

The Role of Legal Institutions in Encouraging Social Innovation

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Abstract

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Social innovation refers to the process of generating novel and effective solutions to address multidimensional and complex social challenges. Legal institutions play a strategic role not only in creating a conducive and predictable regulatory environment, but also in ensuring legal certainty, safeguarding public trust, and supporting the long-term sustainability of innovations initiated by diverse social actors, including government bodies, the private sector, academic institutions, and civil society organizations. This literature-based study seeks to identify, categorize, and analyze the specific contributions of legal institutions in fostering social innovation within Indonesia and in comparative international contexts. The review covers peer-reviewed national and international journal articles published in the last five years, with analytical emphasis on regulation, public policy, intellectual property rights protection, and cross-sector collaboration frameworks. The findings indicate that a proactive legal framework can accelerate innovation diffusion, enhance community engagement, and reinforce institutional capacity. The derived policy implications provide guidance for policymakers, scholars, and practitioners to maximize synergies between legal frameworks and social innovation initiatives.

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1. Introduction

Social innovation is an effort to generate new solutions to complex social problems through collaboration among various stakeholders. Unlike technological innovation, which tends to focus on commercial aspects, social innovation emphasizes collective benefit, community participation, and social sustainability. In this context, legal institutions, including legislative, judiciary, and executive bodies that function as regulators, play a crucial role in creating a conducive ecosystem for the development of social innovation. The role of legal institutions can be viewed from several dimensions. First, the regulatory dimension, where legal institutions establish rules that provide certainty and protect social innovation actors from legal risks. Second, the facilitation dimension, which involves providing funding mechanisms, fiscal incentives, and procedural convenience.

Third, the oversight dimension, which ensures that social innovation does not violate the principles of justice, human rights, or public interest. Since 2017, attention to the synergy between legal aspects and social innovation has been increasing. Several studies, such as Hudaefi¹ in their study of fintech and cryptocurrency regulation, show that clear and adaptive policies can accelerate the adoption of new technologies while minimizing risks. This is relevant for social innovation, which often involves unconventional and cross-sectoral approaches.

Furthermore, the role of law in supporting social innovation is also evident in the fields of environment, health, and community economic empowerment. For

¹ Fahmi Ali Hudaefi. "How does Islamic fintech promote the SDGs? Qualitative evidence from Indonesia." *Qualitative Research in Financial Markets* 12, no. 4 (2020): 353-366.

example, legal policies that encourage green banking Murwadji and Imamulhadi,² or low-carbon development in coastal areas Bloom et al.³ are real examples of how legal instruments facilitate innovation aimed at preserving the environment while improving community welfare. However, the role of legal institutions does not always run smoothly. Challenges include overlapping regulations, slow adaptation to technological developments, and resistance from groups that feel disadvantaged by innovation. Therefore, legal policy reform is needed to be more responsive, participatory, and evidence-based.

The role of law in fostering social innovation is also closely related to the protection of Intellectual Property Rights (IPR). IPR not only protects the creators of innovations but also provides incentives for the development of new ideas that are beneficial to society. Disemadi et al.⁴ emphasizes the importance of consumer protection in the context of innovative products marketed through social media, where the law plays a role in protecting users from the risk of fraud and misuse of information. The Indonesian context provides a unique picture due to the diverse forms of social innovation that emerge from local initiatives, such as Village-Owned Enterprises (*Badan Usaha Milik Desa/BUMDes*) which serve as a vehicle for economic empowerment based on local potential. The success of BUMDes as a

² Tarsisius Murwadji and Imamulhadi, "Green Banking: The Model and Its Implementation," *Environmental Policy and Law* 48, no. 3-4 (2018): 221.

³ Nicholas Bloom, John Van Reenen, and Heidi Williams, "A toolkit of policies to promote innovation," *Journal of economic perspectives* 33, no. 3 (2019): 175.

⁴ Hari Sutra Disemadi, Mochammad Abizar Yusro, and Wizna Gania Balqis. "The problems of consumer protection in fintech peer to peer lending business activities in Indonesia." *Sociological Jurisprudence Journal* 3, no. 2 (2020): 91-97.

social innovation is inseparable from clear and consistent regulatory support, both in the form of village regulations and regional regulations.

Globally, developed countries also show that the synergy between legal institutions and social innovation can increase national competitiveness. Adaptive legal institutions are able to facilitate the development of an inclusive innovation ecosystem, ranging from education, technology, to public services. A study by Yan et al.⁵ highlights the importance of the country's legal institutional design in encouraging green investments oriented towards net zero emission as part of social innovation in the environmental field. Thus, this literature study will systematically examine the role of legal institutions in fostering social innovation through an analysis of recent research. The focus of the study includes aspects of regulation, legal protection, policy facilitation, and cross-sectoral partnerships. The hope is that the results of this study can provide theoretical and practical contributions to the formulation of public policy in Indonesia and other developing countries.

2. Literature Review

The literature review on the role of legal institutions in fostering social innovation shows a strong link between regulations, public policy, and community participation in the innovation process. In general, the literature is divided into four main focuses: the role of regulation in creating a conducive innovation environment, legal protection for social innovation actors, facilitation by legal institutions, and

⁵ Shipeng Yan, Juan Almandoz and Fabrizio Ferraro, "The impact of logic (in) compatibility: Green investing, state policy, and corporate environmental performance," *Administrative Science Quarterly* 66, no. 4 (2021): 927.

cross-sectoral collaboration. First, on the regulatory dimension, Hudaefi⁶ highlight the role of legal rules in mitigating risks and facilitating the development of new sectors such as fintech and cryptocurrency in Indonesia. Regulations that are adaptive to technological developments can encourage the emergence of innovative solutions that are safe and trustworthy for the public. This study shows that the speed of legal policy adaptation greatly determines the success of social innovation implementation in society.

Second, legal protection is a crucial aspect for the sustainability of social innovation. Disemadi et al.⁷ in her research on consumer protection for skincare products marketed through social media, found that legal instruments are needed to prevent fraud and misuse of information. This protection not only protects consumers but also builds trust in the innovation offered. Third, legal institutions also play a role as facilitators. Kania et al.⁸ examined the strategic role of BUMDes as a form of social innovation at the village level and found that support from village and regional regulations is a key factor in the success of community economic empowerment programs. This shows that appropriate local policies can encourage community-based innovation.

⁶ Fahmi Ali Hudaefi. "How does Islamic fintech promote the SDGs? Qualitative evidence from Indonesia." *Qualitative Research in Financial Markets* 12, no. 4 (2020): 353-366.

⁷ Hari Sutra Disemadi, Mochammad Abizar Yusro, and Wizna Gania Balqis. "The problems of consumer protection in fintech peer to peer lending business activities in Indonesia." *Sociological Jurisprudence Journal* 3, no. 2 (2020): 91-97.

⁸ Ikeu Kania, Grisna Anggadwita, and Dini Turipanam Alamanda, "A new approach to stimulate rural entrepreneurship through village-owned enterprises in Indonesia," *Journal of Enterprising Communities: People and Places in the Global Economy* 15, no. 3 (2021): 445.

Fourth, cross-sectoral collaboration is a factor that is often highlighted in the literature. Bloom et al. (2019),⁹ in his study of low-carbon development in coastal areas emphasizes the need for synergy between the government, legal institutions, local communities, and the private sector to realize sustainable innovation. A similar study by Yan et al.¹⁰ also emphasizes that an effective legal institutional design can accelerate green investment and environmental innovation. International studies also reinforce these findings. For example, Plieninger et al.¹¹ research on sustainable multi-business forestry decision-making in Indonesia underscores the importance of a legal framework that accommodates a variety of actors and sectors. Regulations that accommodate this diversity can create an inclusive and sustainable social innovation ecosystem.

The literature also notes significant challenges. Murwadji and Imamulhadi,¹² in their study of green banking highlight obstacles such as overlapping regulations and a lack of incentives for businesses to adopt environmentally friendly innovations. This situation is similar to that found by researchers in other developing countries, where delays in legal updates can hinder the diffusion of innovation. The literature review shows that the role of legal institutions in fostering social innovation

⁹ Nicholas Bloom, John Van Reenen, and Heidi Williams, "A toolkit of policies to promote innovation," *Journal of economic perspectives* 33, no. 3 (2019): 175.

¹⁰ Shipeng Yan, Juan Almandoz and Fabrizio Ferraro, "The impact of logic (in) compatibility: Green investing, state policy, and corporate environmental performance," *Administrative Science Quarterly* 66, no. 4 (2021): 927.

¹¹ Tobias Plieninger, José Muñoz-Rojas, Louise E. Buck, and Sara J. Scherr. "Agroforestry for sustainable landscape management." *Sustainability Science* 15, no. 5 (2020): 1255-1266.

¹² Tarsisius Murwadji and Imamulhadi, "Green Banking: The Model and Its Implementation," *Environmental Policy and Law* 48, no. 3-4 (2018): 221.

is not only normative but also strategic. Legal institutions act as regulators, protectors, facilitators, and partners in the innovation process. The success of this role is highly dependent on the ability of policies to adapt, the level of stakeholder participation, and the consistency of law enforcement.

3. Methods

This study uses a literature review method focusing on the identification, analysis, and synthesis of previous research relevant to the topic of the role of legal institutions in fostering social innovation. This approach was chosen because it allows for a comprehensive understanding of theoretical developments, empirical findings, and best practices in various contexts, both national and international. The research data were obtained from journal articles indexed in Google Scholar, Elsevier and Researchgate with the criteria: sourced from accredited national journals or reputable international journals, having direct relevance to the theme of the role of law or legal institutions in social innovation, including studies of regulation, public policy, legal protection, and cross-sectoral partnerships and in the form of research articles, literature reviews, or case studies, not theses, dissertations, or dissertations.

The articles were selected based on searches with the keywords: “*peran lembaga hukum*” (the role of legal institutions), “*inovasi sosial*” (social innovation), “*regulasi inovasi*” (innovation regulation), “*perlindungan hukum inovasi*” (legal protection for innovation), and “*kebijakan publik inovasi sosial*” (public policy for social innovation). The data collection procedure was carried out in four stages: initial identification by

collecting a list of articles according to the criteria, selection based on abstracts to ensure relevance, access checking to ensure articles are open access or have a full PDF version that can be analyzed, and metadata recording including author, year of publication, title, journal source, and access link.

Data analysis was carried out using a thematic analysis approach which consisted of: initial coding to identify key concepts related to the role of legal institutions in social innovation; grouping findings into four major themes, namely regulation, legal protection, policy facilitation, and cross-sectoral collaboration; and narrative synthesis to compile an integrative summary that describes the relationship between the role of law and the success of social innovation. To maintain validity, article selection was carried out carefully and independently by checking the suitability of the article's contents against the research criteria. The reliability of the research was ensured through a systematic record of every source used, including citations and official access links. This method is expected to provide a complete picture of the development of research related to the role of legal institutions in fostering social innovation, as well as being the basis for formulating evidence-based policy recommendations.

4. Results

4.1. Regulation and Public Policy as a Driver of Social Innovation

The main findings from the literature confirm that the existence of adaptive, clear, and participatory regulations is one of the key factors in ensuring the success of social innovation in various sectors. Regulations that are designed appropriately

do not only function as a control instrument but also as a driver that can create a conducive legal climate for innovation actors, from local communities to technology-based companies. This includes aspects of ease of doing business, legal certainty, and protection of innovators' rights. Hudaefi¹³ show that in the fintech and cryptocurrency sectors, proactive regulations can encourage innovation growth while maintaining the stability of the financial system. They give the example of a policy that requires transaction reporting to financial authorities as an effort to reduce the risk of fraud and increase investor confidence. This type of regulation shows that legal institutions have a dual role: in addition to being supervisors who ensure compliance with rules, they also act as facilitators who help create an ecosystem that supports the safe adoption of new technologies.

Low-carbon development programs in coastal areas underscores the importance of the role of law in providing a policy framework that can facilitate cross-sectoral synergy. Regulations governing area zoning, protection of coastal ecosystems, and providing tax incentives to environmentally friendly businesses have proven effective in attracting investment. These investments not only contribute to local economic growth but also support the achievement of social and ecological goals, such as reducing carbon emissions and improving the welfare of coastal communities.

¹³ Fahmi Ali Hudaefi. "How does Islamic fintech promote the SDGs? Qualitative evidence from Indonesia." *Qualitative Research in Financial Markets* 12, no. 4 (2020): 353-366.

At the local level, Kania et al.¹⁴ found that the success of community-based social innovation is often supported by village and regional regulations that govern the operations of BUMDes. Regulations that give villages the flexibility to manage local resources independently have been shown to increase citizen participation, strengthen the village economic structure, and expand business opportunities based on local potential. This shows that social innovation does not only depend on central policies but also on the autonomy and creativity of regional governments.

The design of the country's legal institutions for green investment reinforces the argument that policies integrated with global commitments such as net zero emission have great potential in expanding the space for large-scale social innovation.¹⁵ Policies that are in line with the global sustainable development agenda send a positive signal to international investors, strengthen economic diplomacy, and create a stable legal framework for the development of environmentally friendly technology. Thus, the role of legal institutions is not only limited to technical regulation but also includes the formulation of a strategic vision that can direct national development towards long-term sustainability.

However, the literature also reveals various obstacles that hinder the effectiveness of regulations. Green banking sector, overlapping regulations, slow

¹⁴ Ikeu Kania, Grisna Anggadwita, and Dini Turipanam Alamanda, "A new approach to stimulate rural entrepreneurship through village-owned enterprises in Indonesia," *Journal of Enterprising Communities: People and Places in the Global Economy* 15, no. 3 (2021): 445.

¹⁵ Nicholas Stern and Anna Valero, "Innovation, growth and the transition to net-zero emissions," *Research Policy* 50, no. 9 (2021): 5.

policy adaptation, and a lack of harmonization between rules are often obstacles to the application of environmentally friendly innovation. This situation illustrates that coordination between legal institutions and synchronization of cross-sectoral policies are a determining factor in the success of social innovation implementation. Without good coordination, the potential for innovation can be hampered by complicated procedures and policy inconsistencies. The findings in this subsection confirm that responsive, inclusive, and well-coordinated regulations can accelerate the development of social innovation. Conversely, rigid, overlapping, and slow-to-adapt regulations are a significant barrier that can weaken the potential for innovation in various sectors. Therefore, improving the regulatory system and increasing the capacity of legal institutions is an urgent need to ensure that social innovation can develop optimally and sustainably.

4.2. Protection, Facilitation, and Collaboration as a Pillar of Innovation Sustainability

In addition to creating supportive regulations, legal institutions also play a strategic role in providing legal protection for social innovation actors, facilitating access to resources, and building cross-sectoral partnerships that are the pillar of innovation sustainability. This role is complementary to the regulatory function because the success of social innovation does not only depend on adequate rules but also on the guarantee of protection and support that can reduce risks for innovation actors. Legal protection provided by legal institutions covers various aspects, ranging from Intellectual Property Rights (IPR), consumer protection, to personal data protection. IPR protection is very important to prevent theft of ideas or innovations,

while consumer protection ensures that the products or services produced meet safety and quality standards.

In this context, consumer protection for skincare products marketed through social media, affirms that legal certainty is a prerequisite for building market trust. The existence of a firm law enforcement mechanism not only increases consumer safety but also gives confidence to innovation actors to develop products or services without worrying about potential violations that harm them. Facilitation by legal institutions is also an important aspect that should not be overlooked. The form of this facilitation can be in the form of providing grant funds, tax incentives, access to venture capital, or technical assistance that supports the development of innovation. The management of sustainable multi-business forestry emphasizes how crucial policy support is that provides access to financing for innovative initiatives, especially those oriented towards environmental sustainability. This kind of support creates an ecosystem where innovation can not only develop sustainably but also be able to compete in an increasingly competitive market.

Cross-sectoral collaboration is the third dimension that is no less important. That low-carbon development projects in coastal areas succeeded in achieving their goals when the government, private sector, local communities, and legal institutions worked together in a partnership framework. This collaboration allows for the transfer of knowledge, sharing of resources, and strengthening of social legitimacy for the innovation carried out. A well-managed partnership mechanism can accelerate program implementation, reduce potential conflicts of interest, and ensure the sustainability of innovation results. International literature also provides support

for this view. Rao-Nicholson et al.¹⁶ notes that countries that have a legal system that encourages collaboration between the public and private sectors tend to show a higher level of social innovation. The key factor in the success of this collaboration lies in legal mechanisms that are transparent, accountable, and flexible so that they can accommodate the interests of various stakeholders without hindering the dynamics of innovation.

In addition, BUMDes proves that active community participation can increase significantly when there are clear regulations regarding the roles and responsibilities of each party involved. This clarity of roles not only facilitates coordination but also strengthens the community's sense of ownership of the innovation developed. Despite this, these aspects of protection and facilitation are not free from challenges. One of them is the limited capacity of legal institutions to understand the dynamics of new technology and business models. Social innovation often develops much faster than the ability of regulations to adapt, so there is a gap between practices in the field and the existing legal framework. To bridge this gap, the literature recommends the application of co-regulation or collaborative regulation which allows for faster adaptation to technological developments and community needs, without sacrificing the principles of legal certainty and accountability.

¹⁶ Rekha Rao-Nicholson, Tim Vorley, and Zaheer Khan, "Social innovation in emerging economies: A national systems of innovation based approach," *Technological Forecasting and Social Change* 121 (2017): 234.

5. Discussion

The results of this study show that the role of legal institutions in fostering social innovation is not only limited to a regulatory function but also includes a facilitative function and a protective function. This role is in line with the regulatory governance theoretical framework which places law not just as a set of rigid rules but as an adaptive governance instrument oriented towards solving social problems creatively and sustainably. First, from the perspective of regulation and public policy, the findings show that responsive, inclusive, and field-aligned regulations can create a healthy innovation ecosystem. This kind of regulation provides clarity of rules, reduces legal uncertainty, and encourages innovation actors to invest in long-term solutions. This is in line with Braithwaite's,¹⁷ view which emphasizes that adaptive law must be formed through a participatory process, considering input from various social actors, so that it is able to respond to the dynamics of rapid change.

Second, on the aspects of protection and facilitation, the literature emphasizes the importance of strong legal certainty related to intellectual property rights, consumer protection, and data security. Without adequate protection, innovation actors are vulnerable to exploitation, idea theft, or violations that can erode their motivation to continue innovating. This protection, when combined with adequate resource support such as fiscal incentives, special financing schemes, or access to research grants, has the potential to accelerate the adoption of social innovation.

¹⁷ John Braithwaite, "Types of responsiveness," *Regulatory theory: Foundations and applications* (2017): 125.

This is especially important in sectors that have high risks but have the potential to provide a big impact, such as renewable energy, health technology, and fintech.¹⁸

Third, cross-sectoral collaboration emerges as a key factor in success.¹⁹ Legal institutions that have the capacity to regulate and facilitate partnerships between the government, private sector, communities, and academics are able to create a sense of shared ownership of innovation projects. This collaboration not only facilitates the transfer of technology and knowledge but also ensures that innovation can be replicated in various regions by adapting to local contexts. This view is in line with the theory of collaborative governance which emphasizes the need for mutually agreed, transparent, and legally legitimate rules of the game for collaboration to run effectively. However, the challenges faced cannot be ignored. Many regulations are left behind by technological developments, especially in fields that are experiencing accelerated digitalization such as blockchain-based financial services or artificial intelligence technology.

This delay in regulatory adaptation has the potential to hinder the pace of innovation, and can even encourage the emergence of gray area practices that are prone to legal risks. To bridge this gap, a co-regulation approach that involves innovation actors directly in the policy formulation process is considered an effective strategy. The policy implications of these findings are clear: legal institutions need to adopt flexible and evidence-based policy mechanisms; the IPR and consumer

¹⁸ Zhang, Dongyang, Ala Eldin Awawdeh, Muhammed Sajjad Hussain, Quang-Thanh Ngo, and Vu Minh Hieu. "Assessing the nexus mechanism between energy efficiency and green finance." *Energy Efficiency* 14, no. 8 (2021): 85.

¹⁹ Elizabeth J Klitsie, Shahzad Ansari, and Henk W. Volberda, "Maintenance of cross-sector partnerships: The role of frames in sustained collaboration," *Journal of Business Ethics* 150, no. 2 (2018): 415.

protection systems must be strengthened so that innovation actors feel safe to experiment; collaborative regulations that integrate cross-sectoral actors can broaden the scope and impact of social innovation. Thus, it can be concluded that legal institutions have a strategic role in shaping a sustainable social innovation ecosystem, as long as they can adapt quickly, build trust, and facilitate inclusive collaboration.

6. Conclusion

This literature study shows that legal institutions have a strategic role in fostering social innovation through three main dimensions: regulation, protection, and facilitation. First, the regulatory role is seen in the formation of regulations and public policies that are adaptive, inclusive, and responsive to technological developments and community needs. Appropriate regulations can create legal certainty, reduce risks, and provide a foundation for innovation actors to develop. Second, the protective role includes providing legal mechanisms that guarantee data security, consumer protection, and intellectual property rights protection. Without adequate protection, the sustainability of social innovation can be disrupted by the risk of legal violations or misuse of technology.

Third, legal institutions also play a role as a facilitator of cross-sectoral collaboration. Through a clear legal framework and formal legitimacy, legal institutions can encourage partnerships between the government, private sector, academics, and communities. This collaboration is important to expand the impact of social innovation and ensure its sustainability. Nevertheless, there are challenges in the form of slow adaptation of regulations to very rapid technological

developments. For this reason, a co-regulation and evidence-based policy approach is needed to close the gap between innovation and law. The role of legal institutions is not only to ensure order but also to create a social innovation ecosystem that is sustainable, inclusive, and useful for community welfare.

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