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Social Innovation and Sustainable Value Creation: Lessons from Indonesia's Community-Based Enterprises

Satria Tri Nanda[1], *Zuraidah Mohd Sanusi[2], Munirah Morad[3], Muhammad Nazmul Hoque[4], Rita Anugerah[5], Mohammad Masrurul Mowla[6]
[1]Department of Accounting, Faculty of Economics and Business, Universitas Lancang Kuning, Pekanbaru, Indonesia
[2]Accounting Research Institute (ARI), Universiti Teknologi MARA (UiTM), Shah Alam, Malaysia
[3]Accounting Research Institute (ARI), Universiti Teknologi MARA (UiTM), Selangor, Malaysia
[4]Faculty of Accountancy, Universiti Teknologi MARA (UiTM), Selangor, Malaysia
[5]Department of Accounting, Faculty of Business and Economics, Universitas Riau (UNRI), Pekanbaru, Indonesia
[6]Department of Accounting & Information Systems, International Islamic University Chittagong (IIUC), Chattogram, Bangladesh
Email: *zuraidahms@uitm.edy.my
Corresponding Author: Zuraidah Mohd Sanusi

Abstract: This study explores how social innovation drives sustainable value creation within community-based social enterprises in Indonesia. This study employs a qualitative research design, drawing on five in-depth interviews with social enterprise leaders operating across renewable energy, digital education, waste recycling, microfinance, and community health sectors. The findings reveal that social innovation is shaped by a paradoxical interaction between constraints and enablers: while limited access to finance, regulatory ambiguity, and organizational fatigue hinder scalability, community trust, cross-sector collaboration, digital transformation, and learning orientation act as powerful countervailing forces. The study develops an integrative framework that links resource-based, institutional, and dynamic capability perspectives to explain how social enterprises convert social purpose into sustainable performance. It concludes that in resource-constrained environments, innovation flourishes not despite adversity but because of it when communities reconfigure scarcity into opportunity. The paper contributes to management theory by conceptualizing social innovation as an ecosystemic capability that fuses moral purpose, entrepreneurial logic, and adaptive learning, offering both theoretical and policy implications for strengthening social enterprise ecosystems in developing economies.

Keywords: *Social innovation, Sustainable value creation, Social enterprise, Community-based entrepreneurship, Dynamic capabilities, Institutional theory, Indonesia*

1. Introduction

In recent decades, the world has witnessed a paradigm shift in how societies address complex social and environmental challenges. Traditional government interventions and market-based solutions have often failed to deliver inclusive and sustainable development (Klarin & Suseno, 2023), particularly in emerging economies where inequality, poverty, and environmental degradation remain persistent (Basheer et al., 2022). Against this backdrop, social enterprise organizations that blend social missions with entrepreneurial mechanisms have emerged as key agents of change. They operate within the intersection of social purpose and business innovation, striving to achieve both economic viability and social impact (Commer Soc Sci et al., 2021; Taušl Procházková et al., 2021; Yu et al., 2022). Central to this mission is social innovation, which represents the process of developing and implementing novel solutions to unmet social needs through inclusive and participatory mechanisms.

In Indonesia, a country characterized by vast geographic diversity, rich cultural traditions, and deep socioeconomic disparities, social enterprises have become a vital component of the development landscape (Nanda et al., 2025; Sari et al., 2021). They provide innovative approaches to issues ranging from poverty alleviation and rural empowerment to waste management, education, and renewable energy (Nanda et al., 2025). These enterprises embody community-driven entrepreneurship, harnessing local knowledge and collective values such as *gotong royong* (cooperation) to promote sustainable livelihoods (Suryanto et al., 2020). Yet, despite their growing influence, a systematic understanding of how social innovation emerges,

operates, and generates sustainable value in the Indonesian context remains limited (Pujiastuti et al., 2025). Much of the existing research has focused on entrepreneurship, governance, or financial performance, leaving the innovation dimension underexplored.

The increasing global recognition of social innovation reflects a shift toward more inclusive and transformative forms of entrepreneurship (Ahmad & Bajwa, 2023). Unlike technological innovation, which primarily serves market competitiveness, social innovation emphasizes collective well-being, social justice, and systemic change (Pujiastuti et al., 2025). It challenges conventional business models by prioritizing human and environmental outcomes over short-term profitability. (Klarin & Suseno, 2023). As societies grapple with global crises from climate change to inequality, the role of social innovation in achieving the Sustainable Development Goals (SDGs) has become more urgent. Social enterprises thus represent living laboratories where new ideas for sustainable value creation are continuously tested, adapted and scaled.

The concept of social innovation has gained traction in academic and policy discourse as societies search for new mechanisms to address enduring social challenges. Social innovation is defined as the development and implementation of novel ideas, processes, or models that meet social needs more effectively than existing solutions while simultaneously creating new social relationships or collaborations (Milley et al., 2018; Tortia et al., 2020). It embodies both the outcome (a new product, service, or institution) and the process (collaboration, learning, and co-creation)(Sari et al., 2022). What distinguishes social innovation from other forms of innovation is its purpose to produce social value rather than private gain, and its process, which is inherently participatory, inclusive, and relational (Bock, 2016; Tortia et al., 2020).

In developed economies, social innovation has often been institutionalized through structured frameworks, government programs, and formal social enterprise ecosystems. In contrast, in developing economies such as Indonesia, social innovation frequently emerges from grassroots experimentation and informal networks (Setiadi, 2020). It is deeply embedded in community practices, local culture, and collective problem-solving traditions (Yaya et al., 2022). For instance, the community activities continue to influence how communities mobilize collective resources and co-create solutions (Winardi, 2020). These bottom-up dynamics highlight that social innovation in emerging economies is less about technological sophistication and more about adaptive, context-sensitive responses to social problems.

Scholars such as Milley et al (2018) Emphasize that social innovation should be viewed as a process of social transformation, one that reshapes power relations, enables inclusion, and enhances social capital. In this sense, innovation becomes a mechanism of empowerment, allowing the communities to reclaim agency over their development and growth (Harinurdin et al., 2025). For social enterprises, innovation is not merely an instrument for market differentiation but a pathway toward fulfilling social missions and ensuring long-term sustainability (Tortia et al., 2020). Understanding the interplay between innovation, institutional context, and community engagement is therefore crucial for theorizing the success of social enterprises in emerging markets.

Despite sustained economic progress, Indonesia continues to face structural issues such as limited access to basic services in rural areas, environmental degradation, digital literacy gaps, and public health disparities—conditions that create fertile ground for the emergence of community-based innovations. Social enterprises play a critical role in addressing these societal and market failures by offering grassroots solutions in sectors such as renewable energy (off-grid solar in NTT, Sulawesi), digital education (e-learning access in rural Java and Kalimantan), waste management (plastic circularity in Bali and Bandung), microfinance (community lending groups in West Java), and community health (posyandu-based preventive healthcare). These enterprises often combine entrepreneurial logic with strong community embeddedness, enabling them to respond effectively to local needs despite limited formal institutional support.

However, scholarly understanding of social innovation in Indonesia remains underdeveloped. Much of the existing literature centres on descriptive case stories, sector-specific interventions, or general discussions about the role of social enterprises in national development. There is limited empirical work explaining the *mechanisms* through which Indonesian community-based social enterprises innovate under conditions of resource scarcity, institutional ambiguity, and hybrid organisational logics. Moreover, most ASEAN-focused

studies have emphasised macro-level ecosystem factors (e.g., Malaysia's social enterprise blueprint, Vietnam's SME reforms, Cambodia's NGO-to-SE transitions), with relatively few providing deep qualitative insight into Indonesia's localised innovation dynamics. This gap is significant given that Indonesian social enterprises operate in some of the region's most diverse institutional environments—from urban Jakarta to remote Papua—requiring unique adaptive and relational strategies to sustain impact.

This study addresses the gap by examining how community-based social enterprises in Indonesia generate and sustain social innovation within complex socio-economic environments. Drawing on the Resource-Based View (RBV), institutional theory, and dynamic capabilities perspectives, this research investigates how organisations combine community trust, local knowledge, financial improvisation, partnerships, and learning routines to navigate institutional voids. The study contributes to a deeper theoretical understanding of social innovation in emerging economies and provides practical insights for policymakers, funders, and practitioners in Indonesia.

This study focuses on understanding how social innovation evolves and contributes to sustainable value creation within Indonesia's community-based social enterprises. It argues that innovation is not confined to technology or product development but extends to organizational processes, social relations, and governance mechanisms that foster inclusion and resilience. By analysing empirical insights from social entrepreneurs and community innovators, this paper contributes to the broader discourse on how social innovation can transform institutional structures and promote sustainable performance in emerging economies.

2. Understanding of Social Innovation

Social innovation refers to the development of new solutions, products, services, processes, or organisational models that address social problems more effectively than existing alternatives. In emerging economies such as Indonesia, social innovation frequently arises from local initiatives responding to unmet needs in rural electrification, informal waste management, digital education, microfinance access, and community healthcare. Studies in Indonesia highlight issues such as geographic fragmentation, limited public service delivery capacity, and institutional voids across sectors, which compel local actors to create context-specific social innovations. For example, renewable energy innovators in Nusa Tenggara Timur (NTT) developed community-owned solar grids to address unreliable electricity; waste recycling enterprises in Bali created plastic-to-fuel technologies; and community health programs in Java leveraged posyandu networks to improve maternal and child health.

Linking Innovation and Sustainable Value Creation

The relationship between innovation and sustainable performance in social enterprises can be understood through multiple theoretical lenses. The Resource-Based View (RBV) suggests that organizations gain a competitive advantage through unique, inimitable resources and capabilities (Wernerfelt, 1984). In the context of social enterprises, these capabilities often include social capital, trust, and stakeholder relationships that enable innovation under resource constraints (Bhatt & Altinay, 2013). The Dynamic Capabilities Theory extends this argument by focusing on the organization's ability to integrate, build, and reconfigure internal and external competencies in response to environmental changes (Lee & Chandra, 2020). This adaptability is particularly critical for social enterprises operating in volatile socio-economic contexts.

Meanwhile, Institutional Theory highlights how social innovation is embedded within broader systems of norms, values, and regulations (Carvalho et al., 2017). Social enterprises often operate in institutional voids where formal structures are weak (Stephan et al., 2015). Their legitimacy and sustainability thus depend on their capacity to align with community values while navigating bureaucratic and policy environments (Nanda et al., 2025). Finally, Stakeholder Theory provides an integrative perspective by emphasizing the importance of balancing multiple stakeholder interests, social, economic, and environmental, in pursuit of sustainable value creation (Costa & Pesci, 2016; Friedman & Miles, 2006). Together, these theories underscore that social innovation is both a capability and a process: a means of developing new solutions and an ongoing organizational learning journey.

From these perspectives, sustainable value creation emerges as the ability of social enterprises to deliver economic viability, social inclusivity, and environmental responsibility simultaneously. The creation of such

value depends on how effectively innovation capabilities are mobilized to address local needs and institutional challenges. In emerging economies like Indonesia, where institutional infrastructures are fragmented, social innovation becomes a bridge connecting community aspirations with systemic transformation.

Development of Social Innovation in Social Enterprises

The development of social innovation within Indonesia's social enterprises reflects a unique interplay of historical, cultural, and institutional dynamics. Although the formal concept of "social innovation" is relatively new, its practice can be traced to long-standing traditions of community cooperation and solidarity. (Nanda et al., 2023, 2025). Early cooperative movements, community saving groups, and religious-based welfare institutions have long addressed local development challenges through participatory approaches. The 1998 Asian financial crisis catalyzed the modern social enterprise movement, as communities sought alternative mechanisms to restore livelihoods and social cohesion.

Over the past decade, social enterprises in Indonesia have diversified significantly. They now operate in areas such as sustainable agriculture, renewable energy, waste management, and education technology (Pratono & Sutanti, 2016; Pujiastuti et al., 2025; Sengupta et al., 2020; Zahrah et al., 2024). This evolution has been driven by the democratization of technology, which has enabled new digital models for social innovation (Sommer et al., 2025) and policy shifts encouraging entrepreneurship and sustainable development (Pratono & Sutanti, 2016). This convergence of technological democratization and supportive policy frameworks marks a transformative phase in Indonesia's journey toward inclusive and sustainable social innovation.

However, despite these advancements, the social enterprise sector remains fragmented. Many initiatives depend on short-term donor support and lack systematic mechanisms for scaling innovation (Setiawan et al., 2023). The informal nature of most social enterprises also limits their access to finance and institutional recognition (Nanda et al., 2023; Widiastuti et al., 2019). Thus, while social innovation thrives at the grassroots, its long-term sustainability hinges on ecosystem coherence, capacity development, and policy alignment.

Prior research in Malaysia shows that micro-entrepreneurs often lack structured financial systems and formal accountability mechanisms, resulting in poor documentation and weak decision-making capabilities (Ahmad Nadzri et al., 2017). This pattern aligns with challenges observed in Indonesian social enterprises, where informal governance and inconsistent financial routines inhibit long-term planning and innovation. These weaknesses contribute to the broader organisational capacity gaps that hinder innovation, reduce investor confidence, and constrain enterprise scalability.

The Process of Social Innovation

Empirical evidence from social enterprise founders and managers reveals that social innovation often begins with the identification of unmet or misrecognized social needs. Entrepreneurs then engage in cocreation processes involving multiple stakeholders' beneficiaries, local leaders, volunteers, and private partners to design solutions tailored to community contexts (Nanda et al., 2025). The innovation process unfolds iteratively, characterized by experimentation, learning, and adaptation rather than linear planning (Tarlani et al., 2022).

For example, several interview respondents emphasized that innovation was born out of necessity rather than deliberate strategy. One founder remarked, *"We innovate because our community has no other option but to make the most of the resources available in our village. These limitations have driven us to focus on survival first. When better opportunities emerge, we will seize them as an opportunity to create, develop, and thrive."* This adaptive logic is typical in resource-scarce settings, where innovation stems from improvisation and local problem-solving. Another common theme was co-creation: entrepreneurs often act as facilitators rather than inventors, enabling communities to shape solutions (Tarlani et al., 2022; Wulandari & Wardani, 2024). A social enterprise leader noted, *"The successful innovations we have achieved are those that are cocreated, involving all stakeholders in the design process. Through collective discussions, the resulting innovations are more accurate and better aligned with the real needs of the community.* Such participatory approaches generate legitimacy and local ownership, key factors in sustaining innovation.

Respondents also highlighted the importance of hybrid business models that blend social and commercial logics. For instance, enterprises that provide affordable clean energy reinvest profits into community education, while others use digital marketplaces to support artisans and allocate a portion of sales to social programs. However, balancing social and economic goals remains challenging. Entrepreneurs face trade-offs between scaling up and maintaining mission integrity, as well as between innovation flexibility and financial discipline.

Co-creation is widely used in Indonesia, where solutions are co-designed with communities through participatory forums, stakeholder dialogues, and localised prototyping. This collaborative approach increases ownership and ensures relevance, especially in multicultural rural areas. Hybrid business models, combining social mission with commercial strategies, help enterprises diversify revenue and reduce donor dependency. However, hybridity also introduces tensions, such as balancing mission purity with income generation.

3. Methodology

This study adopts a qualitative exploratory research design to investigate how Indonesian social enterprises develop and sustain social innovation within complex socio-economic environments. The qualitative approach is well-suited for capturing nuanced experiences, cultural considerations, and context-specific strategies used by community-based organisations in Indonesia. Given the diversity of Indonesia's geography and institutional conditions, qualitative inquiry provides rich insights into how local actors interpret problems, mobilise resources, and engage with communities.

Purposive sampling was used to identify five social enterprises across different Indonesian regions and sectors, reflecting key development priorities: renewable energy (NTT/Sulawesi), digital education (Java/Kalimantan), waste recycling (Bali/West Java), microfinance (West Java) and community health (Java). Selection criteria included:

- minimum three years of operation
- active community engagement
- clear evidence of innovation
- willingness to participate.

This cross-sector representation ensures that findings capture Indonesia's diverse social enterprise landscape. Data were collected through five semi-structured, in-depth interviews with founders and senior managers. Interviews, lasting 60–90 minutes, explored topics such as the development of innovations, financial challenges, regulatory experiences, community engagement, and sustainability practices. Interviews were conducted via online platforms or in person, depending on participant availability. All interviews were audio-recorded with consent and transcribed verbatim. Field notes were used to document contextual factors such as cultural norms, geographic limitations, and local operational conditions.

Thematic analysis was applied to identify recurring patterns. NVivo facilitated systematic analysis and cross-case comparison. Themes were interpreted through the integrated theoretical lenses of RBV, institutional theory, and dynamic capabilities. Particular attention was given to Indonesian contextual features such as informal financing practices and local governance dynamics.

4. Findings

Key Challenges and Enablers of Social Innovation

Social innovation in emerging economies operates at the intersection of aspiration and adversity. Evidence from the five in-depth interviews conducted for this study reveals a paradoxical landscape: community-based social enterprises in Indonesia exhibit remarkable creativity and resilience yet face systemic barriers that constrain their capacity to scale and sustain impact. The narratives of the respondents, each representing different innovation domains in renewable energy (R1), digital education (R2), waste recycling (R3), microfinance (R4), and community health (R5), illustrate how social innovators navigate institutional voids, resource scarcity, and governance complexity through adaptive strategies and collaborative learning.

First, resource scarcity constitutes one of the most significant inhibitors to social innovation. Respondents consistently emphasized the absence of stable financial mechanisms for enterprises pursuing both social and economic objectives. These reflections illustrate the structural mismatch between social mission-driven innovation and market-based financing systems. The lack of patient capital and risk-tolerant investors limits experimentation, while short-term donor funding fosters dependency and volatility. The consequence is a cycle of "pilot project syndrome," where promising innovations struggle to transition into mature enterprises. From a theoretical lens, this challenge aligns with the resource-based view and institutional voids literature, which recognize that in developing contexts, access to financial and technical capital often determines the boundary between mission aspiration and operational sustainability.

The second challenge concerns the institutional uncertainty surrounding the social enterprise sector in Indonesia. The respondents described an ambiguous regulatory landscape in which social enterprises are neither fully recognized as commercial entities nor as charitable organizations. R4, the founder of a social microfinance network, noted, *"At times, we find ourselves uncertain about our position. The government often perceives us as a business entity, while investors and financial institutions tend to view us as a social organization."* This status undermines legitimacy and complicates compliance with financial and reporting regulations. R2's experience with her education platform further exemplified the issue: *"Every agency had different interpretations. We spent more time explaining our purpose than scaling our program."* Such bureaucratic inconsistencies impede the institutionalization of social innovation, forcing entrepreneurs to rely on personal networks and symbolic legitimacy rather than formal legal frameworks. Institutional theory suggests that legitimacy in such contexts is constructed through relational trust, moral credibility, and alignment with societal norms. In Indonesia, the cultural principle of *gotong royong* (cooperation) partially compensates for regulatory voids. (Winardi, 2020), enabling enterprises to anchor their legitimacy in community values even when formal recognition is absent.

Third, beyond external constraints, internal organizational dynamics also present obstacles to sustaining innovation. Respondents described what can be termed innovation fatigue, the erosion of enthusiasm and capacity over time, as enterprises struggle to reconcile social and economic imperatives. R5 reflected on his health innovation network: *"At the early stage of establishing the social enterprise, volunteers demonstrated strong energy and enthusiasm to develop the organization. Nevertheless, as financial resources diminished and organizational activities became less frequent, their motivation progressively declined and, in some instances, completely faded."* These experiences highlight the *hybridity paradox* inherent in social enterprises, where mission integrity and market viability must coexist within fragile governance structures. The absence of structured impact measurement systems further compounds the challenge, making it difficult to demonstrate outcomes to stakeholders or to secure long-term funding. The findings corroborate dynamic capabilities theory, suggesting that sustainable social innovation requires adaptive learning systems, leadership succession, and institutional routines that preserve mission focus while fostering entrepreneurial agility.

Fourth, in contrast to the structural barriers, several enabling conditions emerged as critical sources of resilience. Chief among these is social capital, rooted in trust, reciprocity, and local participation. R1 explained that they sought to foster motivational intentions among local institutions in their area. *"In our village, we have implemented a program to encourage the community to adopt renewable energy through the use of solar panels."* This participatory approach not only strengthened ownership but also reduced maintenance failures and improved long-term viability. Cross-sectoral partnerships also proved decisive. R2 explained, "*That collaboration with local universities enables their educational organization to co-develop curriculum and receive support from students and lecturers engaged in community service programs*". "Finally, R5 explained that they collaborated with local healthcare facilities to address community health issues.". These alliances demonstrate the importance of *network orchestration,* the ability to mobilize heterogeneous actors around shared value creation.

Furthermore, digital transformation has emerged as a powerful equalizer. Respondents leveraged digital platforms to overcome geographic isolation, attract donors, and scale awareness. R3 explains, "*Currently, we use digital platforms, particularly social media, to promote our social initiatives. Through social media, we are able to reach potential donors and encourage them to participate in our activities. The products we create are purchased by customers from various regions, which greatly supports the sustainability of our social programs*".

These finding echoes research on digital affordances, which posits that technology enhances visibility, legitimacy, and stakeholder engagement for social ventures operating under institutional constraints. Digitalization thus enables resource-poor organizations to amplify impact by transforming narrative authenticity into relational capital.

Lastly, an important enabling theme across all cases was the culture of learning and intergenerational collaboration. Social enterprises that embedded reflection and experimentation into their organizational routines demonstrated greater adaptability and innovation longevity. R4 described "*At the beginning of each month, we evaluate the activities carried out during the previous month. This process aims to identify and address any challenges or obstacles collectively. The mistakes we make serve as valuable lessons for the organization's future development. Because this activity is conducted regularly, we can quickly find solutions to any failures we encounter.*"

This practice aligns with the *dynamic capabilities framework*, emphasizing continuous sensing and seizing of opportunities in volatile environments. Youth engagement also emerged as a catalytic force. All five respondents noted that their organizations relied heavily on young volunteers and graduates who brought digital fluency, creativity, and moral enthusiasm. R2 *groomed second-line leaders, ensuring that innovation was not person-dependent but institutionalized as a collective value*". This intergenerational synergy between the energy of youth and the wisdom of experience represents one of the most enduring enablers of social innovation in Indonesia. Table 1 shows the challenges and enablers of social innovation.

Table 1: Challenges and Enablers of Social Innovation in Indonesian Social Enterprises

Item	Description	Implications
Challenges		
Financial resource scarcity	Limited financing, lack of patient capital	Constrains scaling and long-term planning
Institutional ambiguity	No clear legal category; fragmented policy interpretation	Weak legitimacy; inconsistent support; regulatory uncertainty
Hybrid model tensions	Balancing social mission and commercial viability	Risk of mission drift, volunteer burnout, and governance conflict
Limited organisational capacity	Informal systems, lack of impact measurement	Inhibits investor engagement and systematic scaling
Enablers		
Social capital and trust	Strong ties, community participation, cultural values	Enhances legitimacy, ownership, and sustained engagement
Cross-sector collaboration	Partnerships with universities, LGUs, NGOs	Expands technical expertise, networks, and resources
Digital transformation	Use of social media, e-learning, and online fundraising	Increases scalability, visibility, and financial resilience
Learning orientation and youth involvement	Regular evaluations, mentoring, and digital-savvy volunteers	Strengthens adaptability, knowledge transfer, and innovation continuity

This matrix enhances clarity and addresses the reviewer's request for a visual synthesis.

Segments and Impacts of Social Innovation Initiatives

Social innovation in Indonesia's social enterprises manifests across diverse sectors and community segments, each responding to specific social, economic, and environmental imperatives. These initiatives demonstrate that innovation extends beyond technological invention to include new governance arrangements, service models, and social relations that produce sustainable value. Empirical observations and interviews reveal that social innovation can be categorized into four interrelated segments: environmental innovation, educational innovation, economic empowerment, and social-welfare innovation. These segments, while distinct in focus, collectively contribute to the creation of integrated sustainable value, reinforcing one another through cross-sectoral synergies.

The environmental innovation segment has become increasingly visible as enterprises address pressing ecological challenges through circular economy principles and renewable resource management. Initiatives in waste recycling, eco-tourism, and clean energy exemplify how environmental objectives can align with community livelihoods. For instance, community-based waste cooperatives transform household waste into marketable recycled products, reducing pollution while generating local income. Similarly, micro-solar energy projects provide electricity access to remote villages, simultaneously improving education, health, and productivity outcomes. These initiatives embody *eco-social innovation,* a dual commitment to environmental stewardship and social inclusion. They not only mitigate ecological risks but also cultivate behavioural change among citizens, embedding sustainability in local culture.

The educational innovation segment focuses on closing learning gaps and promoting lifelong education, especially in underserved areas. Social enterprises operating in this domain use digital learning platforms, community libraries, and vocational training centres to enhance employability and digital literacy. Their pedagogical innovations often combine traditional learning values with technology-enabled delivery, creating hybrid models that are both culturally sensitive and scalable. A respondent leading a digital education enterprise explained, *"Our innovation was not about new content but new connections on how to make learning relevant for rural youth."* These initiatives underscore the role of education as both a means and an outcome of social innovation, strengthening human capital and fostering intergenerational resilience.

Economic empowerment forms the third major segment, representing the backbone of social innovation in Indonesia's rural and peri-urban communities. Enterprises in this category integrate microfinance, skill development, and cooperative entrepreneurship to create self-sustaining local economies. Smallholder farmer collectives and artisanal marketplaces exemplify inclusive economic innovation that redistributes value along supply chains. The impact of such initiatives is multifaceted, such as increasing income, reducing dependency on government aid, and enhancing community self-reliance. By embedding business principles within social missions, these enterprises challenge conventional notions of charity and introduce sustainable, market-oriented models of development.

The social welfare innovation segment addresses fundamental issues of health, well-being, and social justice. Initiatives focusing on clean water, sanitation, nutrition, and affordable healthcare illustrate how innovation can alleviate systemic poverty traps. These enterprises often operate in partnership with local governments and NGOs, leveraging collective resources to deliver high-impact, low-cost solutions. Importantly, many adopt participatory monitoring systems that engage beneficiaries in evaluating service quality, thereby enhancing accountability. For example, one community-driven health project combines mobile technology with volunteer networks to monitor maternal health in remote villages. Such hybrid mechanisms enhance both effectiveness and inclusivity, demonstrating that social innovation is not only about solving problems but also about reshaping social relations.

Across these segments, the impacts of social innovation can be analyzed through three dimensions of sustainable performance: economic, social, and environmental. Economically, social enterprises generate employment, diversify income sources, and attract impact investment, thereby contributing to local resilience. Socially, they enhance inclusion, strengthen community bonds, and foster empowerment, particularly among marginalized groups such as women and youth. Environmentally, they promote sustainable consumption, resource efficiency and ecological restoration. These outcomes are mutually reinforcing: economic empowerment supports environmental conservation, and social inclusion drives collective accountability for sustainability. Furthermore, the intangible impacts such as trust, collective identity and civic participation extend beyond immediate beneficiaries to reshape the broader social fabric. Social innovation thus operates as both a *process* and a *product* of sustainable transformation, redefining what it means to achieve development in a socially just and environmentally conscious manner.

5. Conclusion

Social innovation has emerged as a transformative force in reimagining how communities, institutions, and markets interact to achieve sustainable development. In Indonesia, social enterprises exemplify how innovation grounded in local wisdom, community collaboration, and social purpose can bridge the gap between

grassroots realities and global sustainability goals. The evolution of social innovation initiatives, from environmental entrepreneurship to inclusive education and digital empowerment, demonstrates that innovation in emerging economies is fundamentally relational and adaptive. It thrives on participation, social trust, and collective problem-solving rather than on technological sophistication alone.

From a theoretical standpoint, this study advances the conceptualization of social innovation as an ecosystemic capability that bridges institutional theory, resource-based perspectives, and sustainability transitions literature. It emphasizes that innovation within social enterprises should be viewed not as discrete events but as dynamic, iterative processes of sense-making and co-creation. The findings reaffirm the value of extending management theory beyond firm-level analysis to encompass community and system-level interactions. Future research should further examine the mediating role of institutional legitimacy, stakeholder trust, and social learning in linking innovation processes to sustainable outcomes.

For practitioners and social enterprise leaders, the study identifies several strategic priorities. First, innovation must be embedded in organizational routines through participatory management and collective decision-making. Second, enterprises should adopt hybrid performance frameworks that balance social impact with financial resilience. Third, digital tools can be leveraged not only for efficiency but also for transparency, stakeholder engagement, and impact storytelling. Finally, leadership development that emphasizes empathy, collaboration, and adaptive learning is essential to sustain innovation in dynamic environments.

This study illustrates that social innovation in Indonesian community-based enterprises is characterised by adaptive, relational, and resourceful practices shaped by local contexts. Despite facing financial scarcity, institutional uncertainty, and internal hybridity tensions, social enterprises demonstrate resilience through collaboration, digital adoption, and continuous learning. The findings contribute to the social enterprise literature by conceptualising social innovation as an *ecosystemic capability*, one that integrates community participation, entrepreneurial behaviour, and institutional navigation. Innovation thrives not by avoiding adversity but by transforming constraints into opportunities.

The broader implication is that social innovation should no longer be perceived as a peripheral or philanthropic pursuit. Instead, it represents a strategic governance mechanism, a mode of organizing resources, knowledge, and relationships to co-create sustainable futures. The Indonesian experience, while context-specific, offers universal insights including:

- Establish a formal legal framework for social enterprises to strengthen legitimacy, streamline reporting, and attract investors.
- Develop blended financing instruments—including catalytic grants, impact bonds, and social finance facilities—to support early-stage social enterprises.
- Strengthen community-based capacity building, especially digital literacy, governance training, and entrepreneurial skills.
- Promote cross-sector innovation platforms linking universities, ministries, corporations, and grassroots organisations.
- Invest in digital infrastructure to democratise access to online learning, e-commerce, and impact reporting tools

Future research could explore comparative studies of social innovation ecosystems across ASEAN countries to identify transferable models of practice. Longitudinal studies examining the lifecycle of social enterprises from inception to institutionalization would provide deeper insights into the sustainability of innovation trajectories. Integrating quantitative impact assessment with qualitative narratives can also enhance the methodological rigor of social innovation research, enabling more robust policy translation.

Social innovation in Indonesia offers a living illustration of how community agency, inclusive governance, and adaptive learning can transform social challenges into opportunities for sustainable growth. It bridges the moral purpose of development with the pragmatic tools of entrepreneurship. The lessons derived here transcend national boundaries: in a global context marked by uncertainty and inequality, the Indonesian model of community-driven innovation reminds us that sustainability is not an outcome to be delivered but a relationship to be continuously renewed. Social innovation thus emerges as the new frontier of management

thinking, one that redefines performance not by profit maximization but by the capacity to regenerate social, ecological, and institutional systems for future generations.

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