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**Social Service Entrepreneurship
As a Context for Entrepreneurial Activity**

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ABSTRACT

Social service entrepreneurship has been seen as a solution to providing affordable and attainable high-quality services complementing those services offered by municipalities. This article highlights social service entrepreneurship as a particular context of entrepreneurial activity, where the role of cooperation and effective networking is highly emphasized. We provide insight into the dynamic relationship between social service entrepreneurs and municipalities by investigating the current operating conditions, needs, and attitudes affecting the development of social service entrepreneurship. Our focus is particularly on operational restrictions as dependencies and their effects on entrepreneurial opportunities created by the demand-based market mechanism.

Keywords: Social Service Entrepreneurship, Entrepreneurial Context, Cooperation, Networking

1 INTRODUCTION

Most Western countries seem to be battling to a varying degree, with a situation where some kind of reform is needed to create high-quality social services that are affordable as well as attainable (e.g. Blank 2000, Van Slyke 2003, Blomqvist 2004, Lin 2009). Due to, among other reasons, global economic turmoil and instability, rapid changes on the national level as well as heavily aging populations, the available resources are quickly disappearing and a new way of looking at networking and collaboration in the social services sector is clearly needed. New forms of entrepreneurial creativity are called for.

There is currently an ever increasing amount of discussion on the need to privatize social services. In the international context, the private agents are often seen as the key actors in leading a move from the welfare state to the welfare society. In countries with a long history of free public social services, however, the institutional power of these agents is rather weak. The percentage of welfare outcomes that have been produced by private agents – mainly in the fields of elderly care and child day-care is very small. Thus, when the welfare market available to private actors is very restricted, there is little incentive to provide private services.

Some welfare services are already produced on a tripartite basis (state, municipalities, entrepreneurs), each with their own role in the industry fields. Through a policy of constantly intensifying the role of local government, municipalities are forced to re-organize their services and it is hoped, that a new entrepreneurial market would be created as a result. Municipalities have the opportunity to have a significant impact on

the overall development of service structures within their own region by supporting entrepreneurship and encouraging new business formation.

This paper highlights social service entrepreneurship by looking particularly at the cooperative relationship between municipalities and social service entrepreneurs. We provide insight into the complex dynamics between social service entrepreneurs and municipalities by investigating the current operating conditions, needs and attitudes affecting the development of social service entrepreneurship. The region of Central Finland is used as an example due to its inherent diversity and as an example of a Nordic country with a long and rich history of delivering affordable and attainable high-quality social services to its citizens.

This study sets out to illustrate how a contextualized view of entrepreneurship contributes to our understanding of social service entrepreneurship. Welter (2011) speaks for many (Johannisson 2011, Audretsch 2012) by stressing that in entrepreneurship research economic behavior can be better understood if it is looked at within its historical, temporal, institutional, spatial, and social contexts. These contexts provide individuals with opportunities and set boundaries for their actions, but it is worth remembering that entrepreneurship itself can also impact contexts.

In this article we explore the context and the impact of contexts for entrepreneurial activity by taking a closer look at a particular form of entrepreneurship, namely social service entrepreneurship. Firstly, we provide a short overview of approaches to entrepreneurship (Johannisson 2011, Steyaert 2011, Audretsch 2012, Davidsson 2013, Gartner 2013), particularly as they apply to social service entrepreneurship. Secondly,

we look at the cooperative relationship between social service entrepreneurs and municipal decision makers using theories of agency structure, dependency and power structures. Thirdly, we explore the ways in which the municipal decision-making affects the relationship between social service entrepreneurs and municipal decision-making by investigating the current operating conditions, needs and attitudes affecting the development of social service entrepreneurship. Finally, we interpret our findings by highlighting the role of genuine market demand, openness to new forms of entrepreneurial action and opportunity creation and exploitation of cross-sector hybrid interaction.

1.1 Definitions

Municipal Service Production and Decision-Making

In this study we use the term *municipal service production* to refer to role of municipalities as being in charge of creating affordable and attainable social services by the force of law. With a long history of having a monopoly over social service production, the municipalities control the service market not only through their role as a service producer, but also as the buyer, financier and controller of the services offered by the emerging private sector. Municipal decision-makers have multiple and often contradictory roles in regards to social service entrepreneurship. *Decision-making* process is characterized by bidding competitions, where social service entrepreneurs have to meet the qualifications set by municipal decision-makers, the context of entrepreneurial activity is marked with power imbalance.

Social Service Entrepreneurship

In this study we use the term *social service entrepreneurship* to refer to ventures operating in the social service sector operating in close collaboration with municipalities and municipal decision-makers. Social service entrepreneurs typically offer services that cater to the needs of, for example, children, and the elderly and for mental health patients. Apart from a few bigger chains operating in the social services sector in our case, most ventures are small and the field is typically dominated by female business owners.

2 Social Service Entrepreneurship As a Context of Entrepreneurial Activity

Entrepreneurship has often been seen as an engine of economic growth (Reynolds *et al.* 1994, Acs and Audretsch 2005, Neck *et al.* 2009). Many researchers have pointed out the importance of entrepreneurship as a field of research (Venkataraman 1997, Shane and Venkataraman 2000, Shane 2003), whether concentrating on the what and why of entrepreneurship (Gartner 1989, Gartner *et al.* 2004), or on the importance of defining opportunity (Krueger 2005) or on the process of discovery and new venture creation (Shane and Venkataraman 2000, Timmons and Spinelli 2009). Increasingly, it is now also considered as a driving force behind the expansion of the social service sector (Austin *et al.* 2006) and researchers have already suggested that we need to further focus on entrepreneurship in the public interest (Klein *et al.* 2010, McGahan *et al.* 2013).

In a similar vein a particular form of entrepreneurship, namely social entrepreneurship has gained increasing attention from prominent entrepreneurship scholars (e.g. Reynolds *et al.* 1994, Dees 1998, Austin *et al.* 2006, Mair and Marti 2006, Peredo and McLean 2006, Certo and Miller 2008, Neck *et al.* 2009) and although there is overlap between the different approaches it can be said that social entrepreneurship offers distinct opportunities. In terms of the basic and long-standing needs of our societies and their welfare systems, social entrepreneurship involves recognition, evaluation and exploitation of opportunities that create social value (Austin *et al.* 2006, Watson 2013). Neck *et al.* (2009), offer a typology of entrepreneurial ventures. They look at the different forms of entrepreneurship from the point of view of the venture's mission and primary market impact, which can be either economic or social in nature. Four types of ventures - Social purpose, Traditional, Social consequence and Enterprising non-profits - form the basic categories, along with a suggestion, that hybrid forms of ventures may exist, that combine behaviors and features from more than one type of venture. Traditional ventures are driven by economic mission and although all forms of entrepreneurship can be interpreted as being social in some sense (e.g. Shapero and Sokol 1982, Chandler and Hanks 1994, Salvato and Melin 2008, Austin and Seitanidi 2012), their primary market impact remains economic. Enterprising non-profits, although having adopted general principles of entrepreneurship, define their mission in social terms and make primarily a social impact. Ventures that are classified as Social consequence ventures have an economic mission but the social impact is created merely as a by-product in the process (e.g. corporate social responsibility). Social purpose

ventures have a clear social mission but operate on for-profit bases, which results in mainly economic impact on the market. Social service entrepreneurship in this article could be interpreted as a hybrid type of venture, mostly because of the special multifaceted co-operative relationship with the municipality.

Cooperative Relationship as Agency Structure

Theoretically the relationship between the municipality and social service entrepreneurs can be looked at through the lens of agency theory. Agency theory depicts agency structure where a principal and an agent are engaged in co-operative behavior, but have differing goals and attitudes toward risk (Eisenhardt 1989). Agency theory is applicable in a variety of settings, ranging from macro-level issues, such as regulatory policy, to micro-level dyad phenomena, such as impression management. We are aware that agency theory has strong proponents and detractors. For example, according to Jensen (1983) agency theory can be seen as the foundation put into place to create a powerful theory of organizations, while Perrow (1986) claims that the theory is trivial and dehumanizing at best. Further, it has been stated that agency theory emphasizes how capital markets affect the firm (Barney and Ouchi 1986) whereas other authors (Demski and Feltham 1978, Eccles 1985, Eisenhardt1989) make no reference to capital markets at all. Despite the disagreements and differences agency theory gives us a valuable mirror to analyze the situations in which the principal and agent are likely to have not only shared but also conflicting goals and missions, and in which there are some special governance mechanisms at play limiting the agent's self-serving behavior. The agency

structure (Petersen 1993) has many effects from the point of view of cooperation that account for outcomes and performance of the social service firms.

On a practical level, the agency structure becomes most evident in the commissioner - supplier model that is typical for social service production in our case. In this model, the responsibility for organizing services (the municipality) and the actual production of them (social service entrepreneurs) have been separated from each other. Social services are commissioned by the municipality and the municipality sets the conditions for the content, extent, quality and price of services. The role of the municipality is to make sure that the customers' expectations of services are met both in terms of quantity and quality. The service commissioner can be the municipal government, the municipal manager and municipal council, or commissioners that have received their authorization (e.g. boards).

To conclude, the competitiveness of the business concept requires social service entrepreneurs to have professional knowledge, marketing expertise together with other actors, and access to the supply chain, knowledge of the law and regulations, and an open-minded and entrepreneurial attitude toward exploiting opportunities which are mainly defined by the commissioner. The relationship in the commissioner - supplier model seems to us strongly based on the competitive and co-operative interdependencies (Easton 1992, Baraldi *et al.* 2012) and imperatives. Economic relationships such as the commissioner-supplier one are also social in terms of social exchange (Aldrich and Whetten 1981, Thorelli 1986) and should call for mutual investment to build trustful bonds that provide a more predictable structure and

relation to withstand the uncertainty and change in market (Easton and Araujo 1992, Ring and Van de Ven 1992, Ring and Van de Ven 1994). Although social service entrepreneurs could be seen as falling into the category of traditional ventures in the earlier mentioned typology (Neck *et al.* 2009) their freedom of opportunity creation and exploitation is heavily reshaped by the inherent agency structure in their relationship with the municipality. It also seems that their ability to create novel service innovations may be hampered by the inherent structure of their relationship with the municipal decision-makers

Cooperative Relationships as Dependency and Power Structures

Theoretically, the concepts of dependency and power are intertwined and have been used interchangeably in describing the quality of co-operative relationships and networking. From the point of view of agency structure, the power in the co-operative relationship between the municipality and the social service entrepreneurs tends to be held by the municipality.

On a general level, whenever a social service enterprise derives a significant proportion of its turnover and profits from acting as a subcontractor to another firm, often a larger one, it becomes dependent on the latter. In turn, the latter may acquire power over its sub-contractor. Power can be measured in terms of the larger firm's influence on decision-making within the smaller firm in areas such as pricing or investment. In consequence, domination or control characterizes one form of network constitution (Szarka 1990) and power is the central concept of network analysis (Pfeffer

1981, Grabhner 1994). Emerson (1962), Thorelli (1986) and Nohria and Eccles (1992) calls power an ability to influence the decisions or actions of others, and argues that the mere existence of power is often sufficient to condition others. Following this, due to the power of the network, a firm may be legally independent- but not necessarily *de facto* independent: its action may be influenced or controlled from outside its legal boundaries, such as by the municipality in our case.

The concept of dependency refers to all the conditions that are set on the social service entrepreneurs by the municipality, and which can be (either consciously or unconsciously) controlled by the municipality because of its role as the main financial provider, and which the firm – as the recipient of the municipal funding – must fulfill. This dependency relationship bears close resemblance to the setting of traditional subcontracting, in which the municipality as the commissioner can regulate and control both the conditions in which private social sector may develop and the profitability of any single firm. The dependency inherent in the relationship is critical: if the social service entrepreneur is left without an agreement for any reason at all, it does not have much to build a profitable business upon. The entrepreneur, aware of this, is ready – it might also be said is forced – to tailor the contents, quality and pricing of services to meet the anticipated requirements of the municipality and is also likely to modify behavior in the co-operative relationship to gain favor.

From the resource dependence theory point of view (Pfeffer 1982, Pfeffer and Salancik 2003) the development of interorganizational power affects the activities of organizations. Processes of reciprocity or cooperation do not insulate practitioners from

considerations of power (Grabhner 1994, Brizzi and Langley 2012) and it has also been stated that in contrast to the market model, in which power is seen as some kind of imperfection, the network model views power as a necessary ingredient in exploiting interdependencies, and this exploitation of interdependencies may be asymmetrical because the more powerful economic actors are able to frame decisions by which the constraints and opportunities of their exchange partners are shaped (Grabhner 1994). Whereas the dependency between the social service entrepreneur and the municipality is a dependency on resources, from the point of view of a firm's operating conditions it is also a dependency on the conditions as set on the cooperation by the municipality.

2.1 Research Design

Methodology

The aim of this study was to provide fresh insight into the context of entrepreneurial activity of social service entrepreneurs by investigating the current operating conditions, needs and attitudes affecting the future development and emerging potential available in social service entrepreneurship. The focus of our study was on the relationship between social service entrepreneurs and the municipal decision-makers. Central Finland was chosen as a research environment because it is both geographically and structurally varied. There are several types of countryside represented within the area, as well as municipalities of various kinds and sizes. On a more general level it also offers the viewpoint of a Nordic country with a long and rich history in delivering affordable and attainable high-quality social services to its citizens. The pace of change

though, will accelerate rather than slow down, and thus, there will be an increased demand for bold structural solutions. (Central Finland strategy on social and health services 2005).

A particular challenge for a flexible organization of service structures is posed by the fact that in Central Finland, habitation is especially concentrated close to the municipal centers and urban areas. Due to the special requirements caused by long distances, it is necessary to find solutions in which the quality, impact, availability, efficacy and technical development of the services have all been taken into account. This is not an easy task, especially when considering the grave financial difficulties faced by the Central Finland municipalities in general.

We aim to investigate the operating conditions, needs and attitudes affecting the future development of social service entrepreneurship in Central Finland, in a new situation where the roles and relationships of the public and private sector are just beginning to emerge. To get a holistic picture of the operating conditions and cooperation relationship between social service entrepreneurs and municipal decision-makers separate questionnaires were sent to both. A total of 29 questionnaires were sent to municipal decision-makers with an 80% response rate (N=23). Out of the 133 questionnaires sent to the social service entrepreneurs, 54% were returned (N=72).

The questionnaires were designed to gather information about the operating conditions of the social service entrepreneurs and also about the conditions for social service entrepreneurship in general as defined by the municipal decision-makers. In addition to the current situation, information was gathered about the future, specifically

about the expectations of social service entrepreneurs in regards their future, and on the impressions of municipal decision-makers of the general development of the market demand. The main purpose of the information gathering was to examine the context of cooperation between the municipal decision-makers (i.e. the social sector managers) and the social service entrepreneurs, both in terms of actual processes and in terms of the verbal assessment given by the two parties.

Sample

Our sample consisted of those social service entrepreneurs who had registered themselves in the company register of the county or who had acquired a Business ID (Business Identity Code). Most of these entrepreneurs offered social services that fell solely within the organizing responsibility given to municipalities. We consciously excluded already established forms of entrepreneurship in the field, such as private pharmacies, dentists, medical doctors, ambulance services and physiotherapy, to concentrate merely on the emerging field of social service entrepreneurship.

Out of the 67 social service enterprises represented in this study, 26% offered services for relocating children at risk, 23% offered home care services for the elderly and a total of 16% concentrated on children's day-care services. Of the firms, 10% offered rehabilitation services for mental health patients, and different mental stimulation and day-time activity services. These percentages represent the general distribution of the various branches of the social service sector in the county of Central Finland. To a large extent, the local actors who responded to the questionnaires were women (78%) with a

relatively short working history as entrepreneurs in the social service sector. The surveyed entrepreneurs employed three persons on average, with the overall range being between 0 and 27 employees.

There was also variation in the turnover of businesses: 47 of the firms that responded (out of a total of 72) provided us with information of their latest accounting period. The turnovers varied between 9846 euros and 800000 euros, the average being 158000 euros. Qualitative descriptions of profitability of their business showed that 28% of respondents described it as “excellent” or “good”, 63% as “average” or “satisfactory”, and 6% as “barely adequate” or “weak”. (Appendix 1)

Data Analysis

The data gathered from the questionnaires was analyzed both statistically and by qualitative content analysis. The statistical methods used were, in connection with linear distributions, mutual correlation and Chi-Square testing (Appendix 2). When examining the data, the answers of both target groups were first analyzed in detail separately, and then the results from the municipal decision-makers and the social service entrepreneurs were looked at simultaneously as a single entity. Those parts of the questionnaire that were similar for both groups were compared with each other.

The basis for the analysis relied on statistically observable dependencies between constructs. The qualitative aspects of the data were also closely considered because these were considered to offer significant potential for providing insight into a relatively new subject of study (Dey, 1993). The qualitative aspect of analysis was also important

because we were interested in attitudes and power relations in general. Open-ended questions allowed respondents to elaborate on their experiences of daily collaboration.

3 Findings

3.1 Social Service Entrepreneurs Experiences of Cooperation

Resource dependence. When trying to determine the distinguishing features of cooperation between the municipal decision-makers and the social service entrepreneurs based on our questionnaire data, we detected a clear movement from an abundance of perspectives towards a relatively single-minded conclusion: social service entrepreneurs see themselves as highly dependent on the operational prerequisites that they receive from the municipal decision-makers. It is not merely a question of resource dependence (i.e. cooperation in the form of bought services); it is as much a question of the generally hostile context for entrepreneurial activity as prejudiced views towards entrepreneurship are still prevalent (i.e. whether social services should be offered by entrepreneurs at all). This is because the will to actually pay for social services is currently virtually non-existent. Citizens still hold a strong belief in the availability of free public welfare services and society including the decision-makers and the media generally supports the public sector as the primary source of social service production.

Four out of five (80%) entrepreneurs agreed with the statement that the relationship between their firm and the municipality is a crucial factor in their business operations. The importance of the relationship they have with the municipality can also be detected

when looking at the entrepreneurs' stance towards their opportunities in the near future: the Chi-Square test results show a clear correlation between those answers that, on the one hand, estimate the importance of the growth in the amount of social service firms in regard to the service production in the municipality in question, and on the other hand, define the effects that the quality of the municipal relationship may have on the firm's business operations. The stronger the entrepreneur's belief was in the growing importance of entrepreneurship-based social services, the more important the functioning of the municipal relationship was seen to be for the business to be successful: ($\chi^2=45,1$, $df=20$, $p=.001$). (Appendix 2). There was also correlation between the most optimistic estimates about the possibilities of growth in the importance of entrepreneurship-based social services as regards the municipal service production as a whole, and seeing their own relationships with municipal decision makers to be based on a positive attitude of the municipality towards cooperation ($\chi^2=37,4$, $df=20$, $p=.010$).

Entrepreneurs' views on the importance of a functioning relationship with the municipality were based on various factors, the most central of which appear to be the financial preconditions for business operation as set by the municipality. For the majority of the firms represented in our study, a functioning relationship with the municipality equals with a possibility to conduct profitable business. Should either the will or the resources of the municipality to buy services run out, it would also mean the end of profitable business for the firm.

When we asked the entrepreneurs about the turnover covered by the services bought by the municipality, it became apparent that only 13% of respondents could get by on

the customer demand created by the market. That is, when it comes to these firms, all their customers independently paid for the social services by themselves. This kind of customer –and independently functioning customer markets – can, however, only be found in the most urban centers. In these locations, long queuing-times or personal quality preferences may have encouraged the customers to consider the alternatives offered by social service entrepreneurs.

When the focus of attention was extended to cover areas outside of the urban areas, the share of private market demand disappears completely from the total turnover percentages. Nearly one half (43%) of the social service entrepreneurs who answered our survey were completely dependent on the municipalities' desire and ability to buy their services. An analysis of the total amount of social services bought within the region revealed further that 88% of all purchases were financed by the municipality and only 12% by independent consumers.

Dependence on the municipal resources was also reflected in the Chi-Square test results. When estimates were made concerning the current profitability of the firm, there was a correlation between those respondent groups that on the one hand considered the financial profitability of their firm to be very good, and on the other hand felt that their current municipal relationship was based on a positive attitude of the municipality towards cooperation ($\chi^2=17,505$, $df=8$, $Sq=.025$). Those entrepreneurs who considered their profitability to be very good also thought that their own municipal relationship was based on the advantages of mutual cooperation ($\chi^2=17,1$, $df=8$, $p=.029$) and that,

over the next few years, the relationship would develop further in a positive manner ($\chi^2=17,7$, $df=8$, $p=.024$).

Dependence on the functioning of cooperation. The financial obligations of the municipalities and the resulting financial contributions cannot but affect the relationships between the social service entrepreneurs and the municipal decision-makers – and the ways in which the interaction between the two is constructed. In its role as the financier, the municipality can set the conditions and take advantage of its power position in ways that leave only little choice to the entrepreneur. To attract a positive response from the decision-makers, entrepreneurs need to be ready to modify their service concept to fit the needs expressed by the decision-maker; a promise of quality that can win the trust of the commissioner must also be made. In this sense, the entrepreneur-municipality relationship resembles the entrepreneur-consumer relationship in case of normal market mechanisms: the consumer is king, and either gives birth to or eliminates markets altogether. In our case, the role of the king falls readily on the main organizers of service structures, that is, the municipal decision-makers who, as an indirect representative of customers, can either prevent or enhance the diversification of the structuring of the social service sector.

The dependence between the entrepreneur and the municipality that characterizes the social services sector is not only a prerequisite for profitable business; it is also an obstacle to the formation of genuine competitive context and to the development of normal supply and demand mechanisms. In the social service sector, the criteria for

buying services are not defined by the experience customers have from their earlier purchases. Instead, they are defined by the municipal decision-makers who, when making the agreements on the buying of services, also set the options for choices available for the customers. A functioning municipal relationship bears considerable significance on the growth of the firm's familiarity within the municipality ($\chi^2=34,6$, $df=20$, $p=.022$). A statistically significant correlation can also be detected between those answers that evaluate the relationship between the development of the operating conditions of one's own firm and the necessity of developing the municipal cooperation ($\chi^2=44,2$ $df=20$, $p=.001$).

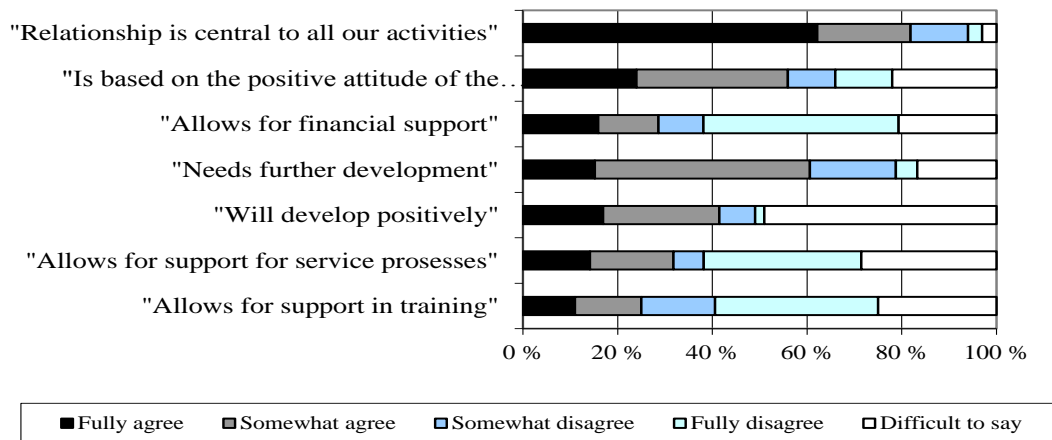


FIGURE 1. Relationship between the firm and municipality as seen by social service entrepreneurs

There is a considerable amount of power inherent in the relationship between the entrepreneurs and municipal decision-makers, which was reflected in the

entrepreneurs' experiences of cooperation. The relationships with the municipality were characterized as "riddled with suspicion" and "distrustful": it looked like the municipal actors easily took on a domineering and patronizing role, which -in addition to their general attitude- was reflected as deficient, one-way communication. Entrepreneurs' opinions were only rarely listened to, and then only if it was profitable to the municipality. On the practical level, this silent discord became most apparent in conflicts in agreement policies and bidding competition processes - usually involving questions concerning the balance between quality and cost.

These concerns, as well as the service conditions set for the firms by the municipalities (e.g., quality requirements, delivery guarantee) need to be constantly and carefully considered by social service entrepreneurs, while at the same time being fully aware of the resources offered within the municipal relationship. It is commonly known that the amount of services bought by the municipality is highly dependent on the ability of the firm to meet the demands and conditions that the municipality sets for its purchases. These conditions were defined in the cooperation negotiations between the entrepreneurs and the decision-makers, and 59% of our respondents wished that these cooperation negotiations were developed further. Most of the respondents directed their criticism at the one-way nature of cooperation, the practices that instead of dialog tend to resemble a hierarchical "take it or leave it" ultimatum. The likelihood of the decision-makers to wish for what they want and to get what they wish for is almost 100% in a situation where the negotiation partner has but a few options. When asked to express their wishes concerning the development of their relationship with the municipal

decision-makers, social service entrepreneurs brought up, among others, the following ideas:

The relationship should be developed more towards cooperation. The municipality should at least ask the entrepreneur about possible care placements, and also, the customers should be presented with the whole spectrum of available services, not forgetting the private service providers. (entrepreneur 19)

There is certainly a lot of work to be done in openness and communications.(entrepreneur 28)

The people in charge at the municipality should be interested in the private service provider. I have offered to come and present my services but not once have they found time in their schedules for that! Sharing and receiving information are the cornerstones of a functioning cooperation. (entrepreneur 74)

The entrepreneurs' will to become equal partners in the interaction is very much highlighted in the answers. They wish to become actors who, instead of the one-way right to be heard, have the right to be active partners and to make long-term service strategy plans within the relationship. The entrepreneurs' demand for strengthening their profile is not only based on the need to become valued partners in dialogue, but also (and predominantly) in their desire to develop their role as entrepreneurs creating profitable business. Agreement policies based on reciprocal negotiation practices and long-term commitments to purchase services would ensure an improved framework for

business investments, long-term development of services and decisions that may be crucial for the firm. To quote one of the respondents:

Cooperation should be uncomplicated and genuine. The entrepreneur should be aware of the needs of the municipality well in advance, so that the firm could tailor suitable services for the municipality. The cooperation should be open and happen in real-time. (entrepreneur 14)

Dependence on the conditions for the production of services as set by the municipality. The will of the social service entrepreneurs to provide services according to the conditions set by the municipality is not motivated only by financial needs but also by the fact that they are bound to do so by law. This special feature of the buyer-seller relationship is typical only in the interaction between the social service entrepreneurs and the municipal decision-makers. The need for tailoring that is apparent within the field is based both on the right of the buyer to define what is desired, and on the law-based supervisory duties of the municipality regarding the services they purchase. In this sense, the entrepreneurs' interest towards the development of the cooperation is fascinating: they have a distinct will to intensify the cooperation and interaction, even though the relationship entails the regulatory right and supervisory role of the municipality.

It is undeniably possible that the control-regulation relationship with the public authority can put the social service entrepreneur in a challenging situation. Whereas entrepreneurs should be able to act according to the conventional principles that

regulate business, they must also, at the same time, constantly modify their business operations to comply with the demands set by the municipality. This situation may easily lead to undermining the traditional role of an entrepreneur and to modeling the service production after the agreements made with the municipality about the buying of services.

Our results are similar with earlier findings in the Finnish context (e.g. Lith 2000) and point to the possibility that the dependence described above on the will of the municipal decision-makers interferes with entrepreneurs operations more than would be desirable in normal business conduct. On the practical level, this dependence may surface as a kind of a spontaneously activated control mechanism: the need of entrepreneurs to maintain a working relationship with the municipality adds to their motivation to ensure both the quality of their services and the fulfillment of the service criteria as set by the municipality. To maintain the beneficial relationship, the only decisions and actions are those that ensure both the already developed trust between the commissioner and the supplier, and the services that this relationship has given rise to.

As long as this so-called relationship maintenance ensures that the services are uniform in quality, it can be said to serve its purpose. However, the opposite situation may be just a step away. The relationship between the municipal decision-makers and the entrepreneurs is quite vulnerable. Typically, friction can be seen in the unspoken attitudes and in the ways of communication. In the light of our data it indeed seems obvious that the existence of a law-enforced supervisory duty incorporates a considerable amount of power, which will spread its influence also over other areas of

the entrepreneur-municipality interaction than just that defined by the supervisory and regulatory rights.

There were considerable differences in the ways in which the municipal supervisory and regulatory rights were realized in different municipalities and the answers provided by entrepreneurs showed a full spectrum of variation. However, in the answers of the municipal decision makers, uniformity is the dominant feature. According to them, the most common means to ensure that the supervisory duties are fulfilled include meetings, annual control visits and regular customer feedback procedures. In our case 68% of municipal decision-makers referred to such policies. The other 32% either could not or did not want to define the ways in which the municipality takes care of its supervisory duties.

We asked social service entrepreneurs the following question: How is the quality of caretaking firms supervised in your municipality? The answers included either uncertain or meticulously thought-out definitions of supervision revealing the diversity of the existing supervisory policies. Here are a few examples of the supervisory policies that were mentioned:

The quality of firm is supervised through visits by the social authorities and the health inspector, as well as through fire inspections. (entrepreneur 59)

Quality is supervised by checking that we have enough personnel considering the amount of children we take care of, and that our personnel is competent. On top of that there are also the visits and the inspections of the premises. (entrepreneur 71)

There are plans for a quality manual for the private sector. The county council also supervises the operation and the quality of the unit. (entrepreneur 42)

The municipality employees do not have any QUALITY OF THEIR OWN!!! (entrepreneur 17)

3.2 Municipal Decision-Makers Experiences of Cooperation

When we looked at the relationships between the municipality and the social service entrepreneurs from the point of view of the decision-makers, the overall picture of the nature of their interaction becomes more varied. Contrary to what was expected, the decision-makers portrayed their relationship towards the entrepreneurs not as a domineering one, but as one characterized by respect; a highly needed relationship instead of a condition-dictating one. The accelerated demand for services has encouraged (or occasionally forced) the decision-makers to readjust their opinions towards alternative solutions. As the service-related challenges increase, so does the interest towards solutions produced by local social service entrepreneurs. The municipal decision-makers, well aware of the insufficiency of municipal finances, have started to recognize a future where support from the private social service sector is essential for securing that full services can be offered.

Municipal decision-makers argued that this socially challenging situation requires new actors who are able to provide high quality services. Diversifying the service

structure is no longer an option; it is a choice that can no longer be avoided. According to them, reforms are unavoidable because of a dramatic decline in public resources, changes in the age structure of the population, and the fact that the municipalities are bound by force of law to ensure that those who need aid will receive proper service in a timely manner. Questions concerning the availability and the competence of the personnel needed to provide public social services were also seen as problematic.

To rise above the said challenges, the municipal decision-makers say, policies are needed that improve the cost efficiency of service production. Whereas striving towards economic efficiency has, until now, mostly concentrated on regional and inter-municipal public sector cooperation, in the future it will also be necessary to extend the cooperation between different sectors. About four-fifths (78%) of decision-makers estimated that the entrepreneurship-based social services will play either a 'significantly larger' or 'very significantly larger' role in the organization of their municipality's social service production (Figure 2). About 18% estimated that their role will become 'somewhat' more important.

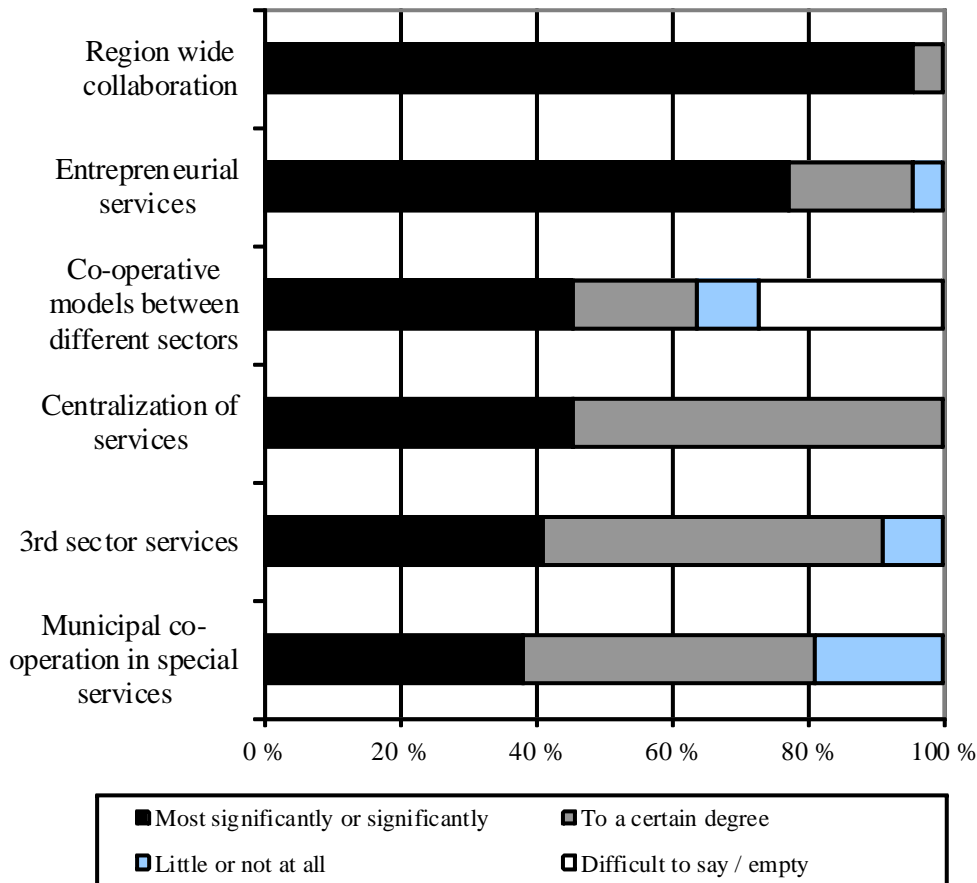


FIGURE 2. Estimates of municipal decision-makers about the expected relative strengthening of different service production methods in organizing municipal social services

Behind these visions of growth there is also respect and appreciation. When municipal decision-makers were asked to provide a more specific view on the private social service sector, their answers showed a relatively uniform, positive attitude towards entrepreneurs. Some 84% of the municipal decision-makers ‘fully’ or ‘more or less agreed’ with the following statement: *In our municipality, social service entrepreneurship is highly valued and it is seen as an opportunity.* In accordance with this,

86% of them stated that they 'completely disagreed' or 'somewhat disagreed' with this statement: *In our municipality, social service entrepreneurship is regarded with suspicion.*

These attitudes reveal that there were no signs of any kind of willingness on the behalf of the municipal decision-makers to pursue a hierarchical 'dictator and subject' relationship with social service entrepreneurs. In part, the way power is divided in the co-operative relationship between the municipalities and the entrepreneurs can, based on the statements of the municipal decision-makers, be seen in a completely different light: in the more remote parts of the countryside, where social service entrepreneurship is scarce, they complain about their *inability* to utilize the private social sector, instead of their *unwillingness* to do so. The demand for private sector actors that would operate alongside with the public sector far exceeds the current supply, and therefore, instead of their apparent role as the rule-setters, the municipalities are actually almost begging for private care services to enter their locality.

Ambiguity between attitudes and deeds. The subcontractor role of the social service entrepreneurs is not, however, as unambiguous as it might seem, when looking at the opinions of the municipal decision makers. When the current development of the sector is examined in the light of all the signals that can be detected regarding the utilization of private social services within the municipalities, the ambiguity of the growth predictions becomes apparent. On one hand, the municipal decision-makers are able to locate a strong demand: they are aware of the fact that the current municipal expenditure (on average, 10% of the total budget) on social services is much too low.

They express their strong desire to diversify the existing service structure, and regard the private service providers as central agents in this renewal process. All of our respondents (100%) predicted that, in the future, the entrepreneurship-based social services would be 'more interesting' or 'a lot more interesting' as an option when considering how to arrange service production in their municipality.

However, the positive attitudes towards entrepreneurs that is apparent in surveys is not actually realized in the form of giving tangible support to the entrepreneurs, or in encouraging consumers to take advantage of the services provided by them. The municipal decision-makers wish that the private sector would grow, but not in any such way that would result in it becoming a competitor for the municipal-level public services. The diversification of the social services sector is expected (and desired) to happen in a decided but highly controlled manner - under the inconspicuous control of the municipality. Inasmuch as the growth of entrepreneur-based services can supplement the collective municipal service structure, measures supporting their development are considered well-grounded. Nevertheless, when it comes to the general development policies of the sector, their support for this growth is not so firm (Figure 3).

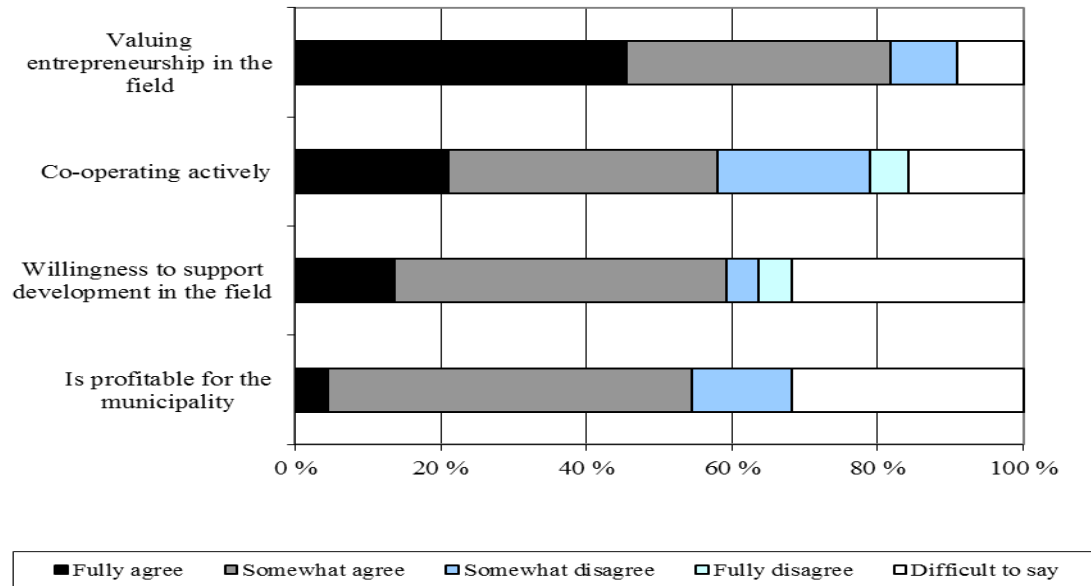


FIGURE 3. Attitudes of municipal decision-makers towards entrepreneurship-based social services within their municipalities.

The municipalities' readiness to only partially support the private social sector can also be explained by the municipal decision-makers' conceptions of the desirable future of the sector: it is expected that the selection of entrepreneurship-based services will develop as a supplement to the municipal services, not as a replacement for them. The social sector, with its long history of belonging within the sphere of public services, is not ready for a situation in which the private social sector manages to hijack *"not only the customers but also the personnel from the municipality"* as our respondents stated. Almost a quarter of the respondents estimated that *"the entrepreneurship-based social services are regarded as competitors for the municipal social services"*. Similarly, 91% of them hope, and presume, that entrepreneurship will become a more significant factor in supplementing

public services, especially the kind of services that, due to their organizing responsibility, the municipality would need to produce but which it is unable to do with satisfying cost-efficiency. In helping to fill the gaps in these demands, the abilities and resources of the entrepreneurs are very good indeed.

So, it is clearly perceived that there is a need for the sector to grow in its full extent, but almost none of the prerequisites for this are actively created. The market-controlling grip has almost a contrary effect: whether knowingly or unknowingly, it makes the development of genuine competition difficult, and hinders new actors from entering the market. It is clear that a municipality could, if it so wanted, do something about the distorted situation of the private social services market, or transform their need statements into practical development policies, but for the time being it seems that the culture is not yet ripe for change. This was clearly indicated in the statements of the municipal decision-makers concerning the concrete actions that have been taken to support social service entrepreneurs in their municipalities:

In our current strategies there are only some casual remarks about the utilization of private services. As yet, this particular sector is in a secondary position when compared with other forms of entrepreneurship. For example, [our] municipal enterprise services are not as keen on supporting the social service firms in entering our locality as they are when it comes to other kind of firms. (Municipal decision-maker 5)

Social service entrepreneurship is often overshadowed by the technical entrepreneurship, both in terms of attitudes and financial support measures. (Municipal decision-maker 11)

At the moment, the market is not yet 'ripe' for social service sector entrepreneurship. (Municipal decision-maker 16)

3.3 The Context of Entrepreneurial Activity

Whereas the social service entrepreneurs see themselves as satellites on the fringes of the municipal service machinery, the municipal decision-makers regard the private social sector as a branch of business that develops alongside the municipal services, under the competitive conditions allowed by the additional gaps opening onto the public social services system. This can also be seen in the respondents' attitudes towards the cooperation between the two actors: for the entrepreneurs, maintaining the relationship is essential for the continuity of business, but for the municipal decision-makers it is rather just one option which will only be taken if the entrepreneur can offer a cost-efficient addition to the municipal service production system.

Due to the hierarchical power relations imbued in the entrepreneur-municipality relationship, the development of the social service sector market is largely regulated by the public sector's demand for bought services, as well as by the needs and the deficiencies in the service structure as detected by the decision-makers. Instead of free market competition, the competition between firms is actualized in the municipal bidding competitions, in which, based on the criteria they have set for themselves, the municipalities choose the firm that best serves their needs. The firm that wins the bidding competition is provided with the task of producing the services that the municipality needs - within the financial boundaries set by the municipality, and in the

direct supervision of the municipality. When a firm, wins a bidding competition, it offers an opportunity to use municipal resources to create profitable business, but also the responsibility to act according to the criteria set by the municipality and the conditions stated in the commission.

In smaller municipalities, the inadequately developed competitive environment of the social service market is somewhat different. In these municipalities, an entrepreneur who has managed to create a bond of commitment with the municipality as its active subcontractor (i.e. as a supplier) will soon notice that this role resembles a monopoly position in which the entrepreneur co-operates with the municipality towards the common goal of meeting the demand for social services. This situation is advantageous for the firm that has gained the trust of the municipality, but treacherous to the overall development of the market. The more entrepreneurs there already operate in the sector in question, and the more able the established entrepreneurs are to fill the holes in the demand for public services, the harder it is for any new entrepreneurs to enter the market. In the Chi-Square tests we conducted with our data, this was reflected in a correlation between the functioning of the municipal relationship and the family background of the entrepreneur: those service providers who had already lived for a long time in the municipality in question or who had been living there since they were born considered the functioning of their municipal relationship to be a more central factor in their business operation than the other respondents ($\chi^2=21,9$, $df=12$, $p=.039$).

4 Discussion

4.1 Implications for Practice and Further Research

Currently, very little research has been done on social service entrepreneurship, meaning that there is an exceptional need for information. Both for the internal development of the sector as well as the controlled realization of the process of social change, it is important that new empirical and theoretical knowledge is produced about both the policies and practices in the sector as well as about the opportunities possibly overlooked by social decision-making.

This study offers new avenues for further research. Building on the theoretical underpinnings and the conceptual definitions introduced at the beginning of the article, we suggest increasing the focus on both the social and economic aspects of development possibilities of social service entrepreneurship. We would also like to rethink how the social aspect is emphasized in social service entrepreneurship. How do social aspects affect decision-making and the dependencies in relationships of various forms of venture typologies and business platforms? What does the social aspect mean in cooperation relationships and how is it associated with the demand-based social service entrepreneurship?

It would also be interesting to study what kind of role and influence the social aspect has on social service entrepreneurship and its development. This should include examination of how the social aspect affects opportunities for building innovation capacity and utilizing effectual strategy in social service entrepreneurship. Theoretically

it would be interesting to conceptualize the role of dependency and social aspects on the effectual logic of social service entrepreneurs.

It would also be interesting to examine the various models of the hybrid design of welfare economy networks. This might give an opportunity to further revise entrepreneurship theory.

4.2 Conclusions

Social service entrepreneurship is a promising field within entrepreneurship research due to its specific context, which inherently combines social, economic and historical (as attitudes, beliefs, and needs) perspectives. By looking at the phenomenon through the contextual lens as Welter (2011) and Watson (2013) suggest, we get an opportunity to approach the research phenomenon in a new way. For example, in the stream of networking and cooperation theories we tend to focus on the positive side of networking outcomes (Aldrich and Whetten 1981, Thorelli 1986, Nohria and Eccles 1992) and often neglect the idea that there might also be a dark side to it. Because our results revealed the effects of the imbalance of power between the municipality and the entrepreneurs, we saw how the cooperative relationships had many negative impacts on a practical level.

We have analyzed the cooperative relationships between social service entrepreneurs and the municipal welfare service monopoly, focusing on operational restrictions as dependencies and their effects on the conditions for entrepreneurial opportunities created by the demand-based market mechanism. Our study revealed that in the field of social service entrepreneurship, there is a need for deeper cooperation and dialogue

between customers, social service entrepreneurs and the municipal decision-makers. This cooperation calls for new ways to enhance the innovation capacity and demand-based development of social service entrepreneurship.

The present models for decision-making should be developed further because they are not able to create opportunities for new social service entrepreneurs to enter the field. The present models also restrict the sustainable, demand-based and effective cooperation between entrepreneurs and municipal decision-makers. Hybrid business models and hybrid networks consisting of multisector actors, activities and resources could be one solution to promoting opportunity agility and innovation in social service entrepreneurship. These hybrid models could also correct the imbalance in resource dependence that currently exists in the cooperation between social service entrepreneurs and the municipalities.

Hybrid entrepreneurship and cooperation between firms are a viable option for the reorganization of social services. Hybrid entrepreneurship could solve the practical problems of the social services sector in an innovative and effective way because, as Neck *et al.* (2009) suggest, these venture forms can creatively combine features from more than one type of venture. In order to develop and provide a variety of alternative service solutions to customers, there is a need for different types of social enterprise ventures and business models to solve the current and future wellbeing challenges. Such a variety of companies and business models also need support and active control mechanisms in order to safeguard the equality of citizens and ensure the quality of

services, which should at the same time match the customers' ability to pay in proportion.

This article builds on two groups of previous studies. In the first group, entrepreneurship is viewed as an engine of economic growth and wealth (Reynolds *et al.* 1994, Acs and Audretsch 2005), while in the second it is seen as a practice of integrating economic and social value creation (Mair and Marti 2006, Austin and Seitanidi 2012). It is our hope that this article enhances further scholarly discussion of innovative business ventures and hybrid networks that support the sustainable development of social service entrepreneurship.

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Appendices

1. Entrepreneur respondents' data

Gender:	Female 53 (78%)	Male 14 (21%)
Average age:	46 years	
Respondent's employment in the firm:	x=7 years. (0years.-17years.)	
Respondent has education related to the sector:	Yes 90 %, No 10%	
Former employer of respondent:	Public sector 56 %	Private sector 27 % Other 17 %
Prior work experience:	Public sector 84 %	Private sector 50 %
Firm established (year):	x=1998 (1988 - 2005)	
Turnover of the firm (last season):	x= 158000 € (9846€ – 800000€)	
Service branches represented by the firm:		
- Foster care	26,5 %	
- Home service, household management	23,5 %	
- Cleaning, meals, errand assistance	20,6 %	
- Child day care	16,2 %	
- Rehabilitation of mental illness patients	10,3 %	
- No answer	2,9%	

2. Chi-square test:

The functioning of the municipal relationship is a central factor in affecting our business * the significance of the private social sector is increasing its share in the service production of our municipality

	The significance of the private social sector will increase its share in the service production of our municipality in the forthcoming years			
	Can't say	Not at all / a little	To some extent	A lot / Very much
The functioning of the municipal relationship is a central factor in affecting business	6,2 % (4)	10,8 % (7)	29,2 % (19)	53,8 % (35)
The significance of the private social sector will increase its share in the service production of our municipality in the forthcoming years	100 %	100 %	100 %	100 %

	The functioning of the municipal relationship is a central factor in affecting business		
	Completely disagree / somewhat disagree	Can't say	Somewhat agree / completely agree
The significance of the private social sector will increase its share in the service production of our municipality in the forthcoming years	15,4 % (10)	3,1 % (2)	81,5 % (53)
The functioning of the municipal relationship is a central factor in affecting business	100 %	100 %	100 %

	Value	df	Asymp. Sig (2-sided)
Pearson Chi-Square	45,080a	20	,001
Likelihood Ratio	31,863	20	,045
Linear-by-Linear Association	2,929	1	,087
N of Valid Cases	65		