Service Systems and the Social Enterprise
Stephen Tracy and Kelly Lyons
University of Toronto, Toronto, Ontario, Canada

Abstract
Service science is an emerging multidisciplinary field concerned with the study of service systems and value cocreation. In recent years, the field has expanded considerably, growing to encompass a community of researchers and practitioners from a range of backgrounds and knowledge domains. However, very little research has focused on the study of service systems within the context of social-purpose organizations (SPOs), such as a nonprofit charitable organization or an academic institution. We contend that SPOs represent a class of service systems that are understudied in service science. The goal of this study is to contribute to the ongoing development of the discipline’s theoretical foundations through an empirical study of a special type of SPO, the social enterprise. Through case-study research, we analyzed five social enterprise organizations. Our findings point to a number of areas that suggest a bias in service science concepts toward economically motivated and profit-driven service systems. © 2012 Wiley Periodicals, Inc.

Keywords: Service science; Service systems; Nonprofit; Social enterprise

1. INTRODUCTION
To date, very little research in service science has focused on the study of service systems and service innovation within the context of social-purpose organizations (SPOs). We define these as organizations, institutions, communities, or groups that exist for the benefit of social or human welfare, such as a nonprofit charitable organization or an educational institution. The goal of this study is to contribute to the ongoing development of the service science discipline through an investigation of a special type of SPO, the social enterprise, which can be loosely defined as a hybrid organization that pursues a public benefit mandate while being able to generate profit. We contend that the social enterprise represents a class of service systems that is understudied in service science and thus presents a unique opportunity to apply the existing service science concepts to an emerging class of organizations with both for-profit and nonprofit characteristics. Our objective is to gain insights into which aspects of the existing service science concepts and philosophical foundations fit and which need to be expanded or revised so we may better understand how to effectively design, scale, and optimize service systems that pursue public good mandates.

Using a qualitative approach, we studied five social enterprise organizations by interviewing them using a questionnaire developed according to the service science principles of service systems (Lyons & Tracy, 2012). These principles include resources, entities, access rights, stakeholders, value cocreation interactions, governance interactions, networks, outcomes, and ecology. The findings indicate a number of areas that suggest a bias toward economically motivated and profit-driven service systems. Although the outcomes of the case study analysis indicate a number of issues in the application of service science logic to a broader context, we do not believe the current trajectory of the discipline to be amiss. Quite the contrary, as many of
2. BACKGROUND

In recent years, the concept of a social enterprise has become increasingly popular in many countries around the globe. As hybrid organizations, they attempt to bridge the disparate and often competing interests of nonprofit and for-profit organizations by generating wealth while pursuing a social purpose. Defining the social enterprise has been a challenge for researchers and practitioners. As a broad definition, Dart (2004) asserts that social entrepreneurship is characterized by out-of-the-box thinking and innovation in the social sector. Dart (2004, p. 411) also attempts to draw a line between social enterprise organizations and traditional nonprofits by stating that the “strategy, structure, norms, and values” represent inherently new and innovative approaches to solving the challenges nonprofits typically face.

Hartigan (2006) takes a slightly different approach and outlines two of the most common business alignments associated with social entrepreneurship, which include hybrid nonprofits and hybrid for-profits (also known as social businesses). The former is defined as a nonprofit organization that establishes or partners with a for-profit entity that can generate revenues. Through the sale of goods and/or services, it is common for this configuration to channel a percentage of the revenues generated by the for-profit entity back into the nonprofit entity to reduce administrative and operational costs. However, many hybrid nonprofit social enterprise models also engage in other business activities, such as social finance (e.g., community bonds, social impact bonds). As a result, the for-profit entity may have shareholders to whom they are liable to pay a portion of their profits. Shareholders for these types of organizations often include private and public investors interested in social impact finance opportunities.

According to Hartigan (2006), the second most common business model for a social enterprise organization is the hybrid for-profit venture. In contrast to the hybrid nonprofit model, there is no dual or multiorganizational relationship. This type of venture is a single, for-profit entity founded on the basis of generating positive social and/or environmental change. She further states that “while profits are generated, the main aim is not to maximize financial returns for shareholders but to grow the social venture and reach more people in need effectively” (Hartigan, 2006, p. 45).

For the purpose of this study we accept the definition of a social enterprise used by the Task Force on Social Finance (2010, p. 4), which defines it as “any organization or business that uses market-oriented production and sale of goods and/or services to pursue a public benefit mission.” This includes charitable organizations with enterprising activities, nonprofit organizations with enterprising activities, for-profit cooperatives, and social purpose businesses.

3. METHODOLOGY

The goal of this study is to address the following questions:

1. Do social enterprise organizations represent a class of service systems that cannot be meaningfully described by the current conceptualization of the service system described by service science?
2. Can the existing service science concepts be meaningfully applied as a theoretical lens for understanding service systems within the context of organizations that pursue the advancement of human or social welfare over the pursuit of profit?
3. If not, how must the existing service science conceptualization of the service system be adapted, changed, or modified to accommodate these types of service systems, or can they?

The study was carried out through case study research. The methodological design was heavily influenced by the works of Eisenhardt (1989), Yin (2003), and Small (2009). In his influential works, Eisenhardt (1989) outlines a framework for building sound theory from case study research. He asserts that “case studies can be used to accomplish various aims: to provide description, test theory, or generate theory” (Eisenhardt, 1989, p. 535). In our case, the goal is to test existing theory through case study research.

The primary instrument for data collection was a formal one-on-one interview with executive personnel at five social enterprise organizations across Canada. Initial case selection occurred following a call-for-participants (CFP) through a number of channels that serve the social enterprise community. We employed
an elite interviewing technique, which targets “influential, prominent, and/or well-informed people in an organization or community” (Marshall & Rossman, 1999, p. 113). As the goal of this study is to test existing theory against a specific business context, the high-level knowledge and understanding provided by elites can assist in acquiring both meaningful and insightful data.

We used the service system framework and interview guide presented in (Lyons & Tracy, 2012), which was based on a literature review of existing work on the principles of service systems. The framework can be used to analyze and characterize a given organization as a service system. The concepts presented in the framework reflect the abstract constructs of the service system present in the existing service science literature (McGuiggan & Lee, 2008). These concepts include resources, entities, access rights, stakeholders, value cocreation interactions, governance interactions, networks, outcomes, and ecology.

Using Yin’s (2003) cross-case methodology, we analyzed and tested the core concepts developed in the framework in Lyons and Tracy (2012) against the patterns observed in our case interview data. An open-coding methodology was used to analyze the interview data as a means to identify key concepts of the service system framework within each case (Burnard, 1991). We then applied a technique used by Pandit (1996), where each concept is categorized as being explicitly supported, implicitly supported, or not supported by the conceptualization of a service system presented in the framework in Lyons and Tracy (2012). The goal was to look for concepts in the service system framework that fit, and those that did not. This process was carried out for each of the five cases included in this study.

4. DESCRIPTION OF CASES

Interviews were conducted with executive personnel at five separate social enterprise organizations across Canada. All organizations that participated fulfilled our basic criteria for being classified as a social enterprise.

Case 1 was a health care service provider that targets individuals and communities in marginalized or isolated communities within a specific region of Canada. They specifically target delinquent and troubled youth. Both cases operate as nonprofit organizations but maintain a for-profit subsidiary that provides additional fee-for-service activities. In both cases, the profits generated by the for-profit business are partly distributed to shareholders and partly reinvested into the nonprofit entity as a means to reduce operating costs. Shareholders include private and public investors interested in social impact finance opportunities.

Similar to Case 2, Case 3 was also an equal opportunity employment organization that specifically targets newly arrived immigrants to Canada who are confronted with various barriers to employment in the Canadian market. They operate as a nonprofit organization but also operate a for-profit subsidiary that provides additional fee-for-service skills development and training activities.

Case 4 was a single for-profit floricultural organization that operates as a social enterprise through various service offerings that provide vocational skills training to individuals and communities with barriers to employment. They primarily target Canadian women who are incarcerated within the Canadian prison system or have recently been released from prison. A percentage of the profits generated from their main line of business are channeled into supporting their social activities and generating positive social change.

Finally, Case 5 was also a single for-profit organization; however, it provides a number of pro bono services. This organization primarily deals in consulting and professional development for struggling start-ups and community-based organizations using a fee-for-service model. The pro bono services primarily target social entrepreneurs in marginalized or isolated communities within a specific region of Canada that may have difficulty gaining access to education, resources, and/or financial support. A percentage of the profits made through their primary fee-for-service operations go toward funding or subsidizing community programs or initiatives, as well as supporting the pro bono services provided to particular individuals or groups.

5. FINDINGS

In this section, we present our findings from the interviews and our coding process and discuss areas that warrant further study in applying the existing knowledge and understanding of service systems in the context of social business.
5.1. Resources

To help respondents identify resources within their organization we provided the following definition of resources as conceptualized in the service science literature: “anything with a name [within the service system that] is useful” (Barile & Polese, 2010, p. 25). In defining resources, we opted for this broader definition as it provided the respondent with a certain degree of freedom in describing what they perceived resources to be within their service environment. We further indicated that resources can be characterized as either physical or conceptual. We also provided examples based on the service science literature, indicating that people, technology, organizations, and shared information could all be considered resources, with the caveat that they should feel free to add any resource types in their response.

Three high-frequency concepts of resources discussed by all five respondents included knowledge, shared information, and information technology. In addition, the notion of space as a resource was discussed by two of the respondents. The role of space as a resource was discussed for both its physical and conceptual significance. Space has not been discussed explicitly in the service science literature. As a physical resource, one respondent focused on qualities related to aesthetics and design, stating that "creating a positive space within our work environment is essential for productivity... and we achieve this through various ways, such as an open concept office layout, natural lighting, and other warm and inviting elements.” Another respondent focused on the conceptual aspects of the organization’s space and discussed a value system that encourages collaboration and works to reduce barriers to communication, stating that, “we are so effective at what we do because we have a very open and healthy work environment which is based on a set of core principles... which include respect and teamwork.” What they seemed to be focusing on was the role of culture as a resource in their service environment. Culture, as a set of shared values and principles, has not necessarily been ignored in the service science literature but has not been actively explored either. As a type of shared information, the significance of culture within a service environment is often implied. But understanding the role of shared values, or perhaps even competing values, within a service system can be helpful when addressing issues of design. The assumption here is that one can embed certain values into the design of a service system. In discussing the politics of design, Winner (1980) asserts that the social or economic system in which a technology is embedded can shape or influence its design. Embedding user values within the design of computational systems has been well studied. Friedman, Kahn, and Borning (2006, p. 349) refer to this as value sensitive design, which “accounts for human values in a principled and comprehensive manner.” Embedding these values in the design of service process can improve both the effectiveness and efficiency of the service system by taking into account the shared values and culture of the customers it serves. We do not believe this notion of culture and its significance is exclusive to the context of social enterprise organizations. Culture plays an integral role in the success or failures of any organizational setting, regardless of their mission. Based on our results, however, we do believe the notion of culture as a resource has not been thoroughly explored in existing service science research.

5.2. Service System Interactions

There are two primary types of service system interactions: value cocreation interactions and governance interactions (Barile & Polese, 2010). System interactions take place between entities that exchange resources. The outcome of the resource exchange is determined by the competences of the entities involved. In the interview, we defined and described the two types of interactions for the respondents. We defined value cocreation interactions as a set of processes, both formal and informal, that define the nature of the exchange and result in the cocreation of value between two or more entities (Sandstrom, Edvardsson, Kristensson, & Magnusson, 2008). We defined governance interactions as system interactions that take place as a means to ensure the “efficiency and viability of the system” (Barile & Polese, 2010, p. 25). Following this, we asked the respondents to describe some of the key interactions that take place within their service system as well as the entities and processes involved in those interactions.

All respondents described interactions that take place between business entities and the community or public entities they serve. It seemed that each organization’s social mission played a considerable role in the process of value cocreation. For example, one respondent stated that their “ability to succeed as a business is grounded on the premise that... profits do not come at the detriment of someone or something...
else.” The logic here was that benefits or satisfactions for one entity cannot come at a loss to another, even if the entity that loses is indirectly involved in the service encounter. This respondent cited an example in which the goods produced as part of one of their service offerings had to be ethically sourced and environmentally friendly. It was perceived that customers who purchased these goods were cocreating value not only between the provider and customer but also for the environment and public as well. This was done by supporting local community businesses or organizations (e.g., ethical sourcing) as well as by generating either a positive or neutral effect on the environment as a result of the manufacturing processes.

When discussing how value is judged within the service system the respondents indicated that customers judged value according to a number of dimensions. Based on the responses given in all five interviews three categories of perceived benefits emerged: functional, emotional, and social benefits. Functional benefits relate to the utility provided to the customer as a result of the service encounter. One example given included the transfer of knowledge and understanding or development of skills as a result of completing an educational course.

Emotional benefits refer to a change in the customer’s nonphysical state. Examples of this can include reduced anxiety, increased motivation, increased self-esteem, and increased sense of empowerment or peace of mind. One of the respondents, whose service offerings included creating career opportunities for individuals with barriers to employment, stated “while the [functional] value for our students is rooted in the transfer and development of knowledge, the real value lies in their psychological transformation.” This respondent stated that many of their students demonstrate an increased motivation to succeed as well as increased self-esteem on completing the training program.

Another respondent stated that in offering financial accounting services to their customers they were not “just providing knowledge based services. . . [but] peace of mind as well.” In this case, the functional benefit was the application of competence on behalf of the provider, while the emotional benefit was the customer’s satisfaction in knowing their business finances were in order.

Finally, social benefits refer to the indirect benefits that affect another entity or entities as a result of the service encounter. The entity affected by this change can be either physical (e.g., a community or the environment) or conceptual (e.g., culture). Although this type of value does not provide a direct benefit to the customer engaged in the service offering, it is perceived as a benefit nonetheless, as it cocreates value at a higher level. An example of this given by one respondent was the social value created for the environment through the ethical sourcing practices used to acquire natural resources needed to produce some of their tangible products. This respondent stated that “our customers engage with us similar to how they would engage with a charitable organization. . . their [customer] behaviors are driven by their principles and they are motivated to buy from us knowing they are contributing to a form of positive [environmental] change.” The importance of social value for customers was stated by all five respondents, and it would seem that this unique value element is not thoroughly explored in current service science research.

Overall, it would appear that exploring value cocreation within the context of the social enterprise raises some new and interesting perspectives on how value is judged within service systems. Interestingly enough, the importance of elements such as emotional and social value is not exclusive to the context of social enterprise; however, we do believe that an organizational mandate focused on positively impacting social or human welfare tends to highlight the significance of these elements. Overall, emotional and social value are not thoroughly explored in the existing literature, which tends to focus on the role of price-oriented value and functional benefits. Exploring emotional and social benefits can be useful in helping practitioners design more effective value-oriented service systems.

5.3. Stakeholders

We asked the respondents to identify key stakeholders in their service system, including customers, providers, authorities, and competitors. We also asked the respondents to comment directly on competitive forces. For the three nonprofit organizations, this was fairly complex, as their view of competition was not simply based on market dominance and profits. One of the respondents stated, “competition for us is not a race to make money but a struggle to generate impact.” The responses indicate that motivations for competing with other organizations are rooted in increasing the outcomes and impact of the social mission, rather than generating wealth. Revenue is, of course, an important
aspect of their ability to sustain their operations; however, it is a means rather than an end unto itself.

Another interesting observation was that all five respondents indicated a unique stakeholder perspective that has not been explored in the service science literature: a community stakeholder perspective. Some might associate this stakeholder perspective with the customer perspective; however, a number of observations from our data suggest that this stakeholder perspective is unique in its own right. The community perspective was, in all cases, linked to the organization’s social and/or environmental mission. Generally speaking, customers have a direct relationship with the provider and evaluate service quality throughout the service interaction. In contrast, the community tends to have an indirect relationship with the provider. Community, as conceptualized by the respondents, varied from specific communities within a particular region to broader communities that transcended time and space and are connected through shared values.

A community is seen as an important stakeholder perspective for two reasons. First, community members also evaluate quality even without directly interacting with the provider. The second reason the community was seen as important relates to innovation. According to the existing service science literature, it is believed that competition in the marketplace is the primary driver of innovation within the firm (Spohrer, Anderson, Pass, & Ager, 2008). This notion is based on the assumption that businesses are motivated primarily by the pursuit of profits, and, in a competitive marketplace, innovative practices are a result of the pursuit of competitive advantage. This belief is somewhat conflicted with the principles of social innovation in which innovation is motivated by the need to address social and/or environmental challenges. These challenges in turn drive innovative processes that shape the service systems found within social enterprise organizations. Our results overwhelmingly support this, as our respondents described highly innovative and cutting-edge services in a number of cases that were not motivated by the pursuit of profits or the achievement of competitive advantage. For example, one organization that provides skills development and training for individuals with barriers to employment designed a highly sophisticated and innovative education program in response to community needs. The program enjoys a great deal of success relative to similar organizations in the region with a 90% employment rate following successful completion. The course curriculum, pedagogies, and delivery methods were all custom designed to address the unique challenges that their community faced.

In another example, a respondent attributed their motivations to innovate within their organization to issues related to the digital divide. In this case, the organization worked with communities that were highly marginalized and had little access to information and communications technologies (ICTs). As a result, this organization embarked on a highly successful initiative to design and implement an e-learning platform that was capable of overcoming both the physical boundaries (access to information technology) and conceptual boundaries (knowledge needed for effective use) that existed. The innovative program was the result of a dynamic configuration of business, government, and community stakeholders working together to address a social challenge. In nonprofit and social enterprise circles, this is commonly referred to as social innovation, which can be defined as “innovative activities and services that are motivated by the goal of meeting a social need and that are predominantly developed and diffused through organizations whose primary purposes are social” (Mulgan, Tucker, Ali, & Sanders, 2007, p. 8).

In one case, the community stakeholder perspective was also linked to competition. In this scenario, the respondent stated that several years ago they had worked on a service offering that involved collaboration with other businesses and government entities to offer local struggling start-ups access to highly subsidized office supplies. Their membership almost unanimously rejected the offer, indicating that many of them preferred to buy supplies and equipment from local businesses to support other friends, neighbors, and community members, despite having their own financial challenges. For the respondent, this was a lesson in the power of social capital. It demonstrated that trust and reciprocity can bear greater significance than the prospect of a reduced bottom line. This is interesting, as reciprocity agreements can be illegal between business entities (Pride & Ferrell, 2008). The difference between these types of reciprocity is significant. Reciprocity agreements in business markets are often frowned on as they can threaten competition (Pride & Ferrell, 2008). At the community level, however, reciprocal relationships are socially binding and can work to build trust (Portes, 1998). These differences between the nature of and motivation for reciprocity between entities, whether business, organization, community,
or individual, should be studied further as they can tell us a great deal about value cocreation within service systems.

6. DISCUSSION

Based on our findings, we have identified four primary areas that warrant further study in applying the existing knowledge and understanding of service systems to the context of social enterprise organizations. These include stakeholder perspectives, motivations to innovate, perceptions of value, and types of resource exchange.

6.1. Stakeholder Perspectives

Based on the findings, there is a tendency for executives at social enterprise organizations to view community as a primary stakeholder perspective. Such a perspective has been largely ignored in the existing service science literature, which identifies customers, service providers, regulatory authorities, and competitors as the four primary stakeholder perspectives. A community, as a stakeholder perspective, suggests a much more indirect exchange. In essence, a service agreement that brings about positive social and/or environmental impact cocreates value indirectly for a community at large.

6.2. Motivation to Innovate

According to the existing service science literature, competition in the marketplace drives innovation within the firm. This notion is based on the assumption that businesses are motivated primarily by the pursuit of profits, and, in a competitive marketplace, innovative practices are a result of the pursuit of competitive advantage. This belief is very much in conflict with the principles of social innovation in which innovation is motivated by the need to address social and/or environmental challenges. These challenges in turn drive innovative processes that shape the service systems found within social enterprise organizations. Our findings overwhelmingly support this, as our respondents described highly innovative and cutting-edge services in a number of cases that were not motivated by the pursuit of profits or the achievement of competitive advantage.

6.3. Perceptions of Value

Emotional and social value is not very well understood in the existing literature, which tends to focus on the role of price-oriented value chains found within the service offering. Furthermore, the motivation of service system entities to exchange competence without explicit returns on said exchange (as is sometimes the case in social enterprises) presents another dimension of service that can be difficult to comprehend using economic or business knowledge and understanding. Our results highlight three areas of significance in the value equation: functional, emotional, and social benefits. In the existing service science literature, there is an overwhelming tendency to focus on functional benefits in relation to value. Our findings suggest the need to explore emotional and social benefits in service systems.

6.4. Resource Exchange

One area that we pointed to in our discussion was the significance of culture within the service environment of social enterprise organizations. Almost all respondents mentioned the importance of culture, such as shared values, principles, and beliefs. Interestingly, many of the respondents discussed the significance and role of culture somewhat differently. For example, one of the respondents discussed the positive impact on their business outcomes from having a rich culture and value system in place within their organization, while another respondent discussed the notion of culture as a barrier to value cocreation. The relevance of culture as a defining or sustaining force for a service system is largely ignored in the existing service science literature. Further research in this area can strengthen the foundation of service science research in its capacity to meaningfully analyze and describe service systems regardless of context or ecological composition.

7. CONCLUSION

The goal of this study was to investigate a relatively unexplored dimension of the service science literature by testing the existing conceptualization of the service system and its principles by applying it to the context of the social enterprise. The principles of a service system include resources, entities, access rights, value cocreation interactions, governance interactions, stakeholders, networks, outcomes, and ecology (see Lyons &
Case studies were conducted at five social enterprise organizations across Canada. Using an open-coding methodology, we analyzed the results with the goal of understanding how well the current service system concepts can be applied to classes of service systems that fall outside of the traditional business domain.

Our results indicate that the current trajectory of service science is very much on track to becoming a valuable multidisciplinary field in service inquiry; however, a number of knowledge gaps exist in the literature that should be addressed as a means to further develop the foundations of service science. The primary areas that we believe warrant further inquiry to close these gaps include limitations of current stakeholder perspectives, narrow views for understanding motivational factors for innovation, limitations in customer perceptions of value, and, finally, limitations in the conceptualization of types of resource exchange. We recommend that further research, both empirical and conceptual, be undertaken to close these gaps and ensure the value of applying service science to all contexts of service systems.

Future empirical studies that wish to follow a similar methodological design as the one employed in this article may benefit from a more targeted approach to testing the service system conceptualization. The questionnaire used to collect our data, which is presented in Lyons and Tracy (2012), draws on 10 existing principles of the service system. Researchers who wish to build on this study may gain deeper insights by focusing on a single aspect of the service system (e.g., resources) as it pertains to their business context. This would also require future studies to build on the existing questionnaire by developing new questions that allow the researcher to go deeper into the service system conceptualization. Finally, future studies may also benefit from broadening the participant criteria for data collection. As this study focused on elites, which targets “influential, prominent, and/or well-informed people in an organization or community,” the insights we gained were often very high level (Marshall & Rossman, 1999, p. 113). By interviewing actors that work at various levels within an organization, from specialists to managers, the researcher can gain highly granular insights that may assist in further refining the service system framework.

It would appear that the social enterprise does indeed represent a class of service systems that cannot be meaningfully and wholly described by service science. The roots of these shortcomings are based on a research trajectory that has yet to fully explore the realm of service activity that is based on nonmonetary value and exchange. These types of service systems can be found in government agencies, academic institutions, charitable organizations, and social business ventures, to name a few. In order for service science to emerge as a robust multidisciplinary field, it must encourage more discourse in areas that fall outside of computer science, business, and marketing. The research contributions thus far have brought the field of service science a great distance in just a few short years, but there is much work to be done. We hope this contribution will provoke future collaborations in this field that will benefit service researchers and practitioners alike, regardless of their business, organizational, or institutional context.

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