International Journal of Applied and Advanced Multidisciplinary Research (IJAAMR)
Vol.4, No.7, 2026: 673-686

The Dark Side of Social Entrepreneurship: Uncovering the Unintended Consequences of Socially Impactful Business Practices

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A R T I C L E I N F O

Keywords: Social Entrepreneurship, Dark Side, Mission Drift, Unintended Consequences, Hybrid Organization

Received : 3 May
Revised : 25 June
Accepted: 24 July

A B S T R A C T

Social entrepreneurship is widely celebrated as a hybrid model capable of solving societal problems while remaining financially sustainable, yet the literature has largely overlooked its potential negative effects. This paper adopts a qualitative conceptual approach, based on a narrative literature review of recent studies on the "dark side" of social entrepreneurship, to map the unintended consequences that may arise from social-impact business practices. The review synthesizes themes such as mission drift, exploitation of beneficiaries and employees, socialwashing, market crowding-out, and governance risk within hybrid organizations, and situates them within the Indonesian social enterprise context. The findings indicate that these dark sides emerge systematically from the structural tension between social mission and commercial logic rather than from isolated misconduct. The paper concludes with practical and policy implications for building more accountable and reflective social entrepreneurship practices.

DOI: https://doi.org/10.59890/ijaamr.v4i7.276
ISSN-E: 3026-2437
https://nvlmultitechpublisher.my.id/index.php/ijaamr/index

INTRODUCTION

Over the past two decades, social entrepreneurship has been positioned as a hybrid business model that promises to resolve various social problems through market mechanisms, without having to rely entirely on donations or government subsidies (Dees, 1998). In Indonesia, the growth of this practice has been fairly rapid; the British Council and PLUS Consulting (2022) estimate that hundreds of thousands of social enterprise units have been established and continue to grow, spanning sectors from creative economy empowerment and waste management to community-based tourism.

This growth trajectory has been accompanied by increasing enthusiasm among Indonesian universities, incubators, and development agencies to promote social entrepreneurship as a vehicle for inclusive economic development, particularly in addressing youth unemployment, rural poverty, and environmental degradation. Government-backed competitions, corporate social responsibility partnerships, and impact-investment funds have all contributed to positioning social entrepreneurship as a preferred policy instrument. Yet this enthusiasm, while understandable given the scale of Indonesia's social and economic challenges, has rarely been accompanied by an equally rigorous scrutiny of the conditions under which social entrepreneurship might fail to deliver its intended benefits, or worse, generate harm alongside its intended social value.

Nevertheless, most academic literature and field practice tend to highlight narratives of success and the positive impact of social entrepreneurship, while its dark side or unintended consequences are relatively rarely examined systematically (Bacq et al., 2025). In fact, as hybrid organizations that must balance social mission with the demands of financial sustainability, social enterprises are highly susceptible to structural tensions that, if not properly managed, can cause harm to beneficiaries, employees, and the wider community (Molderez, 2023).

This research gap becomes increasingly relevant given that the regulatory context for social entrepreneurship in Indonesia is still in transition; to date, social enterprises have no dedicated legal framework of their own, and are therefore often treated administratively on par with ordinary commercial companies (UKMIndonesia.id, n.d.). This condition has the potential to widen the space for practices that normatively claim social impact but in reality risk drifting away from their mission. This article was prepared to conceptually uncover and map the various forms of unintended consequences or dark side arising from social entrepreneurship practices, while also discussing their implications for business actors, academics, and policymakers in Indonesia.

The urgency of this inquiry is further underscored by the diversity of organizational forms through which social entrepreneurship manifests in Indonesia, ranging from cooperative-based social enterprises and youth-led social ventures to corporate social enterprise spin-offs and community-based tourism initiatives. Each of these forms embeds the tension between social mission and commercial logic differently, yet all remain equally exposed to the structural risks discussed in this paper. Understanding the dark side of social entrepreneurship is therefore not merely an academic exercise; it carries direct consequences for how universities design entrepreneurship curricula, how incubators structure their mentoring programs, and how policymakers calibrate the incentives offered to social enterprises, so that the pursuit of social impact does not inadvertently produce new forms of harm.

LITERATURE REVIEW

Social Entrepreneurship Theory

Dees (1998) defines the social entrepreneur as a change agent who adopts a mission to create and sustain social value, recognizes and pursues new opportunities on an ongoing basis, and demonstrates high accountability to stakeholders for the outcomes created. This definition positions social entrepreneurship as an inherently hybrid model, as it combines a social logic oriented toward impact with a commercial logic oriented toward efficiency and revenue growth.

Subsequent refinements to this definition have generally preserved its dual emphasis on social value creation and entrepreneurial behavior, while increasingly acknowledging that the two are not always mutually reinforcing. Where commercial entrepreneurship treats profit as both the primary objective and a relatively unambiguous performance signal, social entrepreneurship must contend with social value as an objective that is far harder to define, measure, and communicate to external stakeholders, which in turn opens considerable room for divergent interpretation, strategic ambiguity, and, as later sections of this paper will show, unintended drift.

Beyond Dees' foundational definition, subsequent scholarship has emphasized that the hybridity of social entrepreneurship is not a fixed attribute but a continuously negotiated condition. Santos (2012) argues that social entrepreneurs operate in a distinct opportunity space characterized by value creation for society at large rather than value capture for a narrow set of stakeholders, which places persistent pressure on organizations to justify resource allocation decisions against a dual, and often competing, set of criteria. This dual accountability, while central to the appeal of social entrepreneurship as a development strategy, is also the very feature that makes the model structurally susceptible to the unintended consequences examined later in this paper.

Hybrid Organizing Theory and Mission Drift

Battilana and Lee (2014) explain that hybrid organizations such as social enterprises constantly face tension between their social and commercial identities, which is reflected in membership practices, structure, customer-facing activities, and organizational culture. If not managed consciously, this tension can trigger what is known as mission drift, namely a gradual shift from the social mission toward more commercial priorities (Ebrahim et al., 2014). Ebrahim et al. (2014) distinguish two types of hybrids: the differentiated hybrid, which separates social activities from revenue-generating activities, and the integrated hybrid, which combines both within the same activity; the latter type is structurally more prone to mission drift because the boundary between achieving the mission and achieving commercial targets becomes blurred.

This structural insight aligns with Pache and Santos (2013), who show that hybrid organizations respond to competing institutional logics through a range of strategies, from selective coupling to structural compartmentalization, and that the strategy adopted significantly shapes an organization's vulnerability to mission drift. Organizations that fail to develop a deliberate response to logic multiplicity, rather than actively managing it, are more likely to experience drift as an unplanned by-product of everyday operational decisions rather than as the outcome of a deliberate strategic choice.

This is where the literature on the dark side of social entrepreneurship develops. Using a systems thinking approach, Molderez (2023) identifies that this dark side can take the form of insincere motives, negative impacts on the well-being of founders and employees, and power-relation issues between social enterprises and the government or economic system in which they operate. Islam (2020) adds that strategies for scaling social impact through ecosystem growth can produce unintended consequences when carried out without considering local resource capacity or the readiness of network partners. Bacq et al. (2025) then developed a framework that maps the dark side of social entrepreneurship based on two main dimensions: the parties affected (business owners, employees, beneficiaries, and the wider community) and the type of capital or resource at risk of being lost (financial, social, psychological, or physical).

Institutional Isomorphism and External Pressures

A complementary explanation for why social enterprises drift from their mission can be found in institutional theory, particularly the concept of isomorphism developed by DiMaggio and Powell (1983). They identify three mechanisms through which organizations within the same field come to resemble one another over time: coercive isomorphism, arising from pressure exerted by resource-dependent actors such as government agencies, donors, or investors; mimetic isomorphism, arising from uncertainty that leads organizations to imitate perceived successful peers; and normative isomorphism, arising from shared professional norms and standards, including those propagated through business education and management training. Applied to social entrepreneurship, these mechanisms suggest that mission drift is not solely an internal organizational failure but can also be induced externally, for instance when funders reward measurable financial growth more readily than qualitative social outcomes, or when social enterprises adopt commercial management practices simply because they are considered legitimate or professional, regardless of their fit with the organization's social mission.

These institutional pressures rarely operate in isolation from one another. A social enterprise may simultaneously face coercive pressure from an impact investor requiring quarterly financial reporting, mimetic pressure from peer organizations that have successfully scaled through commercial partnerships, and normative pressure from a founding team trained predominantly in conventional business education. When these three forces align in the same direction, toward commercial logic, the resulting pull toward mission drift can be considerably stronger than any single mechanism acting alone, which may help explain why drift is so frequently reported across otherwise very different organizational and cultural settings in the literature reviewed for this study.

Based on the synthesis of the theories above, this study develops a conceptual framework that places dual-mission tension as the starting point, resource pressure and business scaling along with institutional isomorphism as triggers, drift mechanisms as the intermediary pathway, and four categories of dark-side outcomes as the end result that practitioners and policymakers need to be aware of.

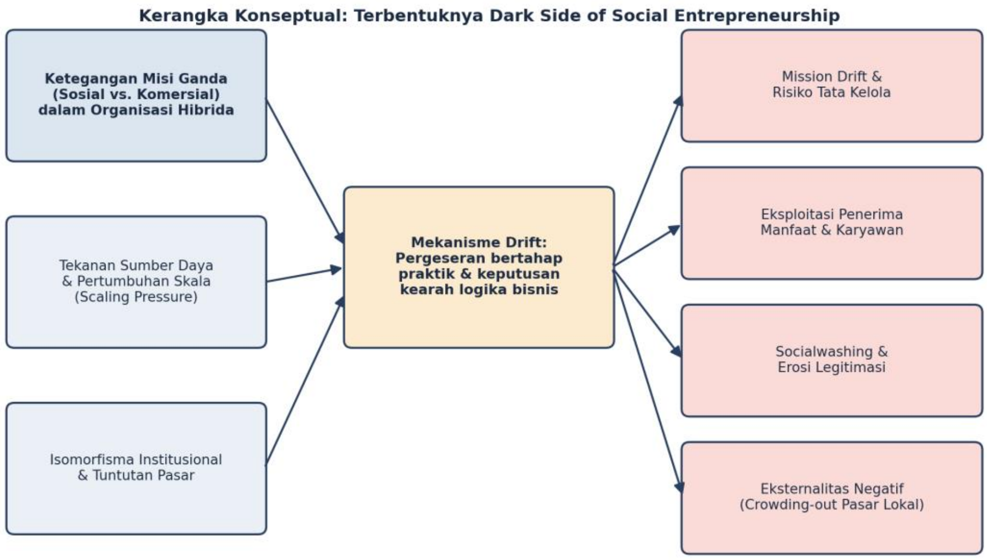

Figure 1. Conceptual Framework of the Dark Side of Social Entrepreneurship (developed by the author, 2026)

METHODOLOGY

This study uses a qualitative approach in the form of a narrative literature review that is conceptual and critical in nature. This approach was chosen because the research aims not to statistically test cause-and-effect relationships, but rather to map and synthesize themes on the dark side of social entrepreneurship that have been documented in the literature, and then contextualize them within the situation of social entrepreneurship in Indonesia.

Data sources consist of indexed journal articles obtained through the Scopus, ScienceDirect, Emerald Insight, SpringerLink, and Google Scholar databases, using the search keywords "dark side of social entrepreneurship", "unintended consequences social enterprise", "mission drift", and "hybrid organizing tension", for publications ranging from 2011 to 2026. Inclusion criteria covered articles discussing negative consequences, mission tension, or governance risk in social entrepreneurship organizations or similar hybrid organizations, while articles that discussed only positive impacts without addressing risk were excluded from the review.

The data analysis technique used is thematic synthesis, namely grouping findings from various sources into similar thematic categories, followed by narrative synthesis to build a coherent conceptual framework and discussion. A limitation of this approach is that it is purely based on secondary sources, so the resulting findings are conceptual propositions that require further empirical verification in field contexts.

Throughout the coding process, particular attention was paid to distinguishing between findings framed as established empirical patterns and those framed as theoretical propositions or illustrative arguments, since narrative literature reviews are especially prone to conflating the two. Where a source presented a claim as empirically demonstrated, this was noted and preserved in the synthesis; where a source offered a conceptual argument without accompanying empirical support, this was treated as a proposition requiring further verification rather than as an established fact, consistent with the conceptual and non-empirical character of this study as a whole.

To enhance the trustworthiness of the thematic synthesis, the review process involved iterative cross-referencing between emerging themes and the original source texts, ensuring that each category presented in the Results section could be traced back to specific theoretical or empirical claims in the reviewed literature rather than to the author's prior assumptions. Where sources offered conflicting interpretations of a given phenomenon, for instance regarding the primary driver of mission drift, both interpretations were retained in the synthesis and are reflected in the Discussion section, in keeping with the exploratory and non-adjudicative purpose of a narrative literature review.

RESULT

Categorization of Dark Side of Social Entrepreneurship Themes

The literature synthesis results identify four main categories of unintended consequences of social entrepreneurship practices, as summarized in Table 1. These four categories do not stand alone, but are interrelated through the dual-mission tension mechanism explained in the conceptual framework above.

Table 1. Categories of Unintended Consequences (Dark Side) of Social Entrepreneurship

Category	Brief Description	Literature Source
Mission Drift & Governance Risk	A shift in priorities from social mission toward commercial targets due to weak accountability mechanisms.	Battilana & Lee (2014); Ebrahim et al. (2014)
Exploitation of Beneficiaries & Employees	Beneficiaries or employees bear risky workloads, social stigma, or unequal power relations.	Bacq et al. (2025); Molderez (2023)
Socialwashing & Legitimacy Erosion	Claims of social impact that are disproportionate to actual practice, thereby undermining public trust.	Molderez (2023); Bacq et al. (2025)
Negative Externalities (Local Market Crowding-out)	Assistance schemes or social business models that end up harming similar local businesses.	Islam (2020); Bacq et al. (2025)

Read together, the four categories

Category	Brief Description	Literature Source
		summarized in Table 1 suggest a rough causal ordering rather than a set of independent risks. Mission drift and governance risk often function as the structural precondition that enables the other three categories to emerge: once accountability to the social mission weakens, the threshold for tolerating exploitative labor practices, inflated impact claims, or market-distorting scaling strategies tends to fall correspondingly. This ordering does not imply strict causality, given the conceptual and secondary-source nature of this review, but it does offer a plausible explanation for why the categories identified across the literature tend to co-occur within the same organizations rather than appearing in isolation.

DISCUSSION

The first finding shows that mission drift and governance risk are the root of most of the dark side of social entrepreneurship. As explained by Ebrahim et al. (2014), hybrid organizations that integrate social activities and revenue-generating activities within the same line (integrated hybrid) have a blurred boundary between achieving the mission and achieving business targets, causing managerial decisions to tend to shift according to market and investor pressure rather than the needs of beneficiaries. In the Indonesian context, the absence of a dedicated legal framework for social enterprises (UKMIndonesia.id, n.d.) heightens this risk, as there is no mandatory social-impact reporting mechanism, unlike financial reporting, which is more strictly regulated.

This structural blurring is further reinforced by the accountability asymmetry commonly found in hybrid organizations: financial performance can be measured through standardized instruments such as profitability ratios and cash-flow statements, whereas social performance still lacks an equivalent, universally accepted metric. Consequently, when a social enterprise faces resource constraints, decision-makers tend to gravitate toward indicators that are more visible and more easily rewarded by the market, namely financial indicators, rather than indicators of social value creation. Battilana and Lee (2014) note that this tendency is not necessarily driven by opportunistic intent, but rather emerges gradually through routine managerial choices that, over time, accumulate into a substantive shift in organizational identity. For social enterprises operating in Indonesia's still-developing regulatory environment, this dynamic is particularly consequential, since the absence of a mandatory social-impact reporting obligation means that mission drift can occur for a considerable period before it becomes visible to external stakeholders.

Second, exploitation of beneficiaries and employees is often overlooked because social enterprises are considered morally "better" than conventional businesses. Bacq et al. (2025) note that employees of social enterprises can experience psychological pressure, stigma from the communities they serve, and risky working conditions without adequate protection, while beneficiaries can lose autonomy when they are treated more as program objects than as equal partners. Molderez (2023) adds that such power dynamics are often not recognized by the founders of social enterprises themselves, as they are obscured by the narrative of social success they have built.

This finding also points to a broader ethical blind spot within the social entrepreneurship discourse: the presumption of moral superiority attached to organizations pursuing a social mission can inadvertently discourage internal and external scrutiny of their labor practices. Because social enterprises are often perceived, and perceive themselves, as inherently benevolent actors, employees may feel reluctant to voice grievances for fear of being seen as undermining a cause they personally believe in, while beneficiaries may feel obligated to express gratitude rather than raise concerns about how programs are designed or delivered. Molderez (2023) frames this as a subtle form of power asymmetry that is more difficult to detect than in conventional business settings precisely because it is masked by a shared normative commitment to social good. Left unaddressed, this dynamic risks converting well-intentioned social missions into structures that reproduce, rather than reduce, the vulnerabilities they were designed to alleviate.

Third, the phenomenon of socialwashing, in which claims of social impact are exaggerated relative to actual operations, has the potential to erode public trust in the social entrepreneurship movement as a whole. This risk becomes more evident when the "socially impactful" label is used as a marketing strategy without a clear theory-of-change framework or an externally verifiable impact-measurement system, as required under the social enterprise criteria developed by the British Council and PLUS Consulting (2022).

The risk of socialwashing is amplified in an environment where social impact claims function simultaneously as a value proposition and as a fundraising or marketing instrument. When external verification mechanisms are weak or absent, as is largely the case in Indonesia given the absence of a mandatory impact-reporting standard for social enterprises, organizations face limited incentive to invest in rigorous impact measurement, since unverified claims of impact are, in practice, just as persuasive to donors, investors, and consumers as verified ones. This creates what may be described as a market for symbolic impact, in which the appearance of social value substitutes for its substantive delivery. Over time, such practices not only mislead individual stakeholders but also generate negative externalities for the broader social entrepreneurship ecosystem, as instances of exposed socialwashing tend to erode generalized trust in the sector as a whole, making it harder even for genuinely impactful organizations to substantiate their claims.

Fourth, the negative externality of crowding-out on local business actors shows that good intentions alone are not enough to guarantee positive outcomes. Islam (2020) asserts that strategies for scaling social impact through ecosystem expansion, without accounting for local market capacity and structure, can produce harmful effects that actually contradict the program's original purpose. In the context of community-based MSMEs in Indonesia, this serves as an important warning that large-scale social entrepreneurship programs should not inadvertently put out of business the local startups that were already serving the same needs.

This crowding-out effect is especially salient in the Indonesian context, where community-based micro, small, and medium enterprises (MSMEs) frequently operate with thin margins and limited access to capital, making them structurally less resilient to competition from subsidized or donor-funded social enterprises entering the same market segment. Islam (2020) suggests that this risk tends to intensify when social enterprises pursue rapid scaling as a proxy for impact, treating geographic or market expansion as an end in itself rather than as one of several possible pathways to social value creation. Without a deliberate assessment of local market conditions prior to entry or expansion, well-intentioned scaling strategies can therefore produce a paradoxical outcome, namely the displacement of the very economic actors that social entrepreneurship, in principle, seeks to empower.

Overall, this discussion confirms that the dark side of social entrepreneurship is not merely the ethical deviation of a few individuals, but a structural consequence of the hybrid tension inherent in the social business model itself. Therefore, mitigation efforts need to focus on improving governance, enhancing impact transparency, and strengthening the critical reflective capacity of social entrepreneurship actors, rather than stopping merely at moral judgments about their good intentions.

Taken together, these four categories illustrate that the dark side of social entrepreneurship is best understood not as a set of isolated failures but as an emergent property of the hybrid organizational form itself. This has important implications for how the field is taught, researched, and practiced in Indonesia.

For academics and lecturers guiding future social entrepreneurs, it suggests a need to move beyond celebratory case studies toward a more critical pedagogy, one that equips students with the analytical tools to recognize early warning signs of mission drift, to design accountability mechanisms proactively rather than reactively, and to interrogate their own impact claims with the same rigor they would apply to financial statements. Such a shift in orientation does not diminish the transformative potential of social entrepreneurship; rather, it strengthens it by making that potential more durable, more credible, and more genuinely accountable to the very communities it claims to serve.

Implications for Entrepreneurship Education

The findings of this review carry specific relevance for entrepreneurship study programs responsible for preparing the next generation of social entrepreneurs in Indonesia. If mission drift, exploitation, socialwashing, and market crowding-out are structural rather than purely individual failures, then curricula that frame social entrepreneurship solely through success narratives risk leaving graduates ill-equipped to recognize and manage these tensions once they establish or join social enterprises of their own.

First, entrepreneurship courses can incorporate case-based discussions that explicitly examine instances of mission drift and governance failure alongside more conventional success stories, so that students internalize hybrid tension as a normal condition to be managed rather than an exception to be avoided. Second, courses on business planning and social enterprise design can require students to develop a theory of change and an accompanying impact-measurement plan as a mandatory component of any venture proposal, mirroring the financial projections already expected in standard business plans; this would help normalize the practice of impact verification from the earliest stage of venture formation. Third, mentoring and incubation programs affiliated with universities, such as campus-based entrepreneurship centers, can build in periodic mission-alignment reviews, providing an external check that complements the founder's own judgment and helps surface early warning signs of drift before they become entrenched.

For lecturers and researchers in the field, these findings also suggest a role beyond knowledge transmission: as trainers and mentors of practicing social entrepreneurs through community engagement and continuing education programs, academics are well positioned to model and disseminate more rigorous, verifiable approaches to impact measurement, thereby contributing directly to the mitigation strategies discussed throughout this paper.

Beyond the classroom, these implications extend to the broader ecosystem of business incubators, accelerators, and grant-making bodies that support early-stage social enterprises in Indonesia. Incubators that condition funding or mentorship on the submission of a credible theory of change and periodic impact reporting can help instill accountability habits before organizations scale to a size at which mission drift becomes costly and difficult to reverse. Likewise, university-affiliated technology and business parks that host student-founded social ventures are well positioned to require lightweight but consistent impact documentation as part of their tenancy or support agreements, embedding reflective practice into the entrepreneurial journey from its earliest stages rather than treating it as an afterthought once problems have already emerged.

CONCLUSIONS AND RECOMMENDATIONS

This study concludes that the dark side of social entrepreneurship arises systematically from the structural tension between social mission and commercial logic within hybrid organizations, manifesting in four main categories: mission drift and governance risk, exploitation of beneficiaries and employees, socialwashing and legitimacy erosion, and negative externalities in the form of local market crowding-out. Awareness of these potential unintended consequences is important so that social entrepreneurship practices can be carried out in a more reflective and responsible manner.

These conclusions should be read with appropriate epistemic humility. Because this study relies exclusively on secondary literature synthesized through a qualitative, narrative approach, its findings represent conceptual propositions rather than empirically validated causal claims. The four categories identified here are best understood as a heuristic map of where dark-side risks are most likely to emerge in social entrepreneurship, rather than as a predictive model capable of specifying when or how severely any individual organization will be affected. Readers, particularly practitioners seeking to apply these findings directly to their own organizations, are encouraged to treat the framework as a starting point for reflection and internal audit rather than as a diagnostic instrument in the strict sense.

For social entrepreneurship practitioners, it is recommended to build a mechanism for measuring social impact that can be periodically verified, to clarify the theory of change, and to provide complaint channels for both beneficiaries and employees. For policymakers, this study recommends accelerating the establishment of a permanent legal framework for social enterprises in Indonesia, rather than merely relying on temporary presidential regulations, so that accountability and oversight of social-impact claims can be consistently enforced.

Collectively, these recommendations point toward a shared responsibility model in which practitioners, educators, incubators, and policymakers each contribute a distinct but complementary layer of accountability. No single actor can fully resolve the structural tensions inherent in hybrid organizing; rather, mitigating the dark side of social entrepreneurship requires a coordinated ecosystem in which reflective practice at the organizational level is reinforced by rigorous curricula at the educational level, responsible funding criteria at the intermediary level, and enabling, accountability-oriented regulation at the policy level.

For higher education institutions, particularly entrepreneurship study programs, this review recommends the integration of critical hybrid-organization theory into the core curriculum, alongside experiential learning opportunities that expose students to the practical challenges of balancing social and commercial objectives. Embedding impact-measurement literacy and governance training at the undergraduate level may help cultivate a generation of social entrepreneurs who are better equipped to anticipate, rather than merely react to, the structural tensions documented in this study.

FUTURE STUDY

This study remains conceptual and based on secondary literature review, so further research is needed on the empirical verification of mission drift and stakeholder exploitation in social enterprises in Indonesia, in order to enrich and deepen readers' understanding of the dynamics of the dark side of social entrepreneurship in a contextual manner.

Future studies may also benefit from comparative designs that examine how different organizational forms of social enterprise, for example cooperative-based, foundation-based, and limited-liability social enterprises, experience mission drift differently given their distinct governance structures and accountability lines. Such comparative work would help clarify whether certain organizational forms are inherently more resistant to the dark-side outcomes identified in this review, which would carry direct implications for the legal-framework recommendations discussed above.

Cross-country comparative research would likewise be valuable, given that the regulatory maturity surrounding social enterprise varies considerably across jurisdictions. Comparing the prevalence and severity of dark-side outcomes in Indonesia with countries that have already established a dedicated legal category for social enterprises, such as the community interest company model in the United Kingdom or the social enterprise certification schemes found in parts of the European Union, could help determine whether formal legal recognition meaningfully reduces the structural risks identified in this review, or whether such risks persist regardless of regulatory status and instead require organizational-level solutions.

ADVANCED RESEARCH

The limitation of this study lies in its conceptual approach, which does not yet involve primary data; further research is therefore recommended using an in-depth qualitative case-study design or a longitudinal mixed-methods approach across several social enterprises in Indonesia, in order to observe the process of mission drift over time and to develop a more operational dark-side measurement instrument that can be replicated in other hybrid organization contexts.

In addition, future research employing longitudinal case studies could trace the lifecycle of specific social enterprises from founding through subsequent growth stages, capturing the precise junctures at which resource pressure, investor expectations, or scaling decisions begin to reshape organizational priorities. Coupling such qualitative tracing with periodic, structured impact-measurement instruments would allow researchers to move from the conceptual propositions advanced in this paper toward empirically grounded, context-sensitive theory of the dark side of social entrepreneurship in Indonesia.

Finally, given the rapid growth of digital platforms supporting social entrepreneurship in Indonesia, including crowdfunding portals, e-commerce channels for community-based products, and social media as a primary marketing tool, future research could also examine whether digital visibility introduces new or amplified pathways for socialwashing, since online platforms often reward emotionally compelling impact narratives more readily than verifiable outcome data. Investigating this digital dimension would extend the conceptual framework proposed in this paper to account for the technological context in which contemporary Indonesian social enterprises increasingly operate.

ACKNOWLEDGMENT

The author would like to thank the Entrepreneurship Study Program, Faculty of Economics and Business, Universitas Negeri Makassar, for the support provided during the process of preparing this article.

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