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3rd EMES International Research Conference on Social Enterprise
Roskilde (Denmark) - July 4-7, 2011

CRAFTING AND REINVENTING BUSINESS MODEL IN AN ASIAN SOCIAL ENTERPRISE

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ABSTRACT

The study of social enterprise and entrepreneurship has increasingly become a global phenomenon and an emerging discipline. Nevertheless, prior work has not fully explored the cultural context, paradoxical nature, and situational aspect of the business model of social enterprises through a dynamic, longitudinal perspective. Therefore, the present study fills in this research gap by exploring organizational and strategic elements associated with the evolution of the business model over time in an Asian social enterprise, the Children Are Us Social Welfare Foundation. In addition to the 3C core values and visionary leadership, the Children Are Us Business Model emphasizes dynamic alignment of strategic insight and strategic execution to achieve superior organizational performance. Moreover, by integrating management theories and practices both in East and West, the Children Are Us strategically build and reconfigure dynamic capabilities of its business model through knowledge building, transferring, framing and filtering. This article offers important theoretical and practical implications for enhancing our understanding of the key elements and reinvention of the business model in social enterprises.

Keywords: Business Model, Dynamic Capabilities, Social Enterprise, Strategy Paradox, Taiwan

INTRODUCTION

Designing and reinventing the business model is crucial for forming distinct product market strategy and creating competitive advantage in organizations (Govindarajan & Trimble, 2011). Several studies have empirically examined the key elements of the business model and their influence on value creation, financial performance, technological innovation, and strategic paradoxes in organizations (Amit & Zott, 2001; Gambardella & McGahan, 2010; Johnson et al., 2008; Kim & Mauborgne, 2004; Smith et al., 2010; Zott & Amit, 2008). For example, Johnson et al. (2008) suggest that the elements of a successful business model should include (1) customer value proposition, (2) profit formula, (3) key resources, and (4) key processes. Similarly, in their case study of the Grameen Bank, Yunus et al., (2010) suggest that the four components of a social business model include (1) social profit equation; (2) economic profit equation; (3) value proposition; (4) value constellation. Facing with increased competition and changing environments, understanding strategic logic and practical operation of the business model is essential for leaders to enhance the effectiveness and influence of their social enterprises.

During the last decade, the study of social enterprise and entrepreneurship has increasingly become a global phenomenon and an emerging discipline (e.g., Borzaga & Defourny, 2001; Dacin et al., 2011; Kerlin, 2009; Nicholls, 2006; Nyssens, 2006; Peattie & Morley, 2008; Schulte & Peredo, 2010). Peattie and Morley (2008) identify eight paradoxes of social enterprise research and call for more comparative, rigorous investigation. Likewise, Dacin et al. (2011) suggest that future research on social entrepreneurship may consider integrating theoretical ideas stemming from institutional, network, cultural, and cognitive perspectives.

Despite its rigor and relevance, prior work has not fully explored the cultural context, paradoxical nature, and situational aspect of the business model in social enterprises through a dynamic, longitudinal perspective. Therefore, the present study fills in this important research gap by examining organizational and strategic elements associated with the design and evolution of the business model in an Asian social enterprise. As an important first step, this study integrates theoretical perspectives of the business model and dynamic capabilities to examine the evolution of strategic insight and execution in an Asian social enterprise. Research questions for this study include: (1) How does the key elements of the business model integrate managerial knowledge and practical wisdom in East and West? (2) How do the key elements of the business model change or preserved in response to market dynamics over time? (3) What is the role of the top management team in managing paradoxes related to the design and reinvention of the business model?

This article proceeds as follows. It first reviews previous research on the business model and dynamic capabilities. Then, the article explains data and methods used to conduct an in-depth, inductive case study of the evolution of the business model in an Asian social enterprise, the Children Are Us Social Welfare Foundation. By analyzing the founder's books, foundation archives, and public available data, this article further explores the key elements and dynamic capabilities of the business model evolved over time. In the last section, the article discusses important theoretical and practical implications as well as suggests future research directions.

1. THE BUSINESS MODEL AND DYNAMIC CAPABILITIES

In recent years, both academics and practitioners have increasingly paid attention to studying the antecedents, elements, and consequences of the business model (for a review, see Zott et al. 2011). For instance, Zott et al. (2011) identify several emerging research themes, including (1) the business model as a new unit of analysis, (2) the emphasis of a system-level, holistic approach, (3) the interdependence of a focal firm and its partners, and (4) the connection between value creation and value capture.

Despite their emphasis on methodological rigor and practical relevance, scholars have different definitions on the business model. For instance, Amit and Zott (2001: 511) indicate that the business model depicts “the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities.” Morris et al., (2005: 727) state that a business model is a “concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets.” Similarly, Smith et al. (2010: 3) define business model as “the design by which an organization converts a given set of strategic choices- about markets, customers, value propositions- into value, and uses a particular organizational architecture- of people, competences, processes, culture and management systems, in order to create and capture this value.” These inconsistent definitions demonstrate the paradoxical nature and situational aspect of the business model.

Several studies (Alter, 2006; Cooney, 2011; Nyssens, 2006; Yunus et al. 2010) have empirically examined business and operational models adopted by social enterprises in Asia, America, and Europe. Alter (2006) identifies basic and combined operational models of social enterprises evidenced and emulated around the globe. Cooney (2011) explores the adoption of social purpose business models to balance commercial goals and social aims. Yunus et al. (2010) proposes a social business model that consists of four components including (1) value proposition, (2) value constellation, (3) social profit equation, and (4) economic profit equation. Nevertheless, the extant research has not yet systematically investigated the business model evolution in social enterprises through a dynamic, longitudinal perspective.

There is an increasing consensus that some key elements in the business model should be renewed or reinvented in order to maintain competitive advantage (Collins & Porras, 1997; Govindarajan & Trimble, 2011; Johnson et al., 2008). In the field of strategic management, the dynamic capabilities theory emphasizes how organizations can recombine and reconfigure competences and assets to compete in emerging markets and technologies (Teece et al. 1997; Eisenhardt & Martin, 2000). Teece (2006) characterizes dynamic capabilities as the distinct skills, processes, procedures, organizational structures, decision rules, and disciplines that enable the senior leaders of a firm to identify threats and opportunities and to reconfigure assets to meet these. O'Reilly and Tushman (2008) regard “ambidexterity” as dynamic capabilities. Ambidexterity requires exploitation and exploration be pursued simultaneously, with separate subunits, business models, and distinct alignments for each. Similarly, Leonard and Swap (2005) explore how entrepreneurs and leaders cultivate deep smarts from knowledge building, transferring, framing, and filtering. Insights from the work of O'Reilly and Tushman (2008) and Leonard and Swap (2005) emphasize the role of top management team in creating and managing knowledge needed to support the business model innovation.

2. DATA AND METHODS

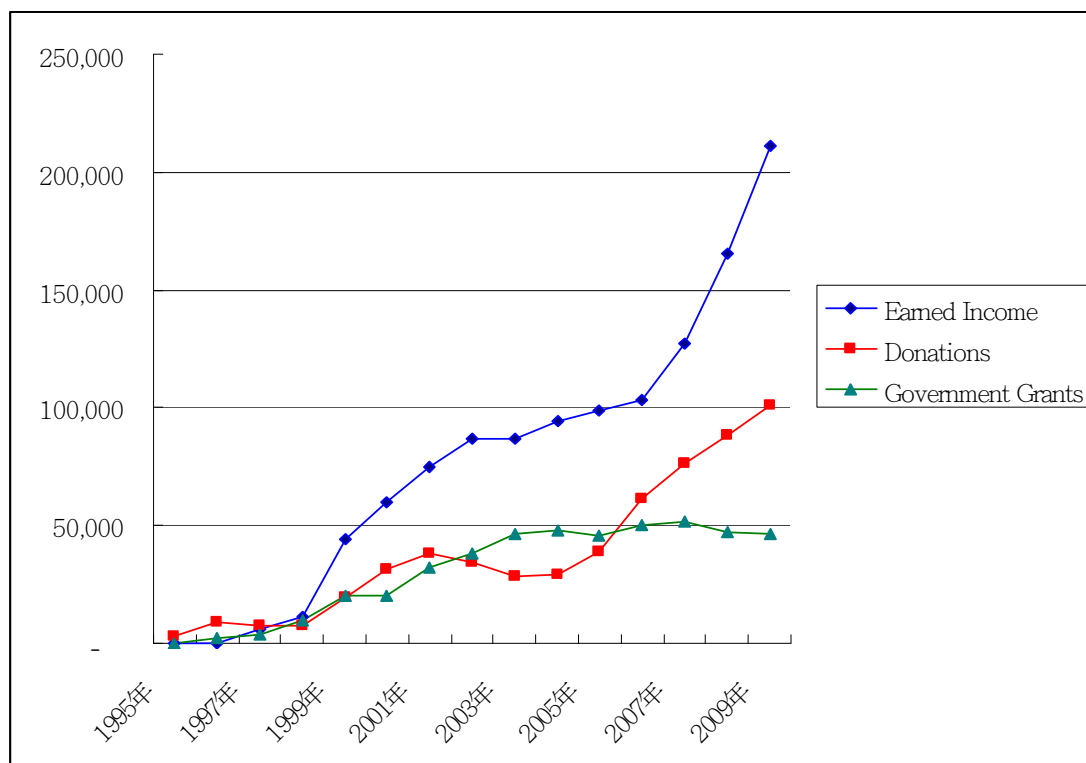
This research conducted an in-depth, inductive case study of the development and changes of the Children Are Us Social Welfare Foundation's (Children Are Us, abbreviated) business model from 1995 to 2009. Given the dynamic nature of our questions for examining the leadership, strategy, and organizational structure issues related to the business model, we felt that this qualitative method would be most useful for theory building (Glaser and Strauss, 1967; Miles and Huberman, 1994; Yin, 1994; Eisenhardt, 1989). In addition, by taking a longitudinal, historical perspective, we gain deep insight into the evolutionary nature of the business model developed under the Asian cultural context (Huber, & Van de Ven, 1995).

A combination of articles, books, foundation archives, and interview data were collected to investigate the evolution of Children Are Us' business model across different time periods. Publicly available data included historical annual reports, financial analyst reports, prior studies of Children Are Us' history, and business press articles on the social enterprise sector in Taiwan. In addition, we were greatly benefited from information and insights from three books written by the Children Are Us' founder and chief executive director, Mr. Kuo-Jen Su. We used foundation archives and publicly available data to depict historical strategic plans, organization charts, and practical knowledge relevant to document the evolution of the business model. To enhance validity, data analysis and conceptualization have been iterative and interpretative (Glaser and Strauss, 1967).

3. THE EVOLUTION OF THE CHILDREN ARE US BUSINESS MODEL

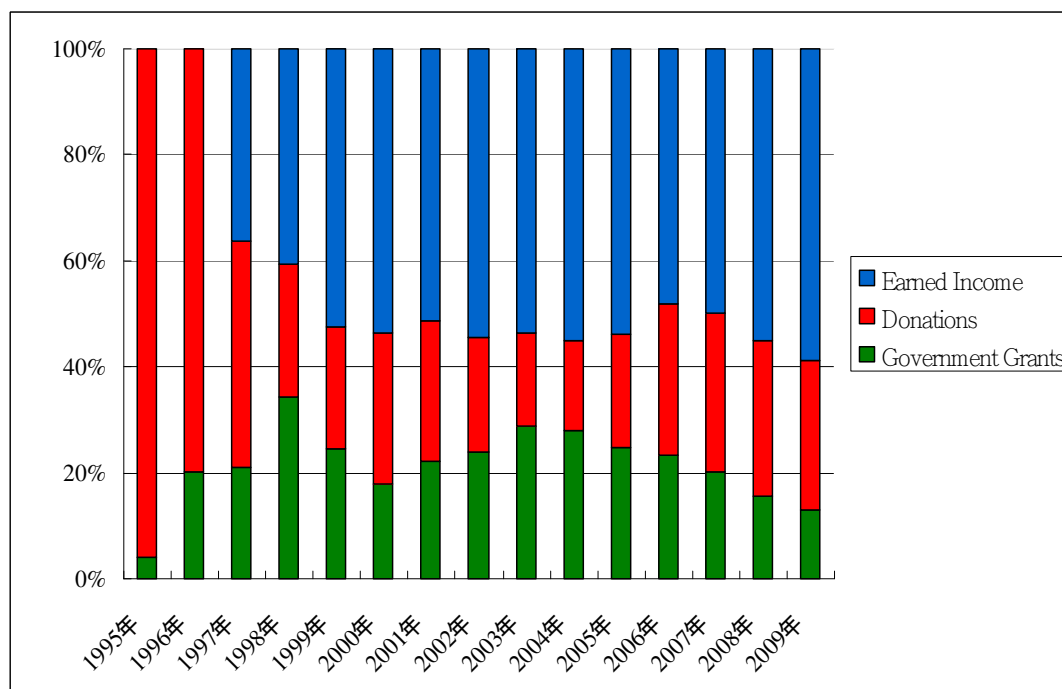
Founded in 1995, the Children Are Us Social Welfare Foundation (Children Are Us, abbreviated) has become one of successful Asian social enterprises and operated 23 work integration bakeries, restaurants, and shelters located at various locations in Taiwan. Since 1999, the earned income has consistently become the Children Are Us' major funding source (see Figure 1). In 2009, the annual operating revenue of the Children Are Us was about NT\$357 million (US\$12 million) and about 59% of its operating revenue was from the earned income generated (see Figure 2). In addition to job training programs, the Children Are Us cultivates and supports the intelligent disabled through innovation projects such as the percussion band, the opera team, the horticulture team and the scout team.

Figure 1 Revenue Growth of the Children Are Us, 1995-2009 Unit: 1,000 NTD



Source: Su (2010)

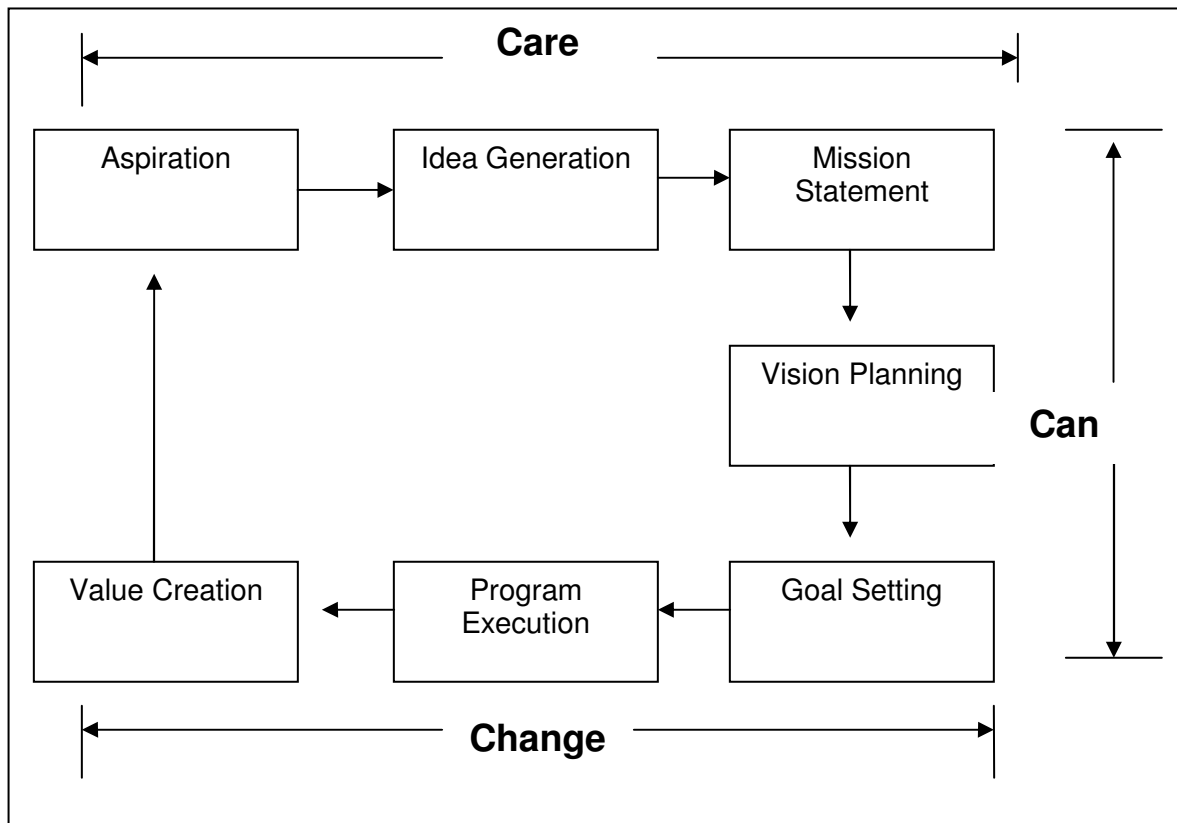
Figure 2 Composition and Change of Revenue Sources of the Children Are Us, 1995-2009



Source: Su (2010)

The Children Are Us Business Model is rooted at the founder's 3C core values, including (1) Care, (2) Can, and (3) Change (see Figure 3). The founder and members' aspiration for enhancing care for the Intelligent Disabled in Taiwan motivates them to establish a visionary organization that develops innovative programs that promote social change through value innovation. A well-conceived vision is crucial to provide insight and guidance on the development of competitive advantage and resource strategy (Collins & Porras, 1997). As Su (2008: 148) stated, "the Children Are Us' mission is to create the dignity and joy for the intelligent disabled through love and care, and empowerment." Furthermore, the Children Are Us' vision is the provision of life-time education and care for the intelligent disabled.

Figure 3 Core Values and the Strategic Growth Trajectory of the Children Are Us



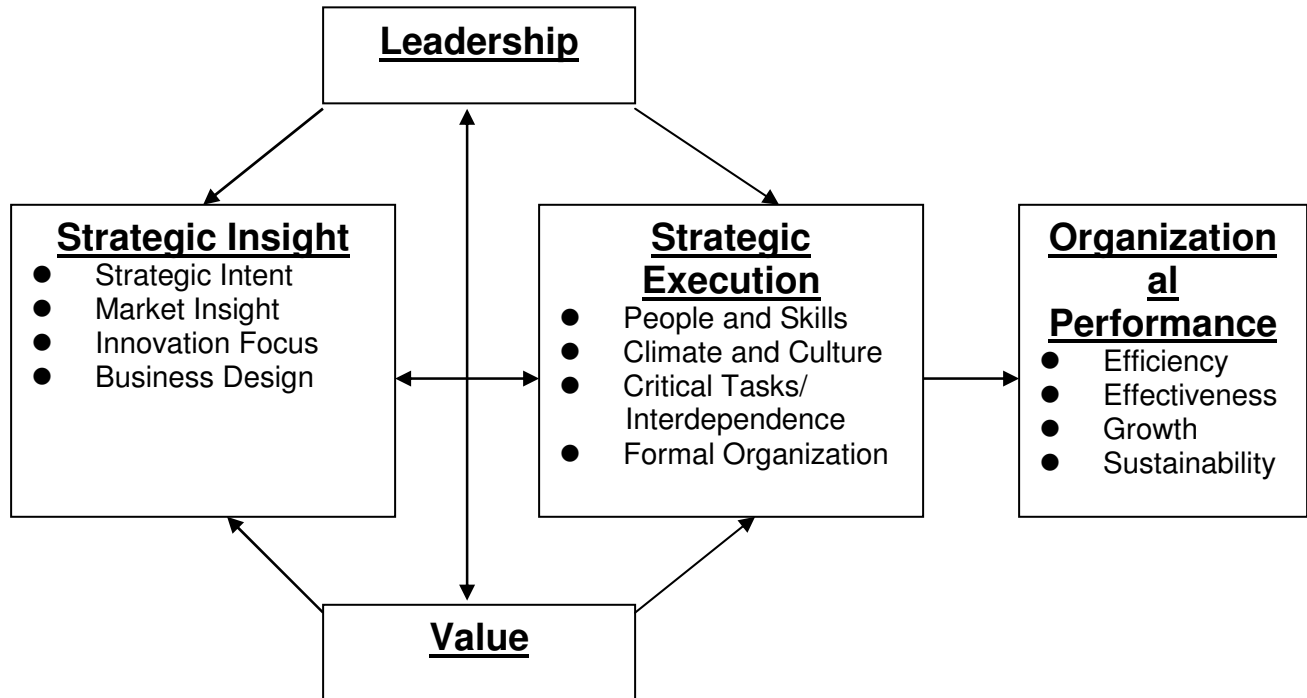
Source: Su (2008)

4. THE CHILDREN ARE US BUSINESS MODEL

As shown in Figure 4, the Children Are Us Business Model emphasizes the alignment of leadership and value as well as the interdependence among strategy, execution, and performance. In addition, the Children Are Us Business Model consistently develops and renews core competences in complementing strategic insight and execution (see Table 1). The Children Are Us' founder, Mr. Kuo-Jen Su, is a compassionate, visionary leader who emphasizes building core competences and engaging in value innovation activities. Mr. Su's leadership style and management philosophy integrate both Western managerial knowledge and Eastern practical wisdom (Chen & Miller, 2010). For instance, Mr. Su indicates that his leadership style and strategy synthesizes wisdom from both ancient Chinese classics and Western spiritual leaders

(Su, 2009). Furthermore, the Children Are Us' enterprise development adopts the blue ocean strategy framework (Kim & Mauborgne, 2004) that transcends the competition-cooperation paradox among the nonprofit, for-profit, and public sectors (Chen, 2008).

Figure 4 The Children Are Us Business Model



Source: Adapted from Herrald et al. (2007) and Su (2008)

The Children Are Us' strategy formulation is motivated by leaders' motive to cultivate the Intelligent Disable's abilities and skills through community-based care and professional job training (Su, 2008). The top management team integrates managerial knowledge and practical wisdom both in East and West to effectively execute programs and strategies that contribute to excellent organizational performance.

Table 1 Elements of the Children Are Us Business Model

Core Competence	Strategy	Execution
Value Innovation	● <i>Strategic Intent</i> Self-actualization	● <i>Talent</i> Experiential Marketing
Competitive Advantage	● <i>Marketplace Insight</i> Focus	● <i>Climate and Culture</i> Product Differentiation
Advanced Technology	● <i>Innovation Focus</i> Process Innovation	● <i>Critical Tasks/ Interdependence</i> Strategic Alliance
Design Thinking	● <i>Business Design</i> Social Value Chain	● <i>Formal Organization</i> Ambidexterity

Source: Adapted from Herrald et al. (2007) and Su (2008)

Strategic Insight

As shown in the left-hand side of Figure 2, strategy formulation at the Children Are Us emphasizes four interrelated elements: strategic intent, market insight, innovation focus, and business design. The Children Are Us emphasizes the interdependence among these elements as a key to successful strategy formulation.

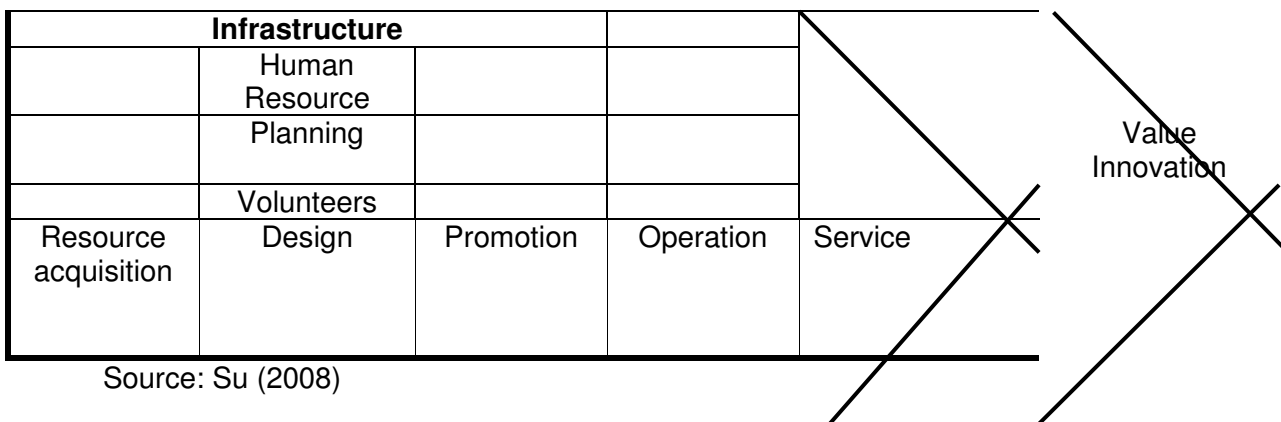
- **Strategic Intent** establishes the long-term direction and purpose for the organization. This statement provides guidance on priority setting, resource allocation, and organizational boundary. The mission of the Children Are Us aims to create opportunities for helping the intelligent disabled to achieve the highest goal and experience deep meaningfulness through their life. This clear strategic intent is crucial for building core competences related to market insight and business design.

- **Market Insight** involves a focus on understanding social needs, customer preferences, competitor moves, and market dynamics. Unlike some social enterprises in Taiwan, the Children Are Us has concentrated its core businesses on bakery and restaurants. Su (2008) emphasized that, as a strategic choice and positioning, the Children Are Us produces products (bread and meals) needed in everyday life in many communities in Taiwan. In addition, in response to market competition, the Children Are Us emphasizes building competitive advantage through strategic flexibility and positioning over time. For instance, with an increased competition in the traditional bakery business, the Children Are Us expands its market to the catering service and customized products. It also seizes the opportunity of the government procurement regulation that favors social enterprises as priority providers for some products and services.

- **Innovation Focus** encourages the top management team to engage in product and process innovation and provide incentives for stimulating organizational creativity. For instance, to better utilize resource connection and location proximity, the Children Are Us designs a community-based job training program offered at the Kaohsiung administrative center, which is close to the residential area and metro stop. In addition, the Children Are Us consistently engages in process innovation that contributes to a higher organizational productivity and return on investment.

- **Business Design** integrates the external insight and practical experience gained from the three elements above and specifies how value is created and captured. Based on Porter (1985), the Children Are Us designs a social value chain that explains the process of value innovation and capture (see Figure 5). Unlike the traditional business value chain, profit from the Children Are Us' social value chain is retained and reinvested in supporting various process and service innovation projects.

Figure 5 The Children Are Us Social Value Chain



Strategic Execution

The middle side of Figure 2 illustrates the elements required by the top management team for the implementation of the strategic plan. The strategic execution requires assessment of organizational resource, alignment of core competences, and renewal of dynamic capabilities. Based on the business design, the Children Are Us' execution stresses orchestrating four key organizational elements to ensure that the realization of the strategic intent:

- **People and Skills**— Does the workforce be trained to have the requisite skills and capabilities needed to perform basic and advanced tasks? Are both social workers and administrators compassionate, motivated, and engaged? Do customers have distinctive experiences on products or services at bakeries and restaurants operated by the Children Are Us? For example, one important goal of the Children Are Us' job training program is to make the intelligent disabled feel confident and joyful when working at the front line to serve customers.
- **Climate and Culture**—How can the Children Are Us reframe and overcome the existing societal misperceptions on causes and needs of the Intelligent Disabled? How does organizational culture be created to support positive thinking and joyful public image? One important marketing strategy that the Children Are Us adopts is to encourage the general public to treat the Intelligent Disabled as "joyful, authentic children." The Children Are Us also promotes the community-based care through work integration and aims to create a paradigm shift in enhancing the welfare of the intelligent disabled.
- **Critical Tasks and Interdependence**—These are the key success factors necessary to the business design and value innovation. Identification of critical tasks and promotion of vertical and horizontal integration are important to enhance customer satisfaction and resource synergy. The alignment of critical tasks facilitates the execution of the strategy. In addition, the Children Are Us has consistently engaged in collaborations with for-profit, nonprofit, and public organizations to develop and deepen its core competences.
- **Formal Organization**—These are the explicit structures, processes, and procedures required to direct and motivate individuals and teams to achieve organizational goals. One structural design issue facing the Children Are Us lies in the accommodation of the value paradox between social workers and administrators. Operating similar to an ambidextrous organization

(O'Reilly & Tushman, 2004), the Children Are Us' top management team emphasizes the interdependence and synergy between enterprise development and social service.

Organizational Performance

The right-hand side of Figure 2 illustrates how the successful execution of the strategic plan has influence on the Children Are Us' organizational performance measured by efficiency, effectiveness, growth, and sustainability. As shown in Figure 1 and Table 2, the Children Are Us' earned income, net profits and per employee contribution consistently increased from years 2004 to 2009, which may indicate a strong alignment between strategic insight and strategic execution for creating superior organizational effectiveness, growth, and sustainability.

Table 2 Performance Indicators of the Children Are Us, 2004-2009

Unit: 1,000NTD

Year	2004	2005	2006	2007	2008	2009
Revenue	171,584	183,599	214,288	255,928	300,551	358,651
Expenditure	170,015	172,223	191,394	226,116	244,952	270,054
Net Profits	1,569	11,376	22,894	29,812	55,599	88,597
Profit Ratio	0.91%	6.20%	10.68%	11.65%	18.50%	24.70%
Total Assets	95,823	103,660	158,855	187,597	248,330	374,701
Number of Employees	166	150	172	186	180	207
Per Employee Contribution	1,034	1,224	1,246	1,376	1,670	1,733

Source: Su (2010)

5. DYNAMIC CAPABILITIES AND THE CHILDREN ARE US BUSINESS MODEL

When markets shift and industries change, organizational leaders face challenges in innovating or reinventing their business models (Collins & Porras, 1997; Govindarajan & Trimble, 2011; Johnson et al., 2008). The paradoxical nature and strategic dilemma of the business model lies in deciding which element "should" or "should not" be changed under "expected" or "unexpected" situations. By applying the dynamic capabilities perspective, this study further explores how the Children Are Us deliberately renews its business model through various strategic alliances over time. As shown in Table 3, to explore market dynamics and innovation opportunities, the Children Are Us form vertical and horizontal strategic alliances with for-profit, nonprofit, and public organizations.

Table 3 Profile of Strategic Alliances of the Children Are Us, 1995-2009

Year	Organization	Type	Competence	Alliance Model
1995	Kaohsiung Palette Association	NPO ↔ NPO	Value Innovation	Vertical
1996	Little Prince Bakery	NPO ↔ FPO	Baking Technology Branding	Vertical
1997	Citibank Taiwan	NPO ↔ FPO	Marketing	Vertical
1997	United Way Taiwan	NPO ↔ NPO	Branding	Vertical
2000	RITEK, Inc.	NPO ↔ FPO	Scaling up	Vertical
2001	Jimmy S.P.A. Co., Ltd.	NPO ↔ FPO	Design innovation	Horizontal
2001	Kaohsiung City Government	NPO ↔ GO	Co-creation	Vertical
2004	Bunun Cultural and Educational Foundation	NPO ↔ NPO	Branding, Marketing	Horizontal
2006	Wang Stake, Inc.	NPO ↔ PO	Process innovation	Horizontal
2007	ASUS Corp. and Pegatron, Corp.	NPO ↔ PO	Value Innovation	Vertical
2008	Eastern Realty	NPO ↔ PO	Branding, Marketing	Vertical

Note: NPO denotes Nonprofit Organization; FPO denotes For-profit Organization; GO denotes Government Organization

Source: Su (2008)

Strategic alliances have helped develop or enhance the Children Are Us' core competences in branding, marketing, value innovation, design innovation, process innovation, and co-creation. More important, the Children Are Us has deliberately engaged in strengthening organizational dynamic capabilities through (1) knowledge building, (2) knowledge transferring, (3) knowledge framing, and (4) knowledge filtering (see Table 4). For instance, through collaborating with the Little Prince Bakery, the Bunun Cultural and Educational Foundation, and the Wang Stake, Inc., the Children Are Us consistently transferred external managerial knowledge for strengthening organizational capabilities in baking technology, branding, and process innovation.

Table 4 Dynamic Capabilities at the Children Are Us, 1995-2009

Dynamic Capabilities	1995-1997	1998-2000	2001-2005	2006-2009
Knowledge Building		V	V	V
Knowledge Transferring	V		V	V
Knowledge Framing	V			V
Knowledge Filtering			V	

Source: Su(2008); Su (2009)

DISCUSSION AND CONCLUSIONS

This article examines the elements and evolution of the business model in an Asian social enterprise. Its research findings provide important theoretical and practical implications. First, it integrates theoretical perspectives on the business model and dynamic capabilities and explores their applications in the social enterprise context. Our findings show that the key elements and reinvention of the business model is crucial not only for firms but also for social enterprise. Therefore, this article offers insights that address theoretical dilemmas in studying social entrepreneurship (Dacin et al., 2011). Second, based on prior work (Eisenhardt & Martin, 2000; Leonard & Swap, 2005; O'Reilly & Tushman, 2008; Teece et al., 1997) this article further provides useful knowledge that enhances our understanding of the paradoxical nature and situational setting of the business model and its critical alignment with organizational dynamic capabilities. This article demonstrates how dynamic capabilities in a social enterprise can be created and sustained through deliberate investment in knowledge building, transferring, framing, and filtering. Third, as an important first step, this article explores the causal relationship between the business model adoption and organizational performance in the social enterprise context.

From the practical perspective, this article provides several important managerial implications. First, the Children Are Us Business Model demonstrates the importance of strategic intent and execution in response to market opportunities and dynamics over time. Moreover, the Children Are Us' leadership and 3C core values complement its strategy formation and enterprise development. Second, when creating a new business model, social entrepreneurs and nonprofit leaders should undertake a design thinking mindset that can paradoxically integrate managerial knowledge and practical wisdom in East and West. Future management education and training should encourage social entrepreneurs to develop requisite skills and knowledge needed to transcend paradoxes or dilemmas associated with the business model. Third, unlike that of firms, the top management team in social enterprises should emphasize simultaneously creating social and economic values when crafting and reinventing the business model.

Implications for Future Research

This article has limitations in case selection, data collection and analysis, and result interpretation. Nevertheless, these limitations provide opportunities for future research. First, a conceptual framework and propositions can be further developed to explain the antecedents, components, and consequences of the business model adopted by social enterprises. Second, multiple cases can be studied to compare similarities and differences of the business model adopted by different types of social enterprises in Taiwan and across countries. Third, future work can examine the influence of Chinese classics such as I-Ching and Sun-Tzu's Art of War on crafting and reinventing the Children Are Us' business model. Lastly, researchers can conduct a survey to investigate change in the business model and its association with subsequent organizational performance.

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