dimensional manner through the development of individual competencies, the adoption of innovative technologies, and policies that facilitate workforce development. This integrated approach involves the government, workers, and employers to ensure sustainable labor welfare, which in turn supports overall economic stability and creates a harmonious and productive work ecosystem.

4.3. The Impact of the Interaction between Labor Law on Business Sustainability and Workers' Welfare in Indonesia

The interaction between labor law and workers' welfare in Indonesia is a crucial aspect in building harmonious and sustainable industrial relations. Labor law serves as an effective means to maintain the balance of rights and obligations between workers and employers, so as to prevent conflicts that have the potential to disrupt business continuity (Maulana et al., 2024). In this context, the application of the values of justice, honesty and propriety in labor law is an important foundation for building mutually beneficial partnerships.

Business sustainability relies heavily on good working relationships and clear labor regulations. Companies that are able to comply with labor laws and maintain the welfare of workers will find it easier to maintain their operational stability and business reputation in the market. This also has an impact on increasing productivity because workers feel protected and valued, so they are more motivated to work (Sinaga et al. 2021). In addition, labor laws that are adaptive to changes, such as hybrid or flexible work models, help companies adjust their internal policies to stay relevant and support employee welfare. Investments in technology and employee welfare programs are part of a sustainable business strategy to deal with the dynamics of the modern world of work. Thus, labor law not only protects workers, but also supports company innovation and efficiency.

Labor law protection also contributes to social and economic stability. With clear rules in place, potential conflicts between workers and employers can be minimized, creating a safe and conducive working environment (Sinaga & Zaluchu, 2021) This condition allows companies to focus on business development without being distracted by disputes that are detrimental to both parties.

Another positive impact of this interaction is the improvement of workers' welfare, which directly affects their productivity and loyalty to the company. When workers' rights are respected and fulfilled, including occupational safety and health aspects, then workers can work more optimally and contribute to the achievement of sustainable business goals. This shows that labor law protection is a strategic investment for companies.

However, challenges arise when labor laws do not fully accommodate changing business needs and market dynamics. For example, rigid regulations can hinder the flexibility of companies in managing human resources effectively. Therefore, legal updates that are responsive to developments in the world of work are needed so that labor law remains relevant and supports business sustainability.

Collaboration between the government, employers, and labor unions is also key in creating a stable and fair working environment. With this synergy, labor

regulations can be implemented effectively, creating a balance between the interests of workers and employers and promoting sustainable economic growth. The government acts as a supervisor and mediator to ensure compliance with the law and fair dispute resolution.

Overall, the interaction between labor law and business sustainability creates the foundation for healthy and productive industrial relations. A strong and adaptive labor law not only protects workers' rights, but also strengthens the company's position in facing economic and social challenges. Thus, business sustainability can be realized through a harmonious synergy between regulations, businesses, and labor.

5. Conclusions

Labor law in Indonesia has a strategic role in bridging the balance between business sustainability and worker welfare. Compliance with labor laws based on the principles of fairness and protection of workers' rights increases productivity, loyalty, and stability of employment relationships, which contribute to economic growth. The main obstacles to implementation are lack of supervision, information gaps, and regulations that are not fully adaptive to market changes. The novelty of these findings lies in the importance of an integrative approach between the government, companies, and workers to make labor law a moral and operational foundation in creating a sustainable and innovative work ecosystem. Thus, the Government needs to improve supervision by expanding the number and capacity of labor inspectors and utilizing digital technology for online audits. Companies should adopt a culture of legal compliance through regular training and periodic legal audits. The education sector is also expected to play a role in improving the legal literacy of the workforce. A harmonious synergy between regulations, businesses, and workers will form an adaptive labor system and support business sustainability in the modern era.

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