

REFRAMING SOCIAL ENTERPRISE POLICY IN INDONESIA THROUGH REGULATORY ANALYSIS AND PRACTITIONER INSIGHTS

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Abstract:

Background: Social enterprises (SEs) in Indonesia had increasingly played a significant role in addressing multidimensional societal challenges through innovative, community-based approaches. Despite this progress, their development remained constrained by the absence of a coherent legal and institutional framework.

Purpose: This study aims to critically examine the extent to which Presidential Regulation No. 2 of 2022 on National Entrepreneurship Development supports the growth and institutional legitimacy of SEs in Indonesia.

Design/methodology/approach: Employing a comparative interpretive approach, the study combines critical legal document analysis with qualitative data from in-depth interviews involving twenty SE practitioners across various regions and sectors.

Findings/Result: The analysis reveals a significant policy-practice gap. While SEs are referenced in the regulation, the absence of operational definitions, hybrid legal forms, incentive structures, and ecosystem support limits their recognition and functionality. In contrast, SE practitioners operate in informal and adaptive ways, innovating within fragmented institutional contexts and often without formal policy guidance.

Conclusion: The findings underscore the need for institutional innovation and the co-creation of legal and policy mechanisms that are reflective of the hybrid realities of SEs. The study proposes the establishment of a dedicated legal framework, the development of tailored incentives, and the strengthening of a collaborative SE ecosystem in Indonesia.

Originality/value (State of the art): This research contributes to the global discourse on social enterprise and open innovation by providing context-specific insights from a non-Western setting. It highlights the need for adaptive, inclusive regulatory approaches that bridge the gap between policy narratives and field-level realities in SE development.

Keywords: hybrid organization, policy-practice gap, open innovation, regulatory framework, social enterprise

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INTRODUCTION

The legal dimension constitutes a critical component of the business ecosystem as it provides the institutional framework necessary to ensure the sustainability, accountability, and legitimacy of economic entities. In many countries, legal recognition of social enterprises (SEs) has progressed significantly. However, in Indonesia, the legal status of SEs remains ambiguous and is dispersed across various sectoral regulations, none of which specifically recognize SEs as a distinct institutional form. This condition indicates that although SEs continue to emerge as strategic actors in advancing sustainable development, the legal infrastructure that supports their operations and long-term viability is still in a nascent stage.

Social enterprises (SEs) have gained increasing global attention as innovative actors for addressing complex social, economic, and environmental challenges (Alvord et al. 2004; Kim & Sin, 2022). Distinct from conventional enterprises, SEs pursue a dual mission: they aim to generate economic and social value (Defourny & Nyssens, 2017; Martin & Osberg, 2007). This hybrid nature situates SEs uniquely at the intersection of the market, the state, and civil society, offering new pathways for inclusive and sustainable development.

A key factor influencing the sustainability and scalability of SEs is the presence of clear legal and institutional frameworks (Aiken et al. 2021; Spear, 2001). In various countries, such frameworks have been formalized to confer legal identity, ensure accountability, and facilitate access to resources. For instance, the United Kingdom established the Community Interest Company (CIC) model, which provides distinct legal status alongside provisions for asset locks and profit reinvestment (Aiken et al. 2021). Similarly, South Korea's Social Enterprise Promotion Act provides certification, funding, and institutional support (Bidet & Eum, 2011; Kim, 2015; Rustandi et al. 2023). These frameworks reflect the broader welfare regimes in which SEs operate and are crucial for aligning regulatory intent with the practical needs of hybrid organizations (Galera & Borzaga, 2009).

Such legal clarity promotes legitimacy, reduces institutional ambiguity, and fosters coordination among

the actors in the SE ecosystem. Moreover, it enables access to government support and finance mechanisms, two pillars critical to the long-term impact (Aiken et al. 2021). However, the effectiveness of such frameworks is contingent on their ability to evolve with the operational realities and developmental aspirations of SE practitioners.

In the Indonesian context, SEs have flourished through grassroots innovation, youth engagement, and dynamic participation in civil society. The British Council (2020) identified an expanding SE landscape in Indonesia, spanning sectors such as community development, environmental sustainability, inclusive education, and cultural preservation. This diversity illustrates how SEs localize their impact strategies in response to context-specific challenges and social needs (Suryadi & Elmiani, 2023). More importantly, it signals a growing societal orientation toward solving public issues through entrepreneurial means.

Despite this growth, Indonesia lacks a dedicated legal and institutional framework for SEs, hindering their long-term viability. Unlike countries such as the UK, South Korea, and the Philippines, which have introduced the Social Enterprise Mark, regulatory acts, and social value bills, Indonesia's SEs continue to operate under existing legal structures such as limited liability companies (*PT*) or foundations (*yayasan*). These forms often fall short of accommodating the hybrid mission of SEs and may constrain innovation, legitimacy, and access to systemic support (Utomo, 2021).

In 2022, the Indonesian government enacted Presidential Regulation No. 2 of the National Entrepreneurship Development Strategy (2021–2024). This regulation marks a step forward in acknowledging social entrepreneurship. Nevertheless, this mention remains superficial and lacks clear definitional boundaries, legal identity, operational guidance, or supporting ecosystem mechanisms. In the absence of legal codification, SEs remain institutionally marginal, operating in regulatory gray zones that inhibit their potential to scale and collaborate with state actors. Thus, this study is driven by a central policy question: To what extent does Presidential Regulation No. 2 of 2022 provide an adequate legal and institutional foundation for the development of social enterprises in Indonesia?

Although SEs in Indonesia are increasingly recognized as innovative agents of change, academic literature has yet to critically engage with the regulatory and policy dimensions that underpin their development. Most existing research has emphasized descriptive typologies or case-based narratives (Pratono et al. 2019; British Council, 2020; Judijanto et al. 2024), with a limited focus on the structural misalignment between national policy and the operational realities of SE actors (Prasetya, 2024). To address this gap, the present research offers a policy-oriented analysis of Presidential Regulation No. 2 of 2022, the only current legal framework in Indonesia that explicitly mentions social enterprises, juxtaposed with qualitative insights from SE practitioners.

This approach aims to map the regulatory practice gap while also assessing the institutional conditions necessary for SE development. Theoretically, this study contributes to open innovation discourse by framing SE development as a co-creation process that requires collaborative governance between state and civil society actors (Chesbrough, 2006). This approach underscores the importance of inclusive regulatory design and adaptive institutional frameworks that can foster context-sensitive innovation.

METHODS

This study adopts a qualitative research design with a comparative interpretive approach to examine the alignment and misalignment between national policy frameworks and lived experiences of social enterprise (SE) practitioners in Indonesia. As emphasized by Gautam and Gautam (2023), qualitative inquiry enables in-depth engagement with the meanings actors assign to their social realities, making it particularly suitable for policy analysis involving multiple layers of interpretation.

The comparative dimension of this study is operationalized through the juxtaposition of two domains: (1) the policy intentions embedded in Presidential Regulation No. 2 of 2022 and (2) the interpretations and experiences articulated by SE actors. This approach highlights how meanings are constructed, contested, and negotiated across

institutional levels, thereby revealing discrepancies, convergence, and blind spots in the national regulatory discourse on social entrepreneurship. This study draws upon two complementary data sources: A thematic document analysis of Presidential Regulation No. 2 of 2022, which refers to “social entrepreneurship”. In-depth interviews are conducted with 20 SE practitioners operating across diverse organizational types, sectors, and geographical areas of Indonesia (Table 1)

This dual-source strategy enables the triangulation of insights, ensuring a multi-perspective mapping of key concepts while grounding regulatory critiques in empirical reality.

Primary data in this study were collected through in-depth interviews, which allowed the researcher to gather richer and more detailed information from respondents regarding the topic under investigation. Meanwhile, secondary data were obtained through document analysis, specifically analyzing Presidential Regulation No. 2 of 2022, which served as a reference for understanding policies and regulations relevant to the research topic. The analysis of this document provided additional insights that were crucial for enhancing the interpretation of interview findings and deepening the understanding of the policy context being examined.

The primary document analyzed was the Presidential Regulation of the Republic of Indonesia No. 2 of 2022 concerning the National Entrepreneurship Development Strategy 2021–2024. Specifically defined social entrepreneurship as referring to “individuals who possessed a strong sense of social responsibility and exceptional business acumen. They could identify social problems, view them as opportunities, and provide solutions. They operated within communities and prioritize mutual assistance over material gain. The primary objective of social entrepreneurship was to support the government in addressing its social issues. Some of the key characteristics of SE, as outlined in the regulation, included offering products, services, or innovative approaches that contributed to the achievement of the Sustainable Development Goals (SDGs), including the reinvestment of at least 51% of net profits toward social missions.”

Table 1. List of Respondents

Name of Social Enterprise	Core Issues Addressed	Positions
Rekam Nusantara	Environmental sustainability and waste management	Operations director
Salam Rancage	Women's empowerment and waste management	Founder and CEO
Hutan Organik	Enterprise development and forest conservation	Operations director
KTH Wana Jaya Asri	Farmers' group empowerment and forest preservation	Group leader
Martani Pangan Sehat	Food self-sufficiency	Founder
Gerai Nusantara	Indigenous community enterprise development	Director of business development
Borneochic – NTFP	Non-timber forest product-based community enterprise development	Business development coordinator
Lamerenan	Women weavers' welfare and culture preservation	Founder and CEO
Minikinizz	Child health and environmental issue	Founder
BUMMA Kasepuhan	Community-based enterprise development	Head of BUMMA
PT. Eksplorasi Tanpa Batas	Youth development and MSMEs	Founder dan CEO
HeroWaste Indonesia	Environmental sustainability and waste management	Founder
PT. Platform Usaha Sosial	Entrepreneurship development	Senior Community Engagement Associate
PT. Panda Lestari WWF	Community enterprise and forest conservation	Group leader
CU Pancoran Kehidupan	Access to finance and enterprise	Board member
PT. Parara	Local, healthy, fair, and sustainable food system	President director
Garda Pangan	Food insecurity	Founder and CEO
Biyung indonesia	Women's welfare	Founder
Aliet Green	Empowerment of farmer, women and persons with disabilities	Founder
Koperasi Simpan Usaha Mulyo Lestari	Social welfare and mitigation for human-wildlife conflict	Advisory board member

Document analysis was conducted using a thematic coding framework, which was developed inductively through repeated readings. The themes extracted included: (1) legal recognition, (2) institutional support mechanisms, (3) incentive structures, and (4) ecosystem development frameworks. The data were coded manually and cross-validated using peer debriefing sessions to enhance the trustworthiness and transparency of the analytical process. The goal was to assess whether and how the regulation articulates actionable support for SEs, beyond rhetorical inclusion.

To capture the diversity of SE experiences, a purposive sampling strategy was employed to select 20 practitioners across eight cities or regencies in Indonesia.

To reduce potential bias in respondent selection, the researcher established specific eligibility criteria as follows: (1) The SE should operate within one of the predetermined thematic areas, namely, environmental issues, empowerment, community-based business and economic development, or social welfare; (2) The SE should have been in operation for a minimum of three years and possess a clearly defined business model that supports its intended social impact; (3) the respondent representing the SE should have demonstrable knowledge and practical experience in managing the enterprise and be capable of providing comprehensive information regarding the SE's operations and its alignment with its social mission. This was evidenced by the respondent's position and level of involvement

within the SE, and (4) recommendations from third parties concerning the credibility of the SE were also considered while ensuring variation in thematic focus, geographic distribution, and operational scale among the selected SEs.

Semi-structured interviews were conducted from July to December 2024 using a combination of online platforms and face-to-face meetings, based on the participant's location and availability. The interviews explored (1) experiences in navigating legal and institutional frameworks, (2) interpretations of existing policies, and (3) expectations and recommendations for future regulatory development. All interviews were audio-recorded (with participant consent), transcribed verbatim, and analyzed thematically using a grounded approach. The analysis was supported by NVivo software, which enabled systematic coding and pattern recognition across the interview transcripts.

The analytical process in this study combined thematic coding and comparative conceptual mapping to uncover the relationship between national policy intentions and practitioner-level experiences in the field of SE. The entire analysis followed a dialectical approach, as proposed by Van der Burg (2008), which systematically juxtaposed conceptual formulations embedded in policy texts with the lived, practice-based insights of field actors. This interpretive juxtaposition enabled the generation of analytical insights that were both theoretically and contextually grounded. Following an individual analysis of the two data streams, a comparative conceptual mapping process was conducted. This mapping visualized areas of convergence (e.g., alignment in goals or terminology) and divergence (e.g., policy ambiguity vs. adaptive field practices) across the policy-practice spectrum. The resulting framework formed the empirical and analytical basis for the Discussion section, particularly in assessing how current policy frameworks might be recalibrated to better support the evolving realities of Indonesia's SE ecosystem.

The research framework in Figure 1 examined the dynamics of social enterprise (SE) development in Indonesia, focusing on the misalignment between national policy and the operational realities of SE actors. It combined an analysis of Presidential Regulation No. 2 of 2022, the key policy shaping SE discourse, with empirical insights from SE practitioners. This dual approach aimed to provide a comprehensive

understanding of the conditions needed to advance Indonesia's SE ecosystem, highlighting regulatory gaps and identifying pathways for a more supportive environment for SE development.

RESULTS

Social enterprises (SE) have been widely examined across disciplines, with scholars emphasizing their hybrid nature and integrating commercial strategies with social missions as a defining characteristic (Defourny & Nyssens, 2017; Kerlin, 2012; Ebrahim et al. 2014). While early research has often focused on organizational models, impact measurement, and social innovation, increasing scholarly attention has turned to institutional and policy environments that either enable or constrain SE development (Nicholls, 2010; Young & Lecy, 2014). Legal recognition and supportive regulatory frameworks are now understood as critical components for legitimizing SE practices, enhancing access to resources, and scaling social impacts (Galera & Borzaga, 2009; Haugh & Kitson, 2007). SEs are frequently positioned as boundary-spanning actors that contribute to open innovation, particularly in addressing complex and systemic challenges in local communities (Chesbrough & Di Minin, 2014; Westley et al. 2014). However, their hybrid identity simultaneously generates tensions in policy and legal environments, where organizational classifications and state support mechanisms remain rigid or underdeveloped.



Figure 1. Research framework

In several countries, such as Thailand and South Korea, the state formally recognizes the existence of social enterprises. In Thailand, specific policies have been developed to support SE development, including the Thailand Social Enterprise Office (TSEO) and the SE Promotion Draft Bill (Doherty & Kittipanya-Ngam, 2021). South Korea becomes the first Asian country to enact a specific legal framework that supports and labels social enterprises, the Social Enterprise Promotion Act (SEPA) (Bidet et al. 2019). The SEPA model proposes its own conditions and procedures for certification and its own supportive ecosystem for promoting social enterprises through certification.

Despite the growing global recognition of SEs, empirical studies continue to highlight the persistent gap between normative policy aspirations and the lived realities of SE practitioners. National strategies in many emerging economies, including Indonesia, often lack operational depth, and are constrained by institutional voids, fragmented governance, and limited state capacity (Phillips et al. 2015; Dey & Steyaert, 2016; Hoogendoorn, 2016). Practitioners frequently report difficulties securing legal recognition, accessing fiscal incentives, and participating in public procurement systems that are not designed with hybrid entities in mind. In the absence of participatory policy mechanisms that incorporate practitioner insights into regulatory design and implementation, social enterprise risks are symbolically acknowledged, but substantively unsupported.

Against this backdrop, this study critically examines the extent to which Presidential Regulation No. 2 of 2022 on National Entrepreneurship Development provides a meaningful legal and institutional foundation for the growth and legitimization of SEs in Indonesia. Drawing on a comparative analysis of policy content and qualitative data from 20 SE practitioners across diverse regions and sectors, we structure the findings into three interrelated sections. First, conceptual mapping highlights areas of convergence and divergence between policy narratives and practitioner realities, identifying overlapping themes, policy-specific framings, and practice-specific constructs. Second, the discussion analyzes key disjunctions, including the fragmented recognition of SE in national policy, the disconnect between state-driven logic and grassroots practice, and the consequences of institutional ambiguity. Finally, the analysis culminates in the call for institutional innovation and ecosystem-based

thinking, underscoring the need for adaptive, inclusive, and co-created regulatory frameworks that reflect the complex realities of social enterprises in Indonesia.

Mapping Policy and Practice: Key Conceptual Comparison

To explore the extent of alignment and dissonance between regulatory narratives and the lived realities of social enterprises (SEs) in Indonesia, this study conducted a comparative conceptual analysis between Presidential Regulation No. 2 of 2022 and qualitative data from 20 SE practitioners across eight cities and regencies. The results of this analysis were illustrated in Figure 2, which visualized the conceptual convergence and divergence between policy design and field-level practice.

The conceptual map was constructed by thematically coding both data sources and organizing the findings into three distinct zones: (1) overlapping themes – concepts present in both the policy framework and practitioner narratives; (2) policy-specific concepts – regulatory framings not reflected in field practices; and (3) practice-specific reality grassroots constructs that remain unacknowledged in formal policy texts. This comparative mapping provided a holistic lens through which the framing of SEs in institutional discourse and operational practices could be simultaneously examined.

Shared Understandings: Points of Conceptual Convergence

The analysis identified several thematic areas where regulatory and practitioner perspectives intersected, indicating a shared foundational understanding of social enterprises. These convergence points included the following.

Social Goals and Social Values

Both policy documents and practitioners emphasized the centrality of addressing societal challenges through entrepreneurial means. SEs were framed as mechanisms to generate positive social change, a perspective consistent with the global literature positioning SEs as mission-oriented actors committed to achieving social objectives (Alter, 2007; Bacq & Janssen, 2011; Bull & Crompton, 2006).



Figure 2. Conceptual Mapping of Key SE themes: regulatory versus practitioner perspectives

Economic Value and Business Orientation

There was a shared recognition of the dual mission of SEs—to achieve financial sustainability while advancing social purposes. This affirmation of hybrid value creation reinforced the conceptual identity of SEs as organizations that straddle the boundaries between market logic and social impact (Brouard & Larivet, 2010; Kim & Shin, 2022).

Community Engagement and Service Provision

Both policy and practice highlighted the role of SEs in delivering services to underserved or marginalized communities. This alignment reflected a broader consensus that SEs contribute to community empowerment and well-being through locally responsive interventions (Defourny & Nyssens, 2010; Ridley-Duff & Bull, 2019).

While these convergences reflected a conceptual foundation for collaboration between state and SE actors, they remained insufficient in driving meaningful change because of the lack of detailed strategies and operational mechanisms within the existing policy framework. The absence of clear guidelines, targeted action plans, and structured support systems within the policy not only hampered the ability of social enterprises to effectively navigate legal and regulatory landscapes, but also limited the state's capacity to create an enabling environment for their growth. Without these essential components, the policy framework failed to

provide the practical tools needed for SE actors to fully leverage legal support, stifling their potential to scale and thrive over the long term. This gap highlighted the need for more nuanced and actionable policies to bridge the divide between conceptual understanding and practical implementation.

State-Centric Framing in Legal Documents

The regulatory text introduced a series of state-driven narratives and prescriptive elements that were not mirrored by the everyday practices of SE actors. These included:

Instrumental Role in National Development

The regulation framed SEs as tools to support government programs and national development agendas. In contrast, most practitioners operated independently, with minimal engagement in state-led initiatives, and rarely perceived their work as an extension of governmental functions.

Alignment with the Sustainable Development Goals (SDGs)

While the policy emphasized alignment with the SDGs, none of the interviewed practitioners explicitly referenced these global targets. Instead, their work was grounded in immediate, localized challenges, revealing a disconnect between international frameworks and grassroots priorities.

Profit Reinvestment Clause (51%)

The regulation stipulated that more than 51% of the SE profits should be reinvested in social missions. However, this requirement was either unknown or viewed as impractical by practitioners given their financial constraints and the absence of monitoring or enforcement mechanisms. Furthermore, the assumption that SEs generated surplus profits before fulfilling social objectives misrepresented the integrated mission-first logic embedded in several SE models.

These findings indicated a top-down and instrumental framing of SE within policy discourse—one that contrasts sharply with the autonomy, contextual responsiveness, and embeddedness that characterized field-level SE practices.

Grounded Realities of SE Practice

In contrast to the normative prescriptive orientation of the regulatory framework, SE practitioners operated within an environment marked by institutional ambiguity, limited formal recognition, and constrained resources. Their accounts revealed not only a gap in implementation, but also fundamental misalignments in the conceptualization and support of social enterprises.

Tactical Agency and Strategic Navigation

Practitioners often exercised agency through tactical adaptation: navigating, negotiating, or bypassing formal regulations. Many relied on informal legitimacy, community trust, and personal networks to sustain operations in the absence of supportive legal infrastructure. These practices underscored the entrepreneurial and political capacities of the SE actors, which remained largely unacknowledged in formal policy narratives.

Hybrid Organizational Forms and Legal Invisibility

A significant number of SEs adopted hybrid organizational models that combine non-profit, cooperative, and business elements. Social enterprises in Indonesia might use a range of existing legal structures, such as enterprises (PT), organizations (perkumpulans), foundations (yayasan), and micro financial institutions (PT. Lembaga Keuangan Mikro), or cooperative (British Council, 2020). While such hybridity reflected context-specific innovation, it

was rarely accommodated within the existing legal frameworks. This invisibility hampered access to funding (Yulius et al, 2015), legitimacy, and institutional support (Rustandi et al, 2023).

Innovation Under Constraints

Rather than operating within an enabling policy environment, social enterprises (SEs) innovated from the positions of structural precarity. These innovations were often emergent, relational, and contextually embedded, driven by direct proximity to community needs, rather than compliance with regulatory mandates. As one interviewee explained, 'Due to inadequate regulations, we operated two institutional structures: a limited liability company (PT) and a foundation. Both entities facilitated innovation. For business purposes, we used a PT; for social matters, we use a foundation' (Biyung Indonesia, October 2023). This dual-structure approach underscored how SEs constrained by regulatory gaps were forced to adapt their organizational models, balancing business and social objectives in a landscape that lacks sufficient legal support.

Tensions Between Policy Rhetoric and Practitioner Autonomy

Legal frameworks often set out expectations for SEs to align with state development agendas or international goals such as the SDGs. However, practitioners frequently perceived such alignment as instrumental or even co-optive, viewing it as a threat to their autonomy and a constraint on their role as independent drivers of systemic change. As one interviewee from Salam Rancage explained: "We often have to fill in the blanks with the SDGs. However, what we are really doing is not just based on the SDGs, but on the community needs" (in-depth interview with Salam Rancage, October 2023). This perspective highlighted the tension between policy rhetoric and the lived reality of SE practitioners who emphasized the importance of addressing community-driven needs rather than conforming to externally imposed frameworks.

In summary, the divergence between policy and practice is not merely a matter of a temporal lag or incomplete implementation. Rather, it reflects deeper epistemological and structural mismatches between the logic of formal regulation and the lived realities of grassroots innovation. Thus, the evolution

of SE practices in Indonesia has been shaped more by adaptation, improvisation, and contextual responsiveness than by regulatory facilitation.

A more inclusive, practice-informed approach is therefore essential one that recognizes the plural forms of SE, incorporates practitioner knowledge into policymaking, and reimagines legal frameworks not as instruments of control, but as enablers of transformative, open, and participatory innovation.

Fragmented Recognition of Social Enterprise in National Policy

The findings of this study highlight a critical disconnect between Indonesia's regulatory discourse on SE and the evolving landscape of its practice. Although Presidential Regulation No. 2 of 2022 aims to promote inclusive and sustainable entrepreneurship, its treatment of SE is limited to a brief mention in Appendix 2.21, in which social entrepreneurship is subsumed under a sub-program for partnership development. This marginal placement reflects peripheral policy positioning, suggesting that the SE is not yet recognized as a strategic actor within the broader national entrepreneurship agenda.

This regulation employs normative language without offering a concrete operational framework. It lacks definitional clarity, measurable criteria for social impact, and guidelines for identifying and classifying SEs. This conceptual vagueness results in a lack of legal legitimacy, compelling SE practitioners to operate under conventional legal structures such as foundations, cooperatives, or private companies that inadequately reflect their hybrid missions. As noted by Susilowati et al. (2024), the absence of a supportive ecosystem severely constrains the ability to function effectively and sustainably.

Moreover, while the regulation mentions initiatives, such as mapping and partnership promotion, it falls short of establishing dedicated institutional mechanisms for SE support. There are no provisions for targeted financing schemes, capacity development programs, or fiscal incentives (Rustandi et al. 2023). This is in contrast to international precedents, where hybrid legal forms, SE certification systems, and social investment infrastructures have been institutionalized to support SE development (Bidet & Eum, 2011; Galera & Borzaga, 2009). As Cho et al. (2022) argue,

without institutional support, SEs face significant operational challenges that impede their potential for scaling impacts. This regulatory ambiguity can erode legitimacy, weaken stakeholder trust (Brown et al. 2021), and limit the capacity to foster robust networks and social outcomes (Allinson et al. 2012).

Disconnected Logics: State-Driven Policy versus Grassroots Practice

The conceptual mapping undertaken in this study reveals a fundamental divergence between the state's top-down policy-framing and the grassroots realities of SE practice. At the policy level, SEs are predominantly positioned as instruments to support governmental agendas and the achievement of SDGs. In contrast, SE practitioners' narratives reflect an orientation rooted in local problems, lived experiences, and community-centered innovation.

Practitioners do not primarily derive their legitimacy from alignment with state programs but from their proximity to marginalized communities and their ability to generate context-specific solutions. Their actions reflect agency, resilience, and strategic adaptation, traits often overlooked in state-centric models. This gap aligns with what Dey and Steyaert (2016) refer to as the "disciplining of social enterprise," where the adoption of SE discourse by governments risks institutionalizing restrictive templates that stifle the very innovation they seek to promote.

In the Indonesian context, SEs often thrive despite the state and not because of it. The absence of enabling institutional pathways forces them to navigate regulatory gray zones, relying on informal networks and improvisational legal arrangements to sustain operations. This structural ambiguity reinforces the need to rethink how policy frameworks recognize and support emergent, practice-driven forms of social innovation.

Toward Institutional Innovation and Ecosystem Thinking

These findings call for a reorientation of policy approaches toward social enterprise, one that embraces institutional innovation and ecosystem-level thinking (Triponel & Agapitova, 2017; Rustandi et al. 2023). Rather than relying on generic entrepreneurship strategies, the state must develop mechanisms that

are tailored to the hybrid nature of SEs. Key areas for intervention include the following.

1. Establishing legal forms that accommodate social enterprise specifically.
2. Designing impact-based financing instruments, such as social investment funds, blended finance, and results-based grant mechanisms.
3. Providing capacity-building programs that are responsive to the operational realities and learning trajectories of SE practitioners.
4. Positioning SEs within national development strategies, not as marginal actors referenced in appendices, but as integral agents of inclusive growth and innovation.

From an open innovation perspective, institutional mechanisms should not be developed in isolation. Rather, they require co-creation with diverse stakeholders including SE practitioners, intermediary institutions, philanthropic actors, and local governments. A collaborative, multi-actor approach would ensure that policy frameworks are not only theoretically sound but also grounded in field realities and capable of accommodating heterogeneity and complexity (Sørensen & Torfing 2021, Cronin, et al. 2021, Portuguez-Castro, 2023).

The drive to develop new legal forms and institutional support structures offers an opportunity to advance innovation in both policy and practice (Triponel & Agapitova, 2017). By embedding SE more deeply into Indonesia's national development architecture, policymakers can transform it from a peripheral policy concept to a strategic platform for inclusive, sustainable, and innovation-driven transformation.

Managerial Implication

The managerial implications presented in this paper highlight several strategic considerations for SE managers in Indonesia, though they can be further strengthened through specific actions. First, SE managers should recognize policy advocacy as a critical component of their strategic role. Strengthening formal collaborations with influential policy actors and actively engaging in legislative processes would enhance the strategic significance of SEs within the policy domain (Mair & Rathert, 2024). Managers should also focus on effectively communicating their operational realities and the consequences of current regulatory inadequacies. Additionally, it is important

for SE managers to prioritize forming strategic coalitions across various sectors, particularly with universities, research institutions, and influential civil society organizations. These coalitions can amplify advocacy efforts, thereby increasing SEs' influence on policy debates and enhancing their legitimacy in the public sphere (Chandra & Teasdale, 2024; Leydesdorff & Zawdie, 2010). Furthermore, SE managers should systematically document and disseminate evidence regarding the impact of their operations, challenges faced, and innovative practices. Establishing robust impact measurement frameworks would not only strengthen internal governance but also provide compelling data to advocate for dedicated policy and legal frameworks that support SEs. In terms of ecosystem development, managers should take proactive leadership roles by initiating collaborative platforms and policy laboratories designed specifically to address regulatory gaps and develop new institutional arrangements. SE managers should also engage in capacity development initiatives that prepare them for active roles in shaping policy and institutional innovation, with an emphasis on skills in regulatory analysis, legislative advocacy, negotiation, and ecosystem leadership to enhance their effectiveness in navigating and influencing regulatory environments. Lastly, the study emphasizes the urgent need for a dedicated Social Enterprise Law in Indonesia. The current fragmented recognition and regulatory ambiguity hinder the ability of SEs to scale their impacts sustainably. A dedicated law would provide definitional clarity, introduce legal structures for hybrid organizations, establish clear metrics for social impact, and institutionalize support mechanisms such as financing schemes, tax incentives, and capacity-building programs. Such legislation would represent a critical step forward, aligning Indonesia with international best practices and replacing the limited approach currently reflected in Presidential Regulation No. 2 of 2022. Future research could analyze the policy from a quantitative perspective (Sugema & Holis, 2018).

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This study critically examines the regulatory practice gap between Indonesia's national entrepreneurship policy and the operational realities faced by SE practitioners across diverse local contexts. By

juxtaposing the content of Presidential Regulation No. 2 of 2022 with qualitative insights from 20 SE actors, the analysis reveals that SEs are acknowledged only peripherally and in normative terms, without clear operationalization, definitional clarity, or formal legal recognition. The absence of a dedicated regulatory framework generates several structural constraints. SEs are compelled to operate under conventional legal forms that do not reflect their hybrid mission, leading to ambiguities in governance, taxation, and eligibility for state-supported initiatives. These limitations inhibit access to suitable financing mechanisms, restrict opportunities for public private collaboration, and curtail SEs' capacity to scale. As a result, the strategic contribution to inclusive and sustainable development remains underutilized and poorly integrated into national policy frameworks.

Recommendations

A comprehensive and integrated policy response is essential to harness the transformative potential of SEs in Indonesia. This entails the formulation of a dedicated legal framework that clearly defines SEs, establishes operational criteria, and confers legal legitimacy to ensure consistent institutional support. In parallel, Indonesia should introduce hybrid legal forms—drawing on international models, such as the United Kingdom's Community Interest Company and South Korea's SE certification system that accommodate both profit reinvestment and social mission alignment. The development of incentive structures, including fiscal benefits, impact-oriented financing, and preferential procurement mechanisms, enables SEs to scale effectively and compete on equitable terms. Strengthening the broader SE ecosystem is critical, requiring the creation of incubators, collaborative platforms, and intermediary institutions that foster connections across the public, private, and civil society sectors. Furthermore, international best practices must be contextualized to Indonesia's unique socio-economic landscape, ensuring that regulatory innovations are responsive to local needs and institutional realities. By positioning SEs as strategic actors within the national development framework and not merely as peripheral initiatives, Indonesia can catalyze inclusive innovation and unlock the full potential of SEs as drivers of systemic and sustainable change.

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