The roles of opportunity processes in a social business model: insights from China's e-commerce villages

Research-in-Progress

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Abstract

A social enterprise connects a social purpose with economic rationality and market-based approaches to solve recognized social needs. However, opportunities often far outstrip the resources available to address these needs, making the design of a social business model challenging. It has been suggested that opportunity processes in a social enterprise enable economic, social, and environmental resources to reinforce one another in novel ways. Based on an in-depth case study of a large social enterprise in China, we find that opportunity processes are important components of a social business model. New opportunities are created deliberately while building a social business model, leading to the large-scale mobilization of participation in e-commerce activities. We differentiate endogenous and exogenous opportunities to enable the clarification of the roles of various opportunity processes. This study potentially enriches our knowledge of the relationships between opportunity processes and the construction of a successful social business model in the context of e-commerce.

Keywords: E-commerce, Opportunity Processes, Social Business Model

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Introduction

A social enterprise or social business is an organization that uses market-based approaches to fulfill its social purpose. Thus, it combines principles from both traditional and social entrepreneurship to design its business model. Although it is easy to identify social needs or market failures, they "often far outstrip the resources available to address them, particularly because the ultimate consumers are often unable to pay enough to cover the costs of the goods or services" (Austin et al. 2006, p7). Thus, it is a challenge to design a viable *social business model* – the resultant business model for social enterprise. Yunus et al. (2010) offered the following three reasons to research social business models: (a) humans have a natural, instinctive desire to make life better for others via social objectives, (b) a social business model can be easily learned and adapted without fear of competition, and (c) a social business model can serve as a "learning hub" for multinational corporation managers to develop dynamic capabilities (Teece 2007).

The social business model differs from the traditional business model in that the former maximizes stakeholders' values rather than shareholders' values (Yunus et al. 2010). Because the business model embodies a consistent and holistic logic for decision makers to select from among "the myriad choices and actions involved in execution" (Richardson 2008, p.135) and to focus "on how all the elements of the system fit into a working whole" (Magretta 2002, p. 90), the study of the social business model allows us to gain insights into the strategic logic of social enterprises. Additionally, the development of a business model is an enactment of entrepreneurial opportunity (George et al. 2011) in which "an idea or dream...is discovered or created by an entrepreneurial entity and is revealed through analysis over time to be potentially lucrative" (Short et al. 2009, p.55). Thus, we posit that social business models can achieve social objectives via innovative designs that are impossible for traditional for-profit ventures.

Opportunity processes, such as opportunity recognition, creation, discovery, and exploitation, are core concepts in the field of entrepreneurship. Sarasvathy et al. (2003) suggests that the selection of the processes depends on their use - e.g., opportunity recognition is used to match existing supply and demand, opportunity discovery is used to determine new supply to exploit known demand or vice versa, and opportunity creation is used to determine both new supply and new demand. It has been suggested that opportunity processes within a social enterprise enable economic, social, and environmental resources to reinforce one another in novel ways (Murphy et al. 2008). However, extant research linking opportunity processes and business models is rare; as highlighted in a recent research review, "the mechanisms by which the underlying opportunity and the business model are interconnected have not been explored" (George et al. 2011, p.88).

To address this gap, we use entrepreneurial opportunity as our theoretical lens to conduct an in-depth case study of a social enterprise in China. The social enterprise is from a rural county with limited resources; however, within 3 years, it managed to create a business model that successfully assisted ecommerce entrepreneurs, micro-entrepreneurs or *netreprenuers* (Avgerou et al. 2013) to exploit the ecommerce platform. Specifically, our research question is posed as follows: *How does a social enterprise create a social business model in the context of e-commerce?* When the study is completed, we seek to make two research contributions: (a) to theorize the role of opportunity processes in the creation of a social business model, and (b) to illustrate a novel social business model in today's e-commerce landscape.

Theoretical Foundations

Social Business Model

Luke et al. (2013) defined a *social enterprise* as "an organization that exists for a social purpose and engages in trading to fulfill its mission, using market-based techniques to achieve social ends". Because social enterprises use a commercial approach, they operate in a manner that is similar to that of traditional enterprises; except that social enterprises recruit social profit-oriented shareholders and indicate their social profit objectives clearly and early in the process (Yunus et al. 2010). Similar to traditional business model innovation, social business model innovation challenges conventional thinking and considers both social and economic values:

"...Social enterprises should be self-sustaining and, therefore, entrepreneurial in their endeavors. From these premises, we suggest that the definition of entrepreneurship might be modified to include the creation of 'social and economic value' and may thus be applied to both private, entrepreneurial ventures as well as social enterprises" (Chell 2007, p.5).

From this perspective, a business model depicts the transactive elements of a firm through opportunity exploitation (Amit et al. 2001), and the creation of a new business model is an enactment of entrepreneurial opportunity (George et al. 2011). Social business models can create new markets and simultaneously improve societal wealth; but they are typically operating under high uncertainty conditions, such as high imperfect markets, lack of governance, poor infrastructure, unfamiliar with technology, or ambiguous desired outcomes (Thompson et al. 2010). Thus, new strategic approaches are required to integrate and balance the social and economic value, or to address the "strategic paradox of how to create shared value" (Florin et al. 2011, p.166). One approach is to collaborate between commercial and social enterprises by contributing their complementary capabilities to create and capture value in novel ways (Dahan et al. 2010).

Despite the importance of addressing social business models differently from traditional models, only a few social business model frameworks have been proposed (e.g., Florin et al. 2011; Yunus et al. 2010). In Yunus et al. (2010)'s social business model, the following changes are made from a commercial business model: use a stakeholder rather than a customer value proposition, include both social and economic profit equations, and aim to achieve no economic loss rather than to maximize economic profit.

Opportunity Processes

In the entrepreneurship field, opportunities have been defined as "situations in which new goods, services, raw materials, markets and organizing methods can be introduced through the formation of new means, ends, or means-ends relationships" (Eckhardt et al. 2003). In contrast to earlier definitions (Shane et al. 2000), this definition, which reflects the dominant view today (Short et al. 2009), explicitly states that opportunities may only be based on new means or new ends. The nature of opportunity has also been the subject of numerous studies (Companys et al. 2007; Eckhardt et al. 2003; Murphy 2011). Based on the notion of temporal distance, Tumasjan et al. (2013) studied the effects of the desirability and feasibility of opportunities, with desirability referring to an opportunity's perceived attractiveness and feasibility referring to an opportunity's perceived difficulty in exploitation.

Opportunity recognition, identification, creation, discovery, and exploitation are processes suggested in the field of entrepreneurship; however, researchers often select only a few processes to study without mentioning other processes as there is no consensus regarding their existence or their definition. For example, there is much debate on whether opportunities are found through a process of "discovery" or a process of 'creation' (Alvarez et al. 2007). Alvarez et al. (2012) suggested that the information and decision-making setting used in the processes of discovery and creation are different; the former is a knowledge-driven process that allows for risk-based decision making, and the latter is a socially driven process that enables incremental, inductive, and intuitive decision making. Short et al. (2009) believed that scholars will progress toward a middle ground in which certain opportunities are perceived to have been discovered while others are created, depending on the context.

Opportunity discovery and opportunity exploitation are two core processes of entrepreneurship (Shane et al. 2000). *Opportunity discovery* is a process used to "perceive a previously unseen or unknown way to create a new means-ends framework" (Eckhardt et al. 2003, p.339); *opportunity exploitation* is a process used to acquire resources or engage in activities to exploit an opportunity. Shane (2012) emphasized that these processes do not necessarily follow a planned sequence.

Research Methodology

We adapted an in-depth case study as our research methodology because the study of opportunity processes associated with social business models has had little empirical substantiation (Eisenhardt 1989) and because an inductive method is more suitable for exploring a 'how' question (Walsham 1995). Our case study is the *Suichan E-commerce Association* (SECA), a social enterprise dedicated to promoting e-commerce in Suichan, a county located in Lishui City of China. Suichan has a population of 231,000,

organized into 7 towns and 11 villages. Within three years after SECA was founded in March of 2010, it had received significant attention from the e-commerce industry and government agencies nationwide. In 2013 alone, there were more than 120 official visits from government agencies and the news media, a surge from 38 in 2012. As of August 2013, SECA had approximately 1,300 members. Specifically, 90% of the members were netreprenuers who generated 25 million US dollars in sales in 2012. As of August 2013, SECA employed a total of approximately 120 staff, organized into three functional departments: production to assist suppliers in designing products suitable for e-commerce, marketing to collaborate with government agencies to promote local products, and a special department to assist villagers in adopting e-commerce. The success of SECA is a unique phenomenon because this small nonprofit organization is able to mobilize and shape government agencies, entrepreneurs, suppliers, the Alibaba Group (the largest e-commerce platform operator in China), and villagers to successfully promote e-commerce in Suichan. We found SECA suitable for our study because SECA demonstrated its ability to construct a social business model within a short period, from March 2010 to Aug 2013.

We gathered background information on SECA, Lishui City, Suichan, and the ecosystem of the ecommerce industry in April 2013 and June 2013. In July 2013 and August 2013, we interviewed the founders of SECA, and we visited SECA and its logistic and supermarket sites, two villages in Suichan and nine e-commerce enterprises. In addition, with the help of the local government, we conducted four official forums that allowed us to interact with government officers and key stakeholders in activities organized by SECA. In the initial stage, we conceptualized the phenomenon from an opportunity creation perspective to understand how the social business model was constructed. We obtained additional data by scanning secondary data from SECA's official website (www.wdxh.org), 34 articles reported by the news media, and official reports published by Lishui City and Suichan. The scanning process was undertaken from September 2013 through November 2013 to achieve data triangulation, reduce self-reporting bias, and resolve any incongruence that might arise from the collection of these additional data. During our data analysis, the notions of *endogenous opportunity* and *opportunity repository* emerged. We will explain these notions in the *Discussion* section.

Case Description

The social business model constructed by the social enterprise consists of two interconnected initiatives: the e-commerce supply chain and the e-commerce demand chain. Figure 1 depicts the relationships among the two initiatives, the rural community, and the e-commerce opportunity offered in China.



Social Enterprise

Unlike in a typical industry trade association, the president of SECA was not from a traditional organization in the e-commerce industry. Instead, he was a top manager of another industry in Shanghai, a nearby city. He had accepted the role as a volunteer because he felt that the e-commerce community was sincere in wanting to help the local community.

"I find [the establishment of SECA] is at least a positive move – a group of people coming together not for self-interests but to make Suichan a better place for netreprenuers.... I felt we were lucky to have a group of people in rural areas to think about how the information age can give us a chance to level the playing field." (President of SECA)

With only a limited fund of RMB\$30,000 (approximately USD\$5,000) at the beginning, all council members of SECA were volunteers without financial compensation.

The Communist Youth League (CYL), a youth movement under the Communist Party of China, was one of the key sponsors of SECA. The CYL has some degree of political power to influence government agencies. It was in CYL's interests to support SECA programs as the CYL has a political agenda to develop rural areas via the youth movement. Specifically, the CYL wanted to collaborate with SECA to create career opportunities and cultivate entrepreneurship among youths.

The core activities of SECA in the first year were focused on encouraging individuals to enter the e-commerce market as entrepreneurs. In contrast to courses offered by others in the city, SECA had no difficulty attracting participants to attend its courses. In addition to the higher demand resulting from the lack of learning opportunities in rural areas, more importantly, SECA had been successfully perceived by others as a social-driven organization, as an organization supported by CYL, and as an organization with leaders who were not motivated by the pursuit of profit. SECA and key stakeholders believe that e-commerce is not only an economic opportunity for businesses but also an opportunity to transform the lives of the people in rural areas as e-commerce equalizes the playing field for businesses and consumers and gives villagers hope that their children working in the city may return to their hometown.

E-commerce Supply Chain

Members who had trained and decided to enter the e-commerce market realized that one challenge was sourcing good competitive products to sell. Suppliers approached SECA to sell their products, believing that SECA had already established a network of resellers, and netreprenuers asked SECA to negotiate with suppliers on their behalf as suppliers. However, SECA hesitated to help initially because such assistance implied that SECA would need to create a complex supply chain connecting suppliers and members.

"There were many e-commerce trade associations in China then, but none involved building a supply chain. We decided to go for it partially due to emotion; otherwise, all past effort would go to waste...at that time, we had not figured out a profit model yet." (President of SECA)

Eventually, SECA obtained financial support from CYL to build and operate two new facilities: a supermarket to display the products of suppliers and a warehouse to store, package, and deliver products directly to consumers on behalf of the netreprenuers. Many new activities are required to operate these facilities. For example, in the aspect of supplier management, SECA must now be involved in selecting, negotiating, packaging, and standardizing products as well as conducting market research and clearing regulatory requirements; in delivery management, SECA must now be involved in controlling product quality, managing warehouses, and building a delivery network. The response of these services was so good that within two months, ten months less than the initial estimated time, these facilities were self-sustainable in terms of financial operations.

On May 17, 2012, the Alibaba Group, the largest e-commerce platform operator in China, became a strategic partner of Suichan County because the group envisions agriculture products as the next wave of e-commerce in China. This development has led to a surge in the number of visits from academia, corporations, the news media, and government agencies from other cities and provinces.

E-commerce Demand Chain

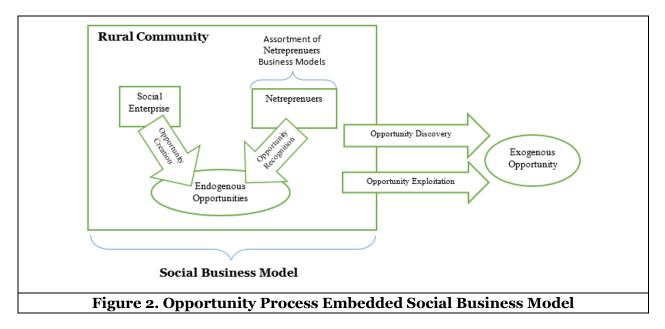
Farmers living in rural villages were lagging in terms of information access compared with entrepreneurs living in towns. The living condition of villagers remained primitive because the infrastructure, transportation, and logistics in rural areas were still underdeveloped. This situation created a gap between farmers and netreprenuers in the understanding of e-commerce. Thus, SECA needed to expend more effort educating and collaborating with farmers to increase their participation in e-commerce. Initially, farmers were not ready to make purchases online, as illustrated by the following quotation:

"[Farmers] are still doubtful about e-commerce purchases. The money is immediately deducted from their bank accounts, but the goods are not in their hands yet. They were not comfortable making

purchase decisions solely based on photographs displayed online and couldn't judge the quality of the goods." (A manager of SECA)

In May 2013, SECA launched GANJIE, an online platform (www.51ganjie.com) that was built primarily to provide online services to villagers. This ambitious plan aimed to establish 150 *e-commerce stations* in villages, covering the entire Suichan within 12 months. Stations were managed by staff hired directly from the villages. Staff could perform both online selling and buying on behalf of the villagers. The station also served as the courier's collection point for households living nearby. Significant effort was expended on the ergonomic and visual design of the station to ensure that it could serve as a general meeting place for villagers to socialize and observe e-commerce activities performed by others. The local government was supportive of GANJIE as it aligned well with the government's policies to enhance the living conditions of the villagers. The outcome was encouraging as of September 2013. For example, a small village with fewer than 20 households generated approximately 80 transactions within 20 days after the *e-commerce station* was established.

Discussion



Social Enterprise as Business Model Designers

In a commercial enterprise, the focus is on maximizing economic value for shareholders, whereas in social enterprises, the focus is on maximizing social value for stakeholders. However, the notion of the *stakeholders* of a social enterprise is not as clear as the concept of *shareholders* in a commercial enterprise, as a social enterprise has much greater freedom in selecting its stakeholders. Although a social enterprise conducts economic activities designed to generate different values for different stakeholders, the main objective is to create an outcome that can allow the 'target' stakeholders to receive maximal social value. However, the social enterprise must also simultaneously generate sufficient economic value for itself to survive or grow. Yunus (2009) referred to this organizational form as a *social business*.

"...a social business is designed and operated just like a 'regular' business enterprise, with products, services, customers, markets, expenses and revenues. It is a no-loss, no-dividend, self-sustaining company that sells goods or services and repays investments to its owners, but whose primary purpose is to serve society and improve the lot of the poor." (Yunus et al. 2010)

Although most activities conducted by a social enterprise fall under 'regular' business operation, the strategic questions associated with its business model design are fundamentally different from those associated with commercial enterprises. For example, rather than "what can we do to earn more profit", a social enterprise asks "what can we do to ensure that our community earns more profit". Because an activity can concurrently produce social and economic value for the same or, more often, different stakeholders, a social enterprise must communicate its intentions clearly both internally and externally. Internally, these intentions guide decision makers whenever there is a trade-off between social and economic goals. Externally, it avoids the perception that the activity of the business is largely intended to financially benefit a particular group of stakeholders. Thus, the "tight coupling of mission, method and operationalization allows for the multi-stakeholder promise of the business model to be fulfilled" (Wilson et al. 2011, p. 715).

Opportunity Discovery of an Exogenous Opportunity

The rapid growth in e-commerce sales depicts an obvious entrepreneurial opportunity in the e-commerce ecosystem. The ecosystem can be viewed as an *exogenous opportunity* by entities external to the system. Growing this ecosystem to increase the overall market size of e-commerce is in the interest of large e-commerce platform operators. Although there is competition among platform operators to attract netreprenuers, they jointly promote the belief that e-commerce can potentially create lucrative economic value for individuals. McMullen et al. (2006) modeled the desirability and feasibility of an opportunity as two important factors influencing the decision to exploit the opportunity. In rural areas such as Suichan, desirability as a motivating factor to start e-commerce is strong because of a significant lack of economic opportunity compared with cities. Although there are still many challenges related to supply chains in rural areas, selling products via the existing e-commerce ecosystem is now feasible.

The exogenous opportunity is open to anyone in China to exploit. Thus, the opportunity is less about competition among netreprenuers living in same rural area and more about competition between netreprenuers in rural areas and those in other parts of China. The activities organized by social enterprises help promote a sense of community sharing for a common goal to exploit the exogenous opportunity. This social enterprise has tirelessly trained as many people as possible as the enterprise believes that the community as a whole will benefit when more villagers know about e-commerce. Despite lacking much of the basic knowledge regarding the operation of an e-commerce business, villagers believe that they can gain economic value once they learn how to operate the seller functions provided by the platform. The high desirability and perceived feasibility have created high demand to gain know-how in rural areas. This social enterprise reinforces the notion that for netreprenuers in a rural area to compete with 'outsiders', collaboration among the social enterprise, the community, and the local government is essential. Although only a minority of the trainees eventually decided to exploit the exogenous opportunity, the increased knowledge has helped increase e-commerce adoption in the community.

Opportunity Creation of Endogenous Opportunities

Sarasvathy et al. (2003) conceptualized *opportunity discovery* as entrepreneurial processes aiming to determine new means to exploit known goals and defined *opportunity creation* as entrepreneurial processes used to determine both new ends and new means. From this perspective, an exogenous opportunity is a known end, and the social enterprise is in the mode of opportunity discovery to induce new means for the community to exploit the opportunity. The formulation and implementation of the two chains in our case study are in the mode of opportunity creation as key elements such as the content, structure, and process of the chains were nonexistent. These chains have revealed new opportunities for the masses to participate in certain parts of the chains, indirectly linking to the exogenous opportunity. We refer to newly created opportunities for the masses as *endogenous opportunities*.

Because endogenous opportunities are designed for the heterogeneous masses, there will be a combination of social and economic value propositions for different groups of stakeholders. The opportunity creation process involves powerful stakeholders such as the local government and national platform operators to ensure that endogenous opportunities are able to obtain sufficient legitimacy and rare resources to promote those opportunities to the masses later. These endogenous opportunities are 'sitting somewhere' until someone in the community decides to take action to exploit them. We refer to the platform in which well-designed entrepreneurial opportunities are located as an **opportunity**

repository. The opportunity repository allows an entity (an entrepreneur or non-entrepreneur) to configure and use some of the elements in the repository to create and exploit an entrepreneurial opportunity for himself or herself.

Unlike a preexisting exogenous opportunity for netreprenuers to discover and exploit, endogenous opportunities are nonexistent but are created to encourage entrepreneurial activities from within. The opportunity repository in which endogenous opportunities are located offers a set of rich possibilities for entrepreneurs to explore from within. The opportunity repository can serve not only as enabling tools for opportunity exploitation but also as a source of opportunity discovery because it increases available opportunities that potentially increase entrepreneurial *alertness*, a key opportunity discovery feature referred to as "an attitude of receptiveness to available (but hitherto overlooked) opportunities" (Kirzner 1997, p.72).

Opportunity Recognition of Endogenous Opportunities

A social enterprise does not construct the opportunity repository solely to maximally benefit the enterprise itself but aims to benefit as many stakeholders in the community as possible, and collectively, the supply chain can compete with other communities in fulfilling the exogenous demands. The interdependencies within and across the two chains create many opportunities to strategize business activities and invite participation from local and national government agencies. These opportunity-driven activities are then promoted to the community by articulating how each of these activities can benefit specific stakeholders. This promotion results in mass awareness of a well-structured *opportunity menu* from which diverse stakeholders can select. The *opportunity menu* emphasizes how various activities are linked and thus supported by other activities in the ecosystem.

The opportunity repository is highly dynamic because a new opportunity added to the repository can not only enhance related endogenous opportunities but also dramatically give rise to many new opportunities. For example, when the opportunity in which "government agreed to endorse a certain product if it can meet a set of standards" was added to the repository, it gave rise to many new opportunities. These opportunities include promoting new entries to sell and supply the product, seeking government endorsement of other products, providing consultancy services on the new guideline, and implementing technologies to meet standards. Some of these endogenous opportunities cannot be exploited immediately as they are designed to facilitate new opportunity discovery and creation. For example, "government's support of e-commerce in rural" areas is an endogenous opportunity initiated by the social enterprise, and discovering strategic partnerships to sell agriculture products online represents an opportunity for national e-commerce platform operators. Subsequently, the new partnership becomes an endogenous opportunity located in the opportunity repository for the local community to activate new instances of opportunity processes. The iterative nature of opportunity creation and discovery contributes to a mass mobilization of stakeholders and their resources, leading to a mass exploitation of nested levels of endogenous opportunities.

Conclusion

Our study, upon completion, can contribute to our knowledge of the role of various opportunity processes (i.e., opportunity creation, discovery, recognition, and exploitation) in the creation of a social business model. When we differentiate between exogenous and endogenous opportunities, we find that these processes coexist and are interconnected. Endogenous opportunities are constructed from within a community as a set of means to exploit a known exogenous opportunity. Endogenous opportunities are located or present in a well-structured form, primarily strategized and controlled by the social enterprise. We refer to the well-structured form as an *opportunity repository*. The primary function of this new form is to facilitate the mass mobilization of participants in the creation, discovery, and exploitation of opportunities. To gain wide support from key stakeholders, the community must perceive that the social enterprise is driven by a social purpose. The social business model of this case study may be replicated in other villages to benefit other communities in the adoption of e-commerce (as suppliers and consumers).

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