

COMPARISON OF SOCIAL ENTERPRISE AND CORPORATE SOCIAL RESPONSIBILITY IN LIMITED LIABILITY COMPANIES: REGULATORY LIMITATIONS IN INDONESIA

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ABSTRACT

The development of social enterprises as socially oriented business entities reflects a paradigm shift in understanding corporate purpose, from a purely profit-oriented approach toward the integration of economic and social objectives. However, this development has not been adequately supported by a comprehensive legal framework within the Indonesian legal system. This study aims to examine the limitations of Corporate Social Responsibility (CSR) regulations within the framework of Limited Liability Companies in accommodating social enterprises, as well as to analyze the implications of legal vacuums on their existence. This research employs normative legal research using statutory and conceptual approaches. The findings of this research indicate a novelty that CSR within the corporate law framework in Indonesia is structurally incapable of replacing the regulation of social enterprises, as it lacks binding mechanisms such as mission lock, asset lock, and profit lock. The primary weakness lies in the absence of legally binding protections to guarantee the continuity of the social mission, rendering social enterprises highly vulnerable to shifts in orientation due to shareholder dominance. The legal vacuum is evident from the absence of normative recognition of social enterprises as a distinct legal entity, limiting their regulation to administrative acknowledgment without enforceable legal certainty. Therefore, legal reform is necessary to comprehensively accommodate the unique characteristics of social enterprises, either through the establishment of a new legal entity or the development of a specialized variant within existing corporate structures. This research is expected to provide theoretical contributions to the development of corporate law by clarifying the distinction between CSR and the social enterprise model, as well as practical contributions directed specifically to policymakers, namely the Ministry of Law and Human Rights of the Republic of Indonesia and the House of Representatives of the Republic of Indonesia, in formulating more adaptive regulations with binding legal force for the development of social enterprises in Indonesia.

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INTRODUCTION

The development of global business practices over the past few decades has shown a fundamental transformation in understanding corporate purpose. This transformation not only reflects changes in business strategy, but also reflects changes in values in the relationship between companies and society (Reiser, 2011). If previously companies were viewed solely as economic entities oriented toward profit maximization, a new paradigm has now emerged that places companies as institutions that also have social and environmental responsibilities. This shift is inseparable from increasing public demands for more ethical and sustainable business practices. In addition, global issues such as climate change, social inequality, and economic crises have also driven this change in orientation (André, 2016). This shift has given rise to various innovative business models that simultaneously integrate economic and social objectives (Peter et al., 2022; Vicente, 2022).

One manifestation of this paradigm shift is the development of the concept of social enterprise, namely a business entity that inherently combines a social mission with commercial activities (Pramiana et al., 2024). This concept developed as a response to the limitations of traditional approaches in addressing complex social problems (Cetindamar, 2018). In this model, social objectives are not positioned as additional activities, but rather as an integral part of the company's structure and operations. This shows that social orientation is no longer merely a moral responsibility, but has become part of the business strategy. Thus, social enterprise reflects a new approach in the business world that is not only profit-oriented, but also focused on creating sustainable social value (Argyrou et al., 2025; Lim, 2022). This condition also affirms that the boundary between the business sector and the social sector is becoming increasingly blurred.

In the context of legal and business theory, the development of social enterprise is closely related to the redefinition of corporate purpose. This redefinition shows a shift from the classical paradigm toward a more inclusive and adaptive approach to social change. The classical approach that emphasizes the interests of shareholders has begun to shift toward a stakeholder approach, which places the interests of various parties as part of the corporate purpose. This change reflects the need to balance economic interests with corporate social responsibility (Nabilasari Lesmana & Yustiawan, 2023). This theory affirms that companies have responsibilities not only to shareholders, but also to society at large (Berrey, 2018). In this context, corporate law is required to be able to normatively accommodate these paradigm changes.

These conceptual developments have been responded to by various countries through the recognition of special legal entity forms that accommodate the characteristics of social enterprises, such as benefit corporations in the United States and community interest companies in the United Kingdom. This recognition shows that the legal systems in those countries have adapted to the development of new business models. Such regulations provide legal certainty for the integration of social objectives in the company's structure, including in terms of profit distribution and protection of the social mission (Lim, 2022; Liptrap, 2021). In addition, these regulations also provide a foundation for business actors to carry out socially oriented business activities without neglecting legal aspects. With such recognition, social enterprises are no longer in a legal gray area.

However, these developments have not been fully reflected in the Indonesian legal system. This condition shows a lag in the law in responding to the dynamics of rapidly developing business practices. To date, Indonesian corporate law is still based on traditional classifications that clearly distinguish between profit and non-profit legal entities. This classification creates limitations in accommodating entities with hybrid characteristics such as social enterprises. In practice, social enterprise actors often have to adapt to legal entity forms that do not fully match their characteristics, such as Limited Liability Companies or foundations. This condition shows a gap between the development of business practices and the available legal framework. Therefore, further study is needed to understand the implications of these limitations in the Indonesian legal system, particularly in terms of legal certainty and protection of social objectives (Katulistiwa et al., 2026; Lim, 2022).

Furthermore, the development of social enterprises in Indonesia cannot be separated from efforts to achieve the Sustainable Development Goals (SDGs). Social enterprises have a strategic role in supporting the achievement of these goals, especially in the areas of poverty alleviation, education, and community empowerment (Adjie, 2008).

This role makes social enterprises one of the important actors in sustainable and inclusive development. However, this contribution has not been fully supported by an adequate legal framework. This creates challenges in ensuring the sustainability and accountability of social enterprise activities, particularly in terms of resource management and distribution of benefits. In this context, law plays an important role as an instrument to provide certainty and protection for socially oriented business activities. Therefore, the development of adaptive corporate law has become an urgent need to support this strategic role (Peter et al., 2022).

In the context of national law, regulations regarding corporate social responsibility have been accommodated through the concept of Corporate Social Responsibility (CSR). The existence of CSR shows an effort to integrate the social dimension into corporate business activities (Pramiana et al., 2024). However, these regulations have not been fully able to accommodate the hybrid characteristics of social enterprises. CSR is more positioned as an additional external obligation, rather than as an inherent part of the company's purpose. This shows a fundamental difference between CSR and social enterprise, both in terms of concept and implementation. These differences have normative implications in understanding the position of social enterprises within the framework of corporate law. Therefore, a more in-depth study is needed to examine the limitations of CSR regulations in accommodating social enterprises, particularly within the corporate law framework (Argyrou et al., 2025; Lim, 2022).

The development of social enterprises in Indonesia also faces challenges in terms of legal recognition. To date, there are no laws and regulations that specifically regulate social enterprises as a separate legal entity form. This condition indicates a legal vacuum that has the potential to create uncertainty in practice. Although there are administrative efforts through government policies, these regulations do not yet have adequate legal force. This shows that the recognition of social enterprises is still partial and not comprehensive. As a result, business actors do not have a clear legal basis for carrying out their business activities. Therefore, a legal study is needed that can identify more appropriate and responsive regulatory needs for the development of social enterprises in Indonesia (Katulistiwa et al., 2026; Peter et al., 2022).

Based on these conditions, there is a gap between the development of social enterprise practices and the available legal framework in Indonesia. From the perspective of legal theory, this condition reflects the function of law as a tool of social engineering, where law is expected to be able to direct and adapt itself to the development of society. However, in practice, law often lags behind the social and economic dynamics that are developing, as reflected in the adage *het recht hinkt achter de feiten aan*. Therefore, the existence of social enterprise as a modern business phenomenon demands a more adaptive and progressive legal response, so that law is not only reactive, but also capable of anticipating future developments.

Although the discourse on social enterprises and Corporate Social Responsibility (CSR) continues to evolve, regulatory developments in Indonesia in recent years indicate that this discussion has entered a more urgent phase, particularly following the issuance of the Circular Letter by the Ministry of Law and Human Rights (Kemenkumham) in 2024 concerning administrative recognition and facilitation of socially oriented business entities. These regulatory developments, although still limited to legal instruments that are not fully binding, reflect an important shift in state awareness to accommodate hybrid business models within the Indonesian legal system.

Nevertheless, academic studies show that Corporate Social Responsibility (CSR) in the Indonesian context remains dominated by a normative approach that positions it as a corporate legal obligation within the limited liability company framework (Amalia, 2019; Kencana et al., 2023; Sumarto et al., 2024; Pramiana et al., 2024), whereas social enterprises have developed as a separate business entity model characterized by the integration of social mission and commercial activities (Vicente, 2022; Lim, 2022; Peter et al., 2022; Argyrou et al., 2025). Accordingly, studies that explicitly connect or analyze the normative intersection, potential convergence, or structural incompatibility between CSR and social enterprises within the Indonesian corporate law framework remain relatively limited. This is further reinforced by indications of the need to develop a new legal framework for social enterprises in Indonesia (Katulistiwa et al., 2026). As a result, a research gap exists in the comparative study between CSR and social enterprises, not only at the conceptual level, but also in the context of recent regulatory responses, including soft law instruments such as

the 2024 Kemenkumham Circular Letter that has begun to move toward administrative recognition of socially oriented business entities.

This gap is not only conceptual, but also has a direct impact on legal practice and business activities, particularly in terms of legal certainty and consistency in the application of norms. The inability of the law to accommodate this development has the potential to create uncertainty for business actors in carrying out socially oriented business activities. This condition shows the need for an evaluation of the existing legal framework, particularly in corporate law. Thus, this research is important for examining the limitations of existing regulations and identifying the need for more responsive legal renewal. In addition, this research also aims to contribute to the development of corporate law that can accommodate socially oriented business entities more comprehensively.

METHODS

This research is normative legal research, namely research conducted by examining applicable legal norms and legal doctrines that have developed in the literature. The selection of a normative legal research approach is considered most appropriate in addressing the legal vacuum concerning social enterprises, as the primary issue in this research does not lie in empirical implementation, but rather in the absence and limitations of legal norms that explicitly regulate hybrid entities within the Indonesian corporate law system. Therefore, the normative legal approach enables a systematic analysis to assess whether the existing positive law, particularly the Limited Liability Company Law, has been able to accommodate social enterprises or instead requires reinterpretation or legal reconstruction.

This research focuses on the analysis of legal provisions governing Limited Liability Companies, particularly related to Corporate Social Responsibility (CSR), and examines their limitations in accommodating the concept of social enterprise in the Indonesian corporate law system. The approaches used in this research include a statutory approach and a conceptual approach. The statutory approach is carried out by examining various relevant regulations, particularly Law Number 40 of 2007 concerning Limited Liability Companies as well as administrative policies in the form of a Circular Letter from the Ministry of Law and Human Rights regarding the registration of social enterprises. Meanwhile, the conceptual approach is carried out by examining legal concepts related to social enterprises, corporate social responsibility, and the theory of hybrid entities in corporate law. This approach is used to examine the consistency between positive legal norms and the development of social enterprise practices in the Indonesian corporate law system.

The combination of a statutory approach and a conceptual approach is relevant in this research because the issue of social enterprises cannot be resolved solely through textual interpretation of legislation, but also requires conceptual clarification regarding the position of hybrid entities in corporate law theory. This dual approach enables the research to bridge the gap between rigid positive legal norms and the dynamic developments of business practices that challenge the traditional dichotomy between profit-oriented companies and non-profit organizations.

The legal materials used in this research consist of primary legal materials, secondary legal materials, and tertiary legal materials. Primary legal materials include relevant laws and regulations, particularly the Limited Liability Company Law. Secondary legal materials consist of legal literature, scientific journals, and previous research results related to social enterprises and CSR. Tertiary legal materials include legal dictionaries and encyclopedias that support understanding of the concepts used in this research. The technique for collecting legal materials is carried out through library research, by tracing and examining various legal sources relevant to the research problems. Furthermore, the collected legal materials are analyzed qualitatively using a descriptive-analytical analysis method, namely by describing and interpreting applicable legal norms and relating them to the concept of social enterprise. The analysis in this research is carried out using deductive legal reasoning, namely by drawing conclusions from general norms toward the specific problems being examined. In this case, the analysis is focused on identifying the limitations of CSR regulations within the Limited Liability Company framework and their implications for the existence of social enterprises in the Indonesian legal system.

In this research, deductive legal reasoning is applied by first identifying the general legal norms contained in Law Number 40 of 2007 on Limited Liability Companies, particularly those relating to the purpose of the company,

the structure of accountability, and Corporate Social Responsibility (CSR) obligations as the major premise. These general norms are then applied to the specific characteristics of social enterprises as the minor premise, namely hybrid entities that simultaneously integrate social objectives and commercial activities. Through this deductive process, the research assesses whether the CSR provisions in corporate law can be interpreted broadly enough to accommodate social enterprises, or whether they instead reveal a normative incompatibility indicating the limitations of positive law. Accordingly, this method enables a systematic analysis in testing the consistency between positive law and the development of hybrid business models in Indonesia.

RESULTS AND DISCUSSION

Characteristics of Social Enterprise as a Hybrid Entity in a Legal Perspective

The development of social enterprises shows a fundamental shift in the structure and objectives of business entities. This shift is not only practical in nature, but also reflects a paradigm change in understanding the function of companies in modern society. If previously business entities were understood dichotomously as entities solely oriented toward profit or social objectives, social enterprises present a model that integrates both objectives simultaneously. Unlike the traditional classification that clearly distinguishes between profit and non-profit legal entities, social enterprises emerge as hybrid entities that combine both characteristics in a single organization (Argyrou et al., 2025; Vicente, 2022). In practice, social enterprises are not only profit-oriented, but also simultaneously carry a social mission that is an inherent part of their business activities. This condition shows that social orientation is no longer additional in nature, but has become a structural part of business activities (Muhammad, 2020).

This concept places social enterprises in a unique position in the legal system, because they cannot be fully categorized as either profit or non-profit legal entities. The inability of the existing legal classification system to accommodate these entities shows the limitations of traditional legal constructions (Lahay et al., 2025). As hybrid entities, social enterprises operate by simultaneously integrating economic and social objectives, thus requiring a different legal approach compared to conventional entities (Lim, 2022; Liptrap, 2021). This creates normative implications, particularly in terms of determining corporate purpose and the responsibilities of the company's organs. In this context, the legal approach can no longer be solely based on the principle of profit maximization. Therefore, a more flexible understanding of the concept of corporate purpose in modern corporate law is needed.

In this context, the main characteristics of social enterprises can be seen from the existence of special mechanisms aimed at maintaining consistency between business activities and the social mission. This mechanism is the main differentiator between social enterprises and conventional companies that only rely on internal policies without sustainability guarantees. These mechanisms include asset lock, profit lock, and mission lock, each of which functions to ensure that the company's assets, profits, and policy direction remain aligned with the social objectives it carries (Peter et al., 2022). These three mechanisms are not only technical in nature, but also have a strong normative dimension in maintaining the integrity of the company's purpose. Without these mechanisms, there is a risk that the company's objectives will shift to being purely profit-oriented. Therefore, the existence of these mechanisms becomes an essential element in legally defining social enterprises.

Asset lock is a mechanism that restricts the use of company assets so that they are only used for the purposes of the social mission. In the legal context, this mechanism functions as an instrument for controlling the distribution of company assets so that they do not deviate from the original purpose of its establishment. In this case, assets cannot be distributed to owners or specific parties outside the organization's objectives, including in the event of company dissolution. This restriction provides a guarantee that the company's assets remain used for the public interest and are not misused for personal gain. This mechanism also plays a role in maintaining stakeholder trust in the company's social commitment. Thus, asset lock has a preventive function against potential deviations from the company's purpose (Peter et al., 2022).

Furthermore, profit lock stipulates that the majority of the company's profits must be reallocated to support the social mission. This provision reflects a restriction on profit distribution that is usually the primary right of shareholders in conventional companies. Thus, the distribution of profits to shareholders is limited so as not to shift

the company's orientation to being purely profit-oriented. This mechanism affirms that financial sustainability must go hand in hand with achieving social objectives. In addition, profit lock also functions to maintain a balance between investor interests and community interests. Therefore, this mechanism becomes one of the important elements in ensuring the consistency of social enterprise objectives (Peter et al., 2022).

Mission lock is a mechanism that ensures that the company's social objectives remain part of the organization's identity, even if there are changes in ownership or management. From a legal perspective, this mechanism provides protection for the continuity of the company's objectives in the long term (Kossay et al., 2025). This mechanism is usually set out in the company's founding documents, so it has binding force in the company's operations. With such arrangements, changes in organizational structure do not automatically change the direction of company policy. This is important to prevent deviations in objectives due to economic pressures or shareholder interests. Thus, mission lock functions as a normative guarantee for the continuity of the company's social mission (Peter et al., 2022).

These three mechanisms show that social enterprises are not only a business concept, but also have significant legal implications. These implications are particularly visible in the aspects of regulating corporate purpose, asset management, and profit distribution that do not fully follow conventional principles. In this context, corporate law is required to be able to accommodate the special characteristics possessed by social enterprises. Without normative recognition of these mechanisms, there is potential for inconsistency between business practices and the applicable legal framework. Therefore, recognition of social enterprises requires a legal framework capable of comprehensively accommodating these characteristics (Lim, 2022; Peter et al., 2022).

In the context of positive law in Indonesia, these characteristics need to be tested for conformity with the applicable laws and regulations framework. The characteristics of social enterprises as hybrid entities from a legal perspective can be analyzed through a statutory approach by examining Law Number 40 of 2007 concerning Limited Liability Companies and the administrative policies of the Ministry of Law and Human Rights regarding their registration. Normatively, Article 1 point 1 of the Limited Liability Company Law affirms that a limited liability company is a legal entity established to carry out business activities with the aim of making a profit, which implicitly places profit orientation as the primary objective. Although there are provisions regarding social and environmental responsibility in Article 74, these obligations are only complementary in nature and do not change the basic orientation of the company that focuses on shareholder interests.

In this context, social enterprises demonstrate a hybrid character because they simultaneously combine economic objectives and social missions, and often place social impact as the core part of their business model. This condition creates a normative mismatch, because the corporate legal framework has not explicitly accommodated these dual objectives, which has the potential to create ambiguity in the implementation of the directors' fiduciary duty between maximizing profits and achieving social objectives. On the other hand, the existence of administrative policies of the Ministry of Law and Human Rights regarding the registration of social enterprises shows *de facto* recognition, however this recognition is still limited and does not provide a special legal status, thus reinforcing the existence of a regulatory gap regarding social enterprises as hybrid entities in the Indonesian legal system.

Limitations of CSR Regulations in Accommodating Social Enterprises in Limited Liability Companies

In the Indonesian legal system, regulations regarding corporate social responsibility have been accommodated through the concept of Corporate Social Responsibility (CSR) as regulated in the Limited Liability Company Law (Amalia, 2019; Sumarto et al., 2024). This regulation shows normative recognition that companies not only have economic obligations, but also social responsibilities toward the environment and society. CSR is a legal obligation for certain companies to carry out social and environmental responsibilities as part of their business activities (Lim, 2022). In practice, this obligation is often implemented in the form of social programs, community empowerment, and corporate philanthropic activities. However, CSR implementation is still very dependent on internal company policies and has not been fully integrated into the organizational structure. This shows that CSR is more positioned as an additional obligation rather than as an inherent part of the company's purpose.

However, normatively CSR cannot be equated with social enterprise. This difference is not only conceptual in nature, but also has an impact on the legal structure and company operations. CSR is only an additional obligation that exists outside the core structure of the company, whereas social enterprises make the social mission an inherent part of the company's purpose and operations (Argyrou et al., 2025). Thus, CSR does not change the basic orientation of the company that remains focused on profit. Within the legal framework of Limited Liability Companies, the primary purpose of the company is still determined by economic interests and shareholders. Therefore, the integration of social objectives in CSR does not have the same normative force as the company's primary purpose.

This limitation is evident from the absence of regulations regarding mechanisms capable of maintaining the consistency of social objectives within Limited Liability Companies, particularly to prevent changes in company orientation by shareholders. Structurally, the dominance of the General Meeting of Shareholders (GMS) as the highest organ in the company reinforces the authority of shareholders in determining the direction of company policy, including changes to the articles of association. In the absence of a mission lock mechanism, there is no legal restriction capable of guaranteeing the consistency of social objectives in the long term. Within the applicable legal framework, there are no normative restrictions that explicitly prohibit shareholders from changing the direction of company policy from one that originally integrated social objectives to one that is entirely profit-oriented. This condition shows that there is no legal guarantee for the continuity of the social mission in social enterprises that take the form of Limited Liability Companies. As a result, decisions made by shareholders, particularly through the General Meeting of Shareholders (GMS) mechanism, have the potential to shift the company's social objectives without significant legal barriers, as long as they meet the general provisions for amending the articles of association. This shows that the weakness of the regulations is not only normative in nature, but also structural, because the institutional design of Limited Liability Companies does not provide legal instruments to protect the continuity of the social mission as the company's primary objective. Thus, the absence of such regulations shows that the CSR legal framework has not been able to provide normative protection for the continuity of social objectives. Therefore, CSR has not been able to function as an effective legal instrument to accommodate social enterprises (Liptrap, 2021).

In addition, CSR also does not provide regulations regarding a special institutional form for companies that integrate social objectives in their business activities. Within the applicable legal system, there is no legal entity category that explicitly accommodates the characteristics of social enterprises (Kencana et al., 2023). Limited Liability Companies remain positioned as profit-oriented entities, so the application of CSR does not change this basic character (Katulistiwa et al., 2026). This condition creates a gap between socially oriented business practices and the available legal structure. Companies wishing to fully integrate social objectives do not have an appropriate legal form to choose from. This has the potential to create legal uncertainty in the company's operational practice.

The limitations of CSR can also be seen from its relatively limited scope of regulation that does not cover all types of companies. The CSR obligation in the Limited Liability Company Law only applies to certain sectors, particularly those related to natural resources. This shows that not all companies are normatively required to carry out social responsibilities (Indarti & Efni, 2018). As a result, the implementation of CSR becomes uneven and tends to be sectoral. In the context of social enterprises, this condition is inadequate because social objectives should be the core part of all business activities, not just an obligation limited to certain sectors. Thus, the limited scope of CSR further confirms its inability to accommodate social enterprises comprehensively (Lim, 2022).

Thus, it can be concluded that CSR has limitations in accommodating social enterprises, both in terms of concept and normative implementation. These limitations include the absence of integration of social objectives in the company's structure, the absence of protection mechanisms for the social mission, and the absence of appropriate institutional forms (Waagstein, 2011). This condition shows that CSR cannot be used as a legal basis to accommodate the development of social enterprises in the corporate law system. Therefore, a different and more comprehensive legal approach is needed to regulate social enterprises. This need grows more pressing alongside of socially oriented business practices in Indonesia. Thus, the development of a new legal framework becomes an unavoidable necessity (Lim, 2022; Liptrap, 2021).

Legal Vacuum and Limitations of Social Enterprise Recognition in the Indonesian Legal System

The development of social enterprises in Indonesia has not been followed by the formation of an adequate legal framework. This phenomenon shows an imbalance between the dynamics of business practice and the available legal response. To date, there are no laws and regulations that specifically regulate the existence of social enterprises as a separate legal entity form. This condition indicates a legal vacuum in the Indonesian corporate law system (Asmara et al., 2023; Maulana & Winarta, 2025). This vacuum reflects that positive law has not been able to anticipate the development of hybrid business models. Normatively, this condition has the potential to create uncertainty in the application of norms to entities that do not fully conform to existing legal categories.

The absence of such regulations has an impact on the use of legal entity forms that are not fully appropriate, such as Limited Liability Companies or foundations. The choice of these legal entity forms is often compromised in nature, because no alternative is specifically designed for social enterprises. This has the potential to create conflict between social objectives and commercial objectives, particularly in terms of corporate decision-making. In addition, the use of inappropriate legal forms can blur the legal identity of the social enterprise itself. This condition also creates legal uncertainty in the operational practice of social enterprises (Peter et al., 2022). Thus, business actors are faced with a dilemma between compliance with existing law and the need to optimally carry out their social mission.

In response to these developments, the government through the Ministry of Law and Human Rights has issued Circular Letter Number M.HH-1.AH.01.01 of 2024 which provides facilities for the registration of social enterprises in the AHU Online system. This policy shows administrative recognition of the existence of social enterprises in Indonesian legal practice. Through this mechanism, social enterprises can be registered as a variant of Limited Liability Companies, thus providing convenience in the process of legalizing business entities. However, this regulation is still limited in scope and does not yet reflect full normative recognition. The Circular Letter functions more as an administrative guideline rather than as a legal instrument regulating the substance of social enterprises. Therefore, its existence has not been able to answer the need for more comprehensive regulation.

Normatively, the existence of the Circular Letter of the Minister of Law and Human Rights Number M.HH-1.AH.01.01 of 2024 does indicate a progressive step by the government in accommodating the existence of social enterprises through the AHU Online administrative system. However, when analyzed from the perspective of the hierarchy of legislation as regulated under Law Number 12 of 2011 and its amendments, a Circular Letter does not fall within the category of legislation that carries generally binding legal force (*erga omnes*). A Circular Letter is essentially internal and administrative in nature, intended to provide technical guidance for bureaucratic officials, rather than to create new legal norms that are binding upon external parties such as business actors or investors.

This limitation in legal character gives rise to significant implications for legal certainty for social investors. In the context of social impact-based investment, legal certainty is a fundamental element encompassing clarity of the legal status of the entity, protection against policy changes, and guarantees of long-term business model continuity. Since a Circular Letter does not possess legislative force equivalent to a statute, regulation of social enterprises that relies solely on such an instrument remains vulnerable to administrative policy changes without a rigorous legislative mechanism. This condition creates regulatory uncertainty, whereby investors lack adequate legal stability guarantees regarding the continuity of the hybrid character of social enterprises.

Conversely, if social enterprises were regulated at the statutory level, there would be a more comprehensive strengthening of normative legitimacy, including provisions concerning legal definitions, forms of business entities, mission lock mechanisms, as well as a clear system of supervision and sanctions. A statute also provides stronger binding force upon all legal subjects, thereby creating certainty, predictability, and enforceability that a Circular Letter cannot offer. Accordingly, reliance on administrative instruments such as a Circular Letter reveals a gap between the needs of social business practice, which require long-term certainty, and the legal instruments currently available.

Therefore, although SE M.HH-1.AH.01.01 of 2024 may be regarded as an initial step toward administrative recognition, the instrument is insufficient to provide the legal certainty necessary for the sustainable development of social enterprises and the protection of social investors. This simultaneously reinforces the argument that regulation

at the statutory level is required to fill the legal vacuum and provide a more robust normative foundation for the existence of social enterprises within the Indonesian legal system.

However, the Circular Letter does not have binding legal force as laws and regulations do. In the hierarchy of laws and regulations in Indonesia, a Circular Letter is not included in the category of legal norms that are generally binding. This causes its applicability to be more internal and administrative in nature, and does not provide guarantees of legal certainty for external parties. Therefore, the existence of social enterprises in the Indonesian legal system is still administrative in nature and has not yet provided adequate legal certainty (Peter et al., 2022). This condition creates risks in practice, particularly related to legal protection of the company's social objectives. Thus, administrative recognition without strong normative support is not sufficient to accommodate social enterprises in their entirety.

This condition shows that there is a gap between the development of social enterprise practices and the available legal framework. On one hand, the need for social enterprise regulation is increasing along with the development of socially oriented business models. On the other hand, positive law has not been able to optimally accommodate these developments. This gap reflects the legal lag in responding to the developing social and economic dynamics. This condition also has the potential to create uncertainty and inconsistency in the application of norms. Therefore, efforts for legal renewal are needed that can bridge the gap between existing practices and regulations (Lim, 2022; Peter et al., 2022).

Normative Implications and the Need for Legal Reform

The legal vacuum in social enterprise regulation shows the need for legal reform in the field of corporate law. This condition indicates that the existing legal framework has not fully been able to respond to the development of hybrid business models. Normatively, recognition of social enterprises as entities with special characteristics is needed, so that they require separate regulation in the legal system (Lim, 2022; Peter et al., 2022). Without such recognition, there will continue to be a mismatch between business practices and applicable legal norms. This has the potential to create legal uncertainty and hinder the development of social enterprises in Indonesia. Therefore, legal reform becomes an unavoidable step in answering this need.

This legal reform can be carried out through the formation of laws and regulations that explicitly regulate social enterprises, either as a new legal entity form or as a special variant of Limited Liability Companies (Cahyadi et al., 2023). This choice provides flexibility for policymakers in determining the most appropriate regulatory model for the Indonesian legal system. These regulations need to include provisions that ensure the utilization of assets, management of profits, and consistency of the company's objectives remain aligned with the social mission it carries (Peter et al., 2022). These provisions play an important role in maintaining a balance between economic interests and social objectives in business activities. In addition, clear regulations will also provide certainty for business actors in carrying out their business activities. Thus, legal reform is not only normative in nature, but also has significant practical implications.

In addition, legal regulations also need to provide certainty regarding organizational structure, legal responsibilities, and oversight mechanisms for social enterprises (Hutabarat et al., 2022). This certainty is important to ensure that business activities run in accordance with the established objectives. In this context, the role of company organs such as directors and commissioners needs to be adjusted to the characteristics of social enterprises. This includes decision-making that is not solely based on economic interests. Thus, law does not only function as an instrument of regulation, but also as a means to encourage the development of business models oriented toward social sustainability. Comprehensive regulation will also increase investor and public confidence in social enterprises (Liptrap, 2021).

The normative implications of this legal vacuum are also visible in notarial practice, particularly in the preparation of deeds of establishment of Limited Liability Companies that contain social objectives. Notaries as public officials are faced with the need to accommodate the wishes of social enterprise founders in the company's articles of association. However, the absence of clear normative guidelines creates uncertainty in formulating clauses that

integrate social objectives. This has the potential to create legal risks, both for notaries and for the parties involved. In addition, the absence of standardized guidelines can cause inconsistencies in deed-making practice. Thus, legal reform also needs to pay attention to practical aspects in the implementation of law in the field.

This condition reflects that law often lags behind the development of society (*het recht hinkt achter de feiten aan*). The development of social enterprises as a modern business phenomenon shows that law must be able to adapt to the constantly changing social and economic dynamics. Therefore, proactive steps are needed from policymakers to adjust the legal framework to these developments. This adjustment is not only aimed at providing legal certainty, but also at encouraging innovation in the business world. Thus, law can function optimally as a tool of social engineering. Responsive legal reform will be the key to accommodating the development of social enterprises in the future.

CONCLUSION

Based on the research results, it can be concluded that the development of social enterprises shows a paradigm shift in corporate purpose from one that is solely profit-oriented toward the integration of economic and social objectives. However, the legal framework in Indonesia, particularly in the regulation of Limited Liability Companies, has not been able to accommodate the characteristics of social enterprises as hybrid entities. Corporate Social Responsibility (CSR) regulations still have limitations because they are only positioned as an additional external obligation and are not integrated into the company's primary objectives, so they are unable to guarantee the continuity of the social mission. The absence of mechanisms such as mission lock, asset lock, and profit lock also causes social enterprises in the form of Limited Liability Companies to be vulnerable to shifts in orientation due to shareholder dominance through the GMS. On the other hand, the absence of specific regulations regarding the legal entity form of social enterprises indicates a legal vacuum that has an impact on legal uncertainty, while the existing administrative recognition has not provided adequate normative protection.

These conditions indicate the need for legal reform that can comprehensively accommodate the characteristics of social enterprises, either through the formation of a new legal entity or the development of a special variant within Limited Liability Companies. Such regulations need to include mechanisms for protecting social objectives, asset management, and profit distribution so that they remain aligned with the company's social mission. In addition, clarity is needed regarding organizational structure, legal responsibilities, and oversight mechanisms to ensure consistency between economic and social objectives in practice.

The legal reform referred to in this context can more concretely be directed toward two possible regulatory models. First, through a limited revision of Law Number 40 of 2007 on Limited Liability Companies, by adding specific provisions concerning social enterprises as a special purpose company. Within this scheme, it is necessary to incorporate provisions regarding the recognition of dual-purpose companies, as well as explicit provisions concerning social mission protection mechanisms such as mission lock, profit distribution constraints, and special provisions in the Articles of Association that are legally binding.

Second, a more comprehensive alternative is the establishment of a dedicated Social Enterprise Act. Such a statute can provide a more complete legal foundation that is separate from the Limited Liability Company regime, by specifically regulating the definition of social enterprises, forms of legal entities, governance, fiscal incentives, as well as mechanisms for supervision and social impact assessment. This model would provide greater legal certainty and flexibility for social entrepreneurs, as they would no longer be compelled to fit within the conventional profit-oriented corporate legal structure. Accordingly, the direction of legal reform is not merely conceptual, but also structural and operational, thereby enabling it to more effectively address the practical needs of social enterprises within the Indonesian legal system.

As a recommendation, policymakers need to promptly formulate regulations that provide clear legal recognition for social enterprises. Legal practitioners and notaries need to develop formulations of articles of association clauses that can strengthen social objectives within the existing legal limitations. Business actors also need to design internal policies that maintain a balance between economic and social orientation. Further research is

recommended to conduct a comparative study of social enterprise regulations in various countries to find the most suitable model to be adopted in the Indonesian legal system.

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