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# The Role of Relationally Embedded Network Ties in Resource Acquisition of British Nonprofit Organizations

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## Abstract

As nonprofit and charity organizations face increasing competition, there have been growing interests in how nonprofit organizations conduct commercial activities to raise funds as well as grow their business. However, there is lack of prior research about market-oriented and/or commercial activities in the context of nonprofit business. This study examines the process of how nonprofit organizations use relationally embedded network ties to acquire financial, human, and human capital resources to fulfill their social mission and achieve business growth. The study investigates commercial activity of three U.K.-based nonprofit organizations using the case study method. The findings contribute to insights into components of network ties for acquiring three different network resources of financial, human, and human capital. Nonprofit organizations leverage social mission to improve their ability to acquire network resources. The findings also suggest the charity and social mission of nonprofit business enhance trustworthiness in relationally embedded network ties for resource acquisition.

## Keywords

network ties, resource acquisition, commercialization, nonprofit organization

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Nonprofit organizations (NPOs) depend mainly on various sources of funds and/or donations such as private contributions, government funds and commercial activities to fulfill their social mission and to ensure continued business survival (Froelich, 1999; Gronbjerg, 1993). In the United Kingdom, there is growing number of NPOs due to the demand for social services through continued demographic and social changes. For example, the U.K. government introduced initiatives to modernize public services and provide community services through partnership with NPOs (HM Treasury, 2002; NCVO 2006, 2009). However, the proliferation of different types of nonprofit business such as social enterprises and charity retailers has intensified competition for third sector funding from governments and other sources of revenue, and threatened NPOs survival. As a result of these business challenges, today's NPOs increasingly adopt market-oriented strategies to commercialize their activities and become competitive in the marketplace. Of particular interest in this study is the potential of NPOs in gaining access to network resources in and through network ties (also known as *guanxi* in the context of Chinese network relationships; e.g., Li, Poppo, & Zhou, 2008; Tsang, 1998; Xin & Pearce, 1996). Network resources may include tangible and intangible resources associated with financial, human, and human capital resources. The ability to use, develop, and/or access network resources is crucial for development of competitive advantage especially for small and privately owned enterprises (Anderson & Miller, 2003; Shane & Venkataraman, 2000). As NPOs expand their business to compete with established commercial organizations, network ties may help NPOs acquire necessary resources to grow, commercialize some charity activities, and fulfill multifaceted aspects of their business.

However, there is scant research about how NPOs acquire network resources to achieve business growth and fulfill social mission. In contrast to emerging and commercial firms, NPOs social responsibility precedes commercial interests or at least dominates their business activity. The nature of external network relationships for NPOs can be characterized by voluntary and personal relationships rather than driven mainly by economic interests for commercial firms. Hite (2003) suggests that only network ties that are embedded in social relationships can facilitate the resource acquisition process. Past studies have shown that relationally embedded ties have the potential to influence economic decisions and strategic choices of entrepreneurial firms (Granovetter, 1985; Portes & Sensenbrenner, 1993; Uzzi, 1996, 1997; Williamson, 1979). Brookes (2009) notes three types of organizational resources (financial, human, and human capital) for emerging firms and social enterprises. Although NPOs may engage in commercial activity like social enterprises and commercial firms, there is not yet research about the use of relationally embedded ties to acquire the three types of organizational resources in networks.

Drawing on theoretical insights of relationally embedded network ties and organizational resources for commercial activity and business growth, this study explores the resource acquisition process of NPOs. The study extends the network perspective predominantly based on profit-oriented studies such as commercial and emerging firms to nonprofit organizations (Eng, 2004). Since nonprofit organizational relationships can

be characterized by voluntary participants that include multiple interests beyond commercial objectives, it is not clear how network components of relationally embedded ties can be used to achieve both social and business objectives of NPOs. In addition, insights into how NPOs acquire three key organizational resources (financial, human, and human capital) through network ties can be critical for long-term survival in terms of NPOs reliance on multiple stakeholders, which may lead to conflicting business and social responsibility objectives. Thus this study examines the process of how NPOs use relationally embedded network ties to acquire financial, human, and human capital resources to fulfill their social mission and achieve business growth using the case study research on three established U.K.-based nonprofit organizations.

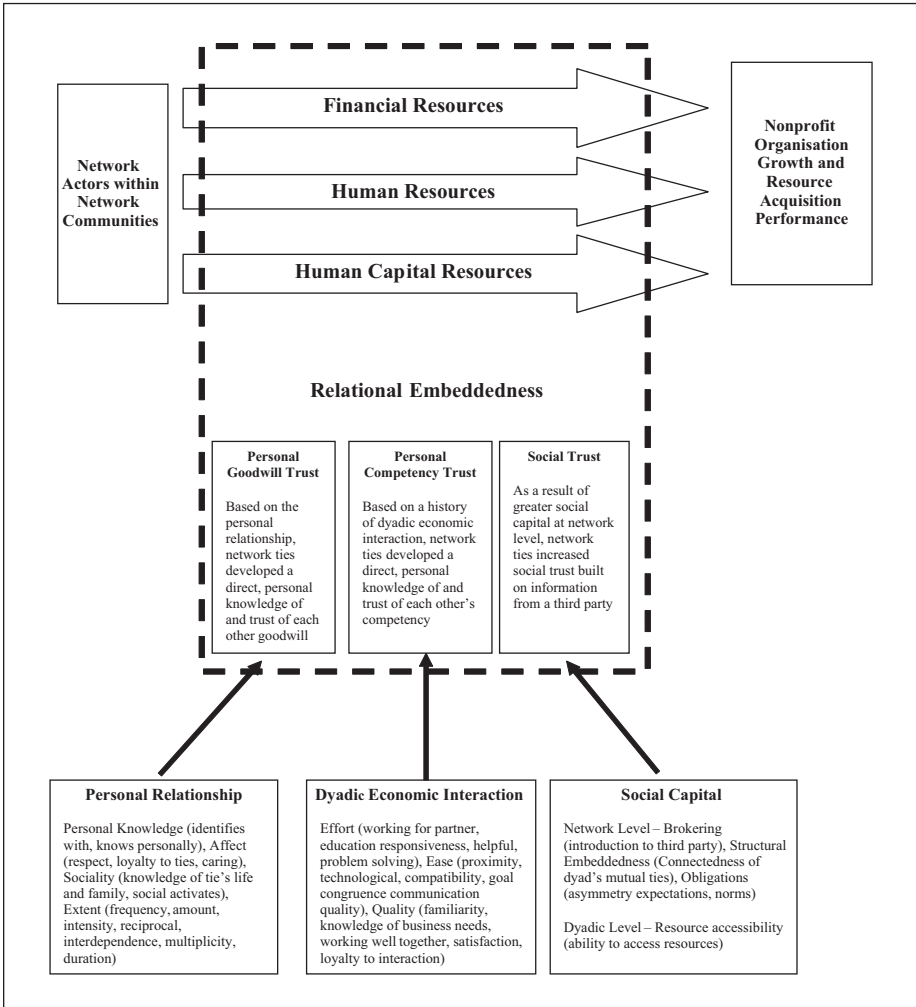
## **Theoretical Background**

### *Definitions*

The study applies to NPOs in networks in general rather than new or emerging social enterprises. Nonprofit business can be described as a collection of individuals whose primary interest is to support a particular cause without concern for monetary profit. The social enterprise revenue model recognizes that NPOs may raise funds or generate revenues by engaging in commercial activities such as charging fees for services, selling products, publications, and so on in competition with other commercial organizations (e.g., Chew, 2008). A social enterprise has been defined as a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community (U.K. Cabinet Office, 2006, p. 10). In the United Kingdom, social enterprises are not necessarily nonprofit business. Social enterprises can be established through many different routes (e.g., as a foundation, community interest company, and new start-up) or defined differently (e.g., Defourny & Nyssens, 2010; Kerlin, 2006) but may have a charitable status. In contrast, organizations registered as nonprofit charity business focuses primarily on social mission, and they need to demonstrate public benefit and meet the guidance from the U.K. Charity Commission (U.K. Charities Act, 2006). Nonprofit organizations may engage in social enterprise activities in terms of how traditional NPOs (i.e., voluntary and community organizations, charities) develop their business capability and upgrade to become more market-oriented entities (social enterprises). The focus on nonprofit organizations provides the basis for examining socially embedded network ties developed by established NPOs. Furthermore, established NPOs have institutionalized social missions accepted by its board members and/or trustees, which may present challenges especially in the pursuit of commercial interests.

### *Conceptual Framework*

Figure 1 depicts the conceptual framework of this study. The framework is derived from the concept of relational embedded network ties (Hite, 2003, 2005) and three



**Figure 1.** A conceptual model of NPO in relationally embedded network ties  
 Source: Adopted and modified from Hite (2003, 2005) and Brooks (2009).

organizational resources (financial, human, and human capital resources) defined by Brooks (2009) as critical for entrepreneurial firms. These constructs have not been examined in the context of nonprofit business.

The concept of relationally embedded network ties can also be examined in terms of relational embeddedness comprising interactions of interpersonal relationships during a specific period (Granovetter, 1992). The characteristics of network ties can influence the extent to which opportunities and resources can be identified, accessed,

mobilized, and exploited (Eng, 2008, 2005a). It can be argued that differing characteristics of a nonprofit organization's social relationships embedded in networks can influence resource acquisition. Relational embeddedness has been shown to confer competitive advantages through relational capabilities (Dyer, 1998). In the context of an NPO, relationally embedded ties for resource acquisition are not only crucial for growth through resource mobilization but also for long-term survival in terms of legitimacy by ensuring profit seeking activities are in line with the organization's mission or at the very least, socially responsible. In addition, volunteer and donor relationships may often be based on informal or personal relationships rather than institutionalized business relationships.

Hite and Hesterly (2001) describe how entrepreneurial firms gain access to network resources in three stages using the evolutionary approach. In the first stage, young entrepreneurial firms rely on personal, close, and relationally embedded ties to access network resources. The second stage is characterized by firms searching for opportunities and additional resources through relational ties and development (Jarillo, 1989; Penrose, 1959). The third stage is concerned with a stable process of growth by adding network ties based on traditional market exchange rather than relational governance as necessary controls (Larson & Starr, 1993). The evolutionary approach is useful for examining new and emerging entrepreneurial firms but little is known whether this approach is relevant for NPOs.

In the case of established NPOs, the pursuit of commercial activities to a large extent reflects the first and second stages of entrepreneurial process of exploiting existing relationally embedded network ties as well as adding network ties. Such NPOs have relationally embedded ties with trustees, donors, and volunteers that may facilitate external resource exchange and provide unique access to opportunities. At the same time, established NPOs may be exposed to high financial risk with overreliance on informal and familiar relational strategies for mobilization of network resources. As NPOs explore the potential to commercialize and market their activities, they are likely to depend on relationally embedded ties compared to written or contractual agreements (cf. Granovetter, 1985). Relationally embedded ties have high levels of trust beyond a singular construct of trust to provide NPOs the potential to acquire network resources for commercial ventures and business growth. Thus relationally embedded ties can be multidimensional as suggested by Hite (2003), which NPOs may use to acquire network resources.

Figure 1 shows trust as a multidimensional construct comprising three types of trust: personal goodwill trust, personal competency trust, and social trust (Hite, 2005). Personal goodwill trust is concerned with bonds developed through direct, personal knowledge of, and trust of each other's goodwill between actors at individual or dyadic level for each other's best interests. Existing research about personal goodwill trust is often examined in the context of business relationships with regard to economic exchange of resources and institutionalized transactions (Håkansson, 1984). Personal goodwill trust-based relationships have also been examined in interfirm relations (e.g., Eng, 2008), which relate to personal competency trust in terms of expectations of the parties in the relationship to fulfill mutual goals and objectives competently such as

economic transactions (Hite, 2003). Social trust created through norms of reciprocity and obligation represents social capital, which facilitates resource acquisition in networks of relationships, that is, not only in a dyadic relationship. As NPOs depart from nonprofit activity to market-oriented activity, the issues of trust involved in acquiring network resources are likely to be complex as their stakeholders may not only have conflicting interests but also be driven by certain social missions. Thus to better acquire resources as well as manage relationships, NPOs knowledge of the three types of trust and organizational resources can increase the influence on commercial activity and help to facilitate successful business growth.

As shown in Figure 1, actors including NPOs and various types of entities interact and exchange resources in a specific network community. Within the network community, there is potential for NPOs to access, acquire, develop, and combine different types of organizational resources (Eng, 2005b) particularly three main types of organizational resources: financial resources, human resources, and human capital resources (Brooks, 2009). In terms of financial resources, NPOs must maintain financial liquidity for survival by conducting commercial activities to acquire financial resources through relationally embedded network ties. Since NPOs rely on multiple stakeholders especially for charitable activities, access to external coalitions of relationally embedded network ties can help them maintain financial viability (Froelich, 1999; Peredo & McLean, 2006). As for human resources, NPOs rely on both paid and unpaid (e.g., volunteers) labor force in the market. Unlike business-oriented operations, access to unpaid labor force may require higher levels of trust in relationally embedded network ties. Finally, human capital resources include education, experience, knowledge, and expertise that make an enterprise operational and competent (Brooks, 2009). NPOs may benefit from network ties to learn and acquire relevant human capital resources for business growth.

## **Method**

The case study method is deemed most appropriate for the study to explore and examine network perspective of nonprofit business in conducting commercial activity. The numerous attributes and/or elements of relationally embedded network ties favor the case study method. Case studies allow the research to gain theoretical and managerial insights into contemporary phenomenon based on theory (Yin, 2003). The case study strategy is flexible in terms of gathering evidence from multiple sources and examining situations where the number of variables of interest far outstrips the number of data points. The scant literature attention on commercial activities of NPOs with few established constructs for measuring network ties and trust also influenced the choice of case research (Austin, Stevenson, & Wei-Skillern, 2006; Kaplan 2001).

Three British NPOs agreed to participate in this study on the condition that their identity remains anonymous. To understand the development and application of network ties for commercial activity of NPOs, the study chose NPOs that fulfilled four criteria: (a) the NPO undertakes commercial and market-oriented business activity

**Table 1.** Summary of Nonprofit Organizations Participated in the Study

|                        | NPO in social service sector (SS)   | NPO in health service sector (SH)   | NPO in animal service sector (SA)   |
|------------------------|---|---|---|
| Descriptions           | It has extensive networks ranging from volunteers to corporate business and social alliances. In recent years, it has been expanding its networks of commercial retailers as a means to generate revenues for the business as well as serve local communities. It also has selective networks of large social alliances with major retailers in the United Kingdom. | It has concentrated networks primarily linked to health care and services. It has strong support from local communities particularly from former patients, volunteers, and donors. It also has a strong brand image in terms of providing support and care for the disadvantaged and poor. It has been using close ties through donors and volunteers to support its commercial activity. | It has been actively campaigning for the relief of animal suffering for many years. It has strong networks of charity and commercial partners as well as volunteers. Its brand identity has often been used in commercial ventures through company-specific products and social alliances. It has both strong close ties with targeted stakeholders, such as with education sectors as well as extensive scope of ties with commercial sectors. |
| Number of employees    | >1,000 employees  | >500 employees  | >1,000 employees  |
| Informants interviewed | 10  | 8   | 9   |
| Visible social impact  | Shelter for homeless people, clothes for charity, food for the poor, social services for the disadvantaged  | Emotional counseling and support for health centers and the bereaved  | Animal centers, animal care information, animal welfare events, shelter for abandoned animals   |

with a well defined social mission; (b) the NPO is successful in terms of having a strong presence in the United Kingdom and sound business performance; (c) the selected NPOs operate in different sectors and fulfill different social goals to increase breadth and depth of the study for theoretical replication and analytic generalization (Yin, 2003); and (d) the NPO is well established with more than 5 years in business to examine the relevance of relationally embedded network ties developed over time. The three NPOs selected for the study have been identified anonymously according to their business sector as social service (SS), health service (SH), and animal service sector (SA; see Table 1).



The data collection process is guided by the conceptual framework (Figure 1). To increase reliability in the data collection exercise across three NPOs with different interviewees, a case study protocol was used to guide the process of data collection (please see appendix). The proposed conceptual framework serves as the basis for data collection in terms of their function, meaning, relationship, and impact on resource acquisition and business growth. In other words, the constructs were examined as relevant interests and questions during the interviews. Specifically, the interview process began with a structured discussion about the informants' background such as managerial roles and job responsibilities. The purpose of this discussion was to seek relevant information about participants' involvement in resource acquisition strategy and process (i.e., financial, human, and human capital resources) through relationally embedded network ties (e.g., trust-based and social relationships). The case study protocol focused the study on key constructs while providing flexibility to discuss open-ended questions related to processes of how NPOs use, develop, and mobilize network resources through relational network ties such as personal contacts, types of organizational resources, and levels of trustworthiness. The categories of the constructs in the case study protocol facilitated transcription and coding of the interview data in terms of focusing on relevant theoretical elements and/or attributes (Figure 1) for further coding and data analysis. Face-to-face interviews were conducted at the informants' premises or at the university. Interviews were digitally recorded with prior consent from the participants with each interview lasting about 45 min to 1.5 hr (see Table 1). A total of 27 interviews (SS  $n = 10$ ; SH  $n = 8$ ; SA  $n = 9$ ) have been conducted for this study.

The data analysis began during the process of data collection in an iterative manner as the researchers move back and forth between theory and data. This iterative process of data analysis was guided by theory. In addition, the interview data were professionally transcribed and analyzed. The data were also entered and analyzed using a qualitative program, Nvivo 7, which generated and confirmed themes from the analysis. Draft interview transcripts were reviewed by two academic peers with the recording from informants. There were no major discrepancies with the content except editing and correcting interview quotes. This initial process of data reduction formed a database for this project with all available interview transcripts. Miles and Huberman (1994, p. 11) described this process of data reduction as an "organised and compressed assembly of information that permits conclusion drawing." This is followed by analysis of each case to identify patterns and key themes based on research questions and theory. Yin (2003) describes this process as pattern matching within case corroborated with documentary evidence. The goal is to achieve "familiarity with the case as a stand-alone entity" (Eisenhardt, 1989, p. 540). Quinn Patton (2002) underscores the importance of meticulous analysis of individual cases. The findings of each case study were summarized to search for cross-case patterns. Due to space limitation, the analysis provided quotations that represent cross-case analyses (rotated), that is, all three cases revealed similar insights from the data analysis.

## Findings and Discussion

The findings and discussion are divided into nine themes respectively. These themes emerged by combining the three types of resources and the three components of relationally embedded network ties. The main findings are summarized in Table 2.

### *Theme 1: Financial Resources—Personal Goodwill Trust*

The informants reveal they consider the concept of using personal relationships as a primary revenue strategy to gain access to financial resources. The findings suggest that a good personal connection can provide the conduits, bridges, and pathways to access external resources (Hillman, Keim, & Schuler, 2004; Li et al., 2008; Tsang, 1998; Xin & Pearce, 1996; Yang, 1994). The following extracts from the data illustrate how good personal goodwill trust with the appropriate individual is central in securing a large business donation and creating opportunities to collaborate with business on social or fund-raising projects.

Many of our donations and business opportunities are received through the personal contact with the appropriate person by our staffs. It is obvious that people willing to give to someone that they know and trust the things that they gave are dealt by an honest hand. [. . .]. Many of our projects [social projects] will not start without this. As a manager, I am encouraging staff to develop personal networks with the people in our community. (SS 7)

[. . .] to give you an example, we have offered sponsorship opportunities to many businesses in our community. Only few of them agreed to sit down with us to talk about the details of our proposal and all of them have personal relationships with our staffs. I think it is because that they [local business leaders] trusted them [NPO staff], not our organization. It is extremely good for securing large business donations and working with local businesses [on fund-raising and community projects]. (SA 9)

Access to financial resources in network ties through personal relationships is crucial for pursuing business growth such as introducing products and services. In terms of business opportunities, the informants' comments are in line with Austin's (2000) study that among other things, personal connection is extremely important to enhance the collaboration between social and business purpose partnerships, especially when the personal connection is between the leaders of both organizations. In addition to the exchange of benefits (Arya & Salk, 2006; Berger, Cunningham, & Drumwright, 2004), the informants agree that personal relationships are important for strengthening cooperation to access external resources of certain networks. Personal ties also encourage and promote possible future cooperation. The findings reveal that the close personal relationship between social and

**Table 2.** Summary of the Main Findings

|                             | Financial resources  | Human resources   | Human capital resources  |
|-----------------------------|--|---|--|
| Personal relationship       | <p>Personal goodwill trust</p> <ul style="list-style-type: none"> <li>• Fund-raising through personal relationship</li> <li>• Fund donors back up fund-raisers' action because of personal trust</li> </ul>  | <p>Personal goodwill trust</p> <ul style="list-style-type: none"> <li>• Recruitment through strong personal ties</li> <li>• Permanent and volunteer workforce draw from recruiter's personal trust</li> </ul>   | <p>Personal goodwill trust</p> <ul style="list-style-type: none"> <li>• Knowledge sharing through personal relationship</li> <li>• Individuals who possess specific knowledge are willing to share with task operator because of personal trust</li> </ul>   |
| Dyadic economic interaction | <p>Competency trust</p> <ul style="list-style-type: none"> <li>• Fund-raising through exchanging of objectives</li> <li>• Fund donors and fund-raisers have different objectives but they need each other's help</li> <li>• Both exchange parties trust each other's ability to deliver their objectives</li> </ul>  | <p>Competency trust</p> <ul style="list-style-type: none"> <li>• Recruitment through exchange of objectives</li> <li>• Permanent and volunteer workforce have different objectives but they need each other's help</li> <li>• Both exchange parties trust each other's ability to deliver their objectives</li> </ul>   | <p>Competency trust</p> <ul style="list-style-type: none"> <li>• Knowledge sharing through exchange of business objectives</li> <li>• Individuals who possess different knowledge are willing to share with each other</li> <li>• Both exchange parties trust each other's familiarity of specific knowledge</li> </ul>  |
| Social capital              | <p>Social trust</p> <ul style="list-style-type: none"> <li>• Fund-raising through referred personal relationship</li> <li>• Fund donors draw from multiple referred relationships from fund-raisers</li> <li>• A large number of fund donors begin to form a network community to support the organization and enhance the trustworthiness of organization from society</li> <li>• This trustworthiness attracts more people to participate</li> </ul> | <p>Social trust</p> <ul style="list-style-type: none"> <li>• Recruitment through referred personal relationship</li> <li>• Permanent and volunteer workforce draw from multiple referred relationships from recruiters</li> <li>• A large number of permanent and volunteer workforce begin to form a network community to support the organization and enhance the trustworthiness of organization from society</li> <li>• This trustworthiness attracts more people to participate</li> </ul> | <p>Social trust</p> <ul style="list-style-type: none"> <li>• Knowledge sharing through referred personal relationship</li> <li>• Individuals who possess specific knowledge and are willing to share with organization draw from multiple referred relationships from fund-raisers</li> <li>• A large number of individuals begin to form a network community to support the organization and enhance the trustworthiness of organization from society</li> <li>• A knowledge-sharing platform is developed because of this trustworthiness</li> </ul> |

business partners encourages trust, which is central to the development and continuity of the relationship.

### *Theme 2: Financial Resources—Competency Trust*

The data analysis suggests that access to financial resources in network ties is not limited to personal relationships. In business collaboration, the NPOs partnered with commercial organizations to share marketing of certain products in support of charity and/or social goals. While such commercial activity may deviate from the social mission of NPOs, the business partnership provides access to financial resources as well as fulfils social responsibility of the relationship. This is illustrated below:

Our activity involves developing relationships to raise funds by partnering with other commercial organizations. [. . .]. For example, we use our social brand, a retailer or manufacturer would license its brand logo on a product and then we get a percentage of the royalty of the sale. At the same time, the commercial company's brand reputation can also be improved by associating with us. [. . .]. We choose our business partners from potential lists based on two criteria. First, it must be an ethical organization. If the private company cannot pass our ethical test, we won't even consider the possibility. Second, it must have the ability to help us to deliver the results [fund-raising and business objectives]. (SA 5)

The acquisition of financial resources using relationally embedded network ties is more like a typical cross-sector alliance between a private commercial company and NPO. The NPO receives monetary contribution from the allied commercial company depending on the availability of resources and the NPO's needs. In exchange, the commercial business partner gains an enhanced social image, favorable publicity, and the means to influence stakeholders' opinion about the company (Andreassen, 1996; Madrigal, 2000). While the objective of the social commercial alliance is to deliver social goods, it is based on a calculated exchange of financial benefits between the NPO and the corporate partner, and the benefits to the recipients are not always central in the partnership (Liston-Heyes & Liu, 2010).

The focus of both social and business objectives in commercial context has been referred to as cause-related marketing, that is, a way to commercialize an organization's social responsibility initiatives where it is seeking both financial and non-financial returns from social contribution (Docherty & Hibbert, 2003; Lichtenstein, Drumwright, & Braig, 2004). The data analysis shows how NPOs will take advantage of business opportunities through network ties such as an alliance to generate financial revenues and business growth from the commercial counterpart. The relationship is developed on the extent of return from both social and financial perspectives based on mutual trust. More important, the selection criteria of the NPOs in choosing the potential business partner also focuses on assessing the commercial company's ability to deliver both economic and social returns. Although there is consideration of financial, social, and trust in selecting potential partners, NPOs prioritize the public and social mission.

### *Theme 3: Financial Resources—Social Trust*

The findings suggest the notion of forming a “supporter community” that consists of a group of connected network ties (including commercial companies) with similar social interests to provide financial resources to social missions. This notion of supporter community can be illustrated as below:

We expand our personal networks through local seminars, where local businesses go, so we get those business contacts as well as generate some support for the hospice and get the message out about what the hospice does. [ . . . ]. We will ask the representative of those businesses that are currently working with us [on a business project] to introduce others. It is the best way to make friends and meet future partners, because people [new members] trust those [current members] who introduce them to us. (SH 1)

Every couple of months, I will invite them [existing project partners and contributors] to a lunch. During this meeting, I will present to them what we have accomplished [community project] for the past few months and how we will spend their contributions [financial contribution] for the next few months. At the end of the meeting, I will always ask them to introduce someone who they think will be interested to participate in our activities. My goal is to keep this community growing. (SS 10)

To enlarge the supporter community, this strategy has often been adopted by the NPOs to ask the current relationally embedded network ties to attract new members. Such practice of referral allows NPOs to gain trust through personal recommendation of others, which would promote trust with potential new partners. The NPO can be seen to be more accountable and trustworthy. As Cermak, File, and Prince (1994) noted in their study, people who are motivated to donate by a combination of social ties and humanitarian factors represent the largest segment of donors in nonprofit business. There is psychological advantage from personal referrals as potential and new members are likely to trust people they know. The NPOs accountability can be further enhanced by providing regular feedback to the financial contributors (commercial organizations) regarding their social performance.

### *Theme 4: Human Resources—Personal Goodwill Trust*

The findings suggest that personal relationships play a very important role in terms of staff recruitment in the nonprofit sector. Trust-based relations from network ties facilitate NPOs to motivate others to participate in social activities. Interestingly, the findings indicate that it is important for NPOs to recruit people with the motivation to support social or charity activities. Such social motivation is more difficult to identify in recruitment of new staff compared to basic business skills. The crucial social motivation in voluntary or charity types of work can be better determined

through current personnel who may personally know a candidate. As one interviewee pointed out,

[. . .]. The recommendations of our current staff are very important for me to make the hiring decision. I think it is because we are looking for people who have good business skills and the passion toward XXX [social cause]. The business skill is very easy to evaluate, because we require our job applicant to submit a detailed CV for us to study. However, having the passion toward XXX is very difficult to know. Even the person with a ten-year working history in the non-profit sector, doesn't mean that the person is passionate toward this job. Therefore, our staff's recommendations are very important, if he or she knows and trusts this candidate personally. (SS 3)

Given the demanding nature of voluntary labor force, NPOs operations require professional people to be motivated and keen to stay in the job. In particular, NPO professionals earn less than those working in commercial or for-profit institutions. Prior studies have noted that finding a motivated individual in the first place is critical for the purpose of staff retention (Ban, Drahank-Faller, & Towers, 2003; Emanuele & Higgins, 2000). Thus, relationally embedded network ties are central to recruitment and staff retention, which also precede identification of business skills.

### *Theme 5: Human Resources—Social Competency Trust*

In relation to social competency trust, the findings suggest that the NPOs can recruit and expand the employee volunteer force from business sectors through network ties. The analysis showed that the process of recruitment may start with building a close relationship with the company employee(s) who joined the NPO activity voluntarily. The way of building this relationship is by communicating the NPO's social mission and demonstrating to the volunteers that the NPO is capable of making social impact. The employees' network ties allowed trust to be established between NPO public or social missions and commercial or private sector objectives. Such competence in social relationship development has the potential to influence volunteers to join or become a permanent labor force of NPOs. Below are implicit examples of the influence of social competency trust in recruitment:

Some of our volunteers come from local business. They are initially coming for personal reasons. However, we will use this opportunity to build a close relationship with them and show them that we are creating a big impact in our community. [. . .] We will then ask them whether they can ask their boss to make us an employee volunteer partner of the company. In many occasions, it will work. (SS 8)

We have a corporate volunteer partner. It starts with some of their employees participating in our volunteer programme. [. . .]. Now it turns out to be a big

programme. We have formal partnership contracts signed with this company. I think it is because when these people work for us [volunteers], they find out that our work can really make a big difference to society. Therefore, they recommend us to their business leader. (SH 3)

Wulfson (2001) notes that NPOs corporate community program involving employee participation can help to increase employee morale because the employees will be proud to work for the company. Moreover, Liu, Liston-Heyes, and Ko (2010) found that commercial organizations can enhance employees' trust (i.e., internal legitimacy) further by increasing their involvement in certain social campaigns through selected network ties with NPOs. The findings indicate that NPOs can take advantage of network ties with commercial organizations to build social competency trust. This process starts with building the competency trust with the employees by demonstrating the NPO's ability to make a social impact, in which the employees would be able to increase the organizational capacity and business growth through external links such as corporate and volunteer programs. Interestingly, NPOs have the potential to leverage many potential volunteers and human resource capacity through a relationally embedded tie of a single employee relationship.

### *Theme 6: Human Resources—Social Trust*

The data highlight the extent to which NPOs attempt to recruit both paid and volunteer workforce using social capital. As suggested by Hite (2005), the improvement of social capital can lead to an increase in social trust. Once the social trust is established, the network members will be able to exploit relationally embedded network ties for the NPO. The following quotes show the NPOs intent to gain access to human resources through network ties:

We recruit many of the volunteer force through our social events. The reason is that the participants to our social events usually have the same belief as we do. In many cases, these participants will ask their friends to join our programmes as well. We can expand our volunteer force faster this way. (SS 5)

When I first came to this role there were about ten people in the group (about a year ago). Now we have about fifteen people as a result of building a network of people who support our goals. [. . .]. It allows us to access much more resources and information. For example, we were unsuccessful in finding a new fund-raiser for the past few months. [. . .] after I mentioned this during the meeting, we have received several referrals with high quality candidates. (SA 2)

The data analysis suggested two ways for nonprofit business to attract the potential workforce through social trust. First, an NPO can organize social events to attract potential candidates who have a common social goal with the NPO. As such, the potential candidates would have strong ties with the NPO in terms of trust and social



mission of the event (Higgins & Lauzon, 2003; Taylor & Shanka, 2008). Since the trust between the potential candidates and NPO is established, it is not hard for the NPO to persuade them to increase and strengthen the voluntary workforce. Second, the NPO can use network communities to recruit qualified staff through multiple referrals from the network members. This is similar to private and commercial organizations, where network communities are instrumental in finding the relevant personnel (Petersen, Saporta, & Seidel, 2000).

### *Theme 7: Human Capital Resources—Personal Goodwill Trust*

The findings reveal that NPO can acquire necessary knowledge through personal relations. It is not surprising to learn that where there is mutual respect and trust this creates a more willing environment to share information (Baron & Markman, 1993). The following quote synthesizes the influence of personal goodwill trust:

Our sector has changed a lot over the past five years. We have adopted new ways to run our organisation. It is more market-oriented in comparison to our old system; therefore we need to re-train most of our staff. Other than the regular training programme, I also ask our staff to learn more from the people who they share mutual respect and trust. From my experience, I can learn more advanced knowledge from the people I trust than from the training programme. I think it is because everyone is learning at this stage. (SH 6)

It is increasingly inevitable for NPOs to commercialize their activity (also referred to as marketization) requiring them to become more business-like (Dart, 2004; Macedo & Pinho, 2006). To achieve the transformation or combination of nonprofit business and market-oriented business, NPOs require new operational knowledge that is necessary to become successful in generating revenues from commercial activity. The findings suggest that NPOs can obtain necessary information from personal contacts implying the importance of established or relationally embedded network ties.

### *Theme 8: Human Capital Resources—Personal Competency Trust*

The findings suggest that NPOs can benefit from interaction with members in the network communities by gaining necessary knowledge and expertise to improve its operational competence. The motivation of network community members for collaboration includes more than information exchange based on social mission activity to the extent of using trusted relations to leverage access to human resources. This quote illustrates the importance of personal ties:

We have put together a number of things locally, involving local associations, traders, retailers, and other interest groups. We make sure that we have regular conversation with all of them and all of us can benefit from these relationships. We receive a lot of information from them. It helps us to communicate with our



target stakeholders more clearly and build understanding for ways to improve customer satisfaction. [. . .] I think part of the reason for they choose us is that they know we can do the job. (SH 8)

We have worked together with many local businesses and many of them volunteer their time [employee volunteer] for us. Other than the hard labour, some of them are kind to offer their knowledge and experience to help us improve our business. For example, one volunteer from an IT company offers a training course for our employees. [. . .]. We can both benefits from this relationship. (SS 1)

The literature on networks suggests that network participants are exposed to various types of valuable knowledge (Inkpen & Tsang, 2005; Nahapiet & Ghoshal, 1998). For example, in business contexts, strategic alliances provide one legitimate way for network members to access valuable knowledge. Thus the extent of trust through interactions and network ties can determine access to network resources of a nonprofit organization.

### *Theme 9: Human Capital Resources—Social Trust*

The findings suggest that NPOs develop a platform to structure and stimulate the exchange of knowledge and information. This platform provides a legitimate source for NPOs to learn from each other for the purpose of improving their operational effectiveness. Below are examples from the data:

[. . .] There are various committees, which generally help share information between all of the charities. For example, we got a property committee relating to shops and rents; a recycling group to do with how we source our goods and then how we make the most of what we have and get rid of the rest; a human resources group to deal with the HR aspect of running the shops so I actually go to all of those meetings to network with colleagues from other charities in some respects especially to think of new ways to market ourselves. (SH 4)

I'm a member of a trading forum that includes a range of about thirty other charities and we meet at least twice a year but often three times a year and share results and ideas on what we are all doing. It is ever expanding because people bring more people in. It's quite an open forum for people to discuss our figures within those four walls of what revenue they would be making, what ideas have worked, what opportunities exist for members, etc. [. . .] the condition for this forum to work requires everyone to trust each other and willing to share their knowledge. I think we have common ground on that, because we all want to make contribution for this society. (SA 8)

The findings implicitly indicate that the knowledge exchange platform facilitates interaction and development trust-based relationships. It is similar to the functioning of a trade association that has some kind of authority over their members to ensure collective benefits are received by all (Streeck & Schmitter, 1985). Crouch (2005) suggests that the association provides a very good governance system to ensure that all the members are playing fair without taking advantage or avoiding making contributions. From the NPO perspective, this concept of association plays a very important role to enhance the trust between members. As a result, they are more willing to share the information with each other to achieve collective goals.

## Conclusions

Past research on network ties has examined the role of relational embeddedness and structural characteristics for the discovery of opportunities and mobilization of resources mainly in commercial contexts (e.g., Burt, 1992; Hite, 2005; Shane & Venkataraman, 2000). This study builds on this knowledge focusing on the relational embeddedness to understand the processes in which NPOs access their network resources for the purpose of resource acquisition and business growth. The study presents a conceptual framework to describe the relationship among relationally embedded network ties and resource acquisition, with the specification of three components of embedded network ties facilitated by trust (personal goodwill, competence, and social capital trust) and three types of network resources (financial, human, and human capital resources) that are essential for the survival and ultimate competitiveness of nonprofit business venturing into commercial activity.

The proposed conceptual framework was examined using three case studies. The aim of this exercise is to determine strategic objectives of nonprofit business for acquiring different types of resources using different components of relationally embedded network ties. The findings of the case studies are organized around nine “themes” according to the combination described above. Table 3 highlights new theoretical insights of relationally embedded ties examined in the context of nonprofit business. Although a network perspective of acquiring organizational resources is relevant for nonprofit business, relationally embedded network ties can play different roles in resource acquisition. An NPO may rely on personal trust to develop commercial opportunities without hampering its ability to compete in the marketplace. The lack of competency trust such as through managerial skills may limit the business opportunity of nonprofit organization. As competition intensifies in nonprofit sectors, the ability to exploit and leverage network ties and resources is increasingly relevant. Although it may be adequate for commercial organizations developing competency (trust) to exploit complementary resources in business partnerships, NPOs need to match their social mission with potential business partners or alliances. The charitable nature of NPO’s activity also differs from commercial organization in terms of

**Table 3.** Theoretical Insights Relationally Embedded Ties in Nonprofit Business

| Relationally embedded ties | New theoretical insights            | Application in nonprofit business <sup>a</sup> |
|----------------------------|-------------------------------------|--|
| Personal trust             | Cooperative behavior                | Sponsorships, donations                        |
|                            | Relational efficiency               | Personal recommendations                       |
|                            | Common interests or personal favors | Learning from personal relations               |
| Competency trust           | Ethical compatibility               | Cross sector alliances                         |
|                            | Social responsibility               | Volunteer programs                             |
|                            | Relationship management             | Network communities                            |
| Social trust               | Multiple referrals                  | Local seminars                                 |
|                            | Common social goals                 | Social events                                  |
|                            | Network membership                  | Forum/trade associations                       |

<sup>a</sup>In the order of financial resources, human resources, and human capital resources.

the likely development of network communities for NPOs to share a similar cause or support a social mission.

NPOs are generally aware of the potential benefits of acquiring resources through relationally embedded network ties. Besides the potential to leverage network resources through relationally embedded ties, NPOs benefit from altruistic advantages from their social mission, as the social mission can be aligned to mobilize network resources to enhance business growth. This strategy reverses the role from exploiting to aligning, and therefore, implying the significance of the elements of trust in terms of quality communications and goal congruence in relationally embedded ties.

The use of personal relationships eliminates some of the costs associated with formal contracting mechanisms, and enhances trust to access network resources. It often serves as a key to unlock the network resources and build close relationships in networks particularly for established relationships. In this study, established NPOs possess relationally embedded ties, which can help reduce uncertainty and risk as well as facilitate venture into business and market-oriented activity. Although the pursuit of commercial objectives can be lucrative, the social mission of nonprofit organizations is fundamental and central in the selection of commercial interests and/or business partners. Finally, the social capital in networks enables NPOs to enhance its ability to access necessary network resources beyond the dyadic level. It is at this network level that informal network communities as well as or more formal trade associations are critical for brokering access to new opportunities and exchange knowledge in the network. Overall, this study contributes to the understanding of the relationally embedded network ties and relational elements that influence network resource acquisition to enhance NPOs' ability to achieve both social and business objectives as well as compete in the marketplace.

## Appendix

### Case Study Protocol to Serve as a Guide

| Constructs  | Interview cues with probing   |
|---|---|
| Personal relationship (dyadic/ personal ties, and network ties) | <p>During the past 5 years, managers at our firm have heavily used personal ties, networks, and connections with</p> <ul style="list-style-type: none"> <li>• Volunteers</li> <li>• Donors</li> <li>• Government personnel</li> <li>• Officials in industrial bureaus</li> <li>• Business associates</li> <li>• Media personnel</li> <li>• Relevant interest groups</li> <li>• Financial institutions</li> <li>• Research institutions</li> <li>• Others, please specify</li> </ul> |
| Social components (affect, sociality)                           | <p>Our managers create a positive opportunity for us through</p> <ul style="list-style-type: none"> <li>• Personal understanding and knowledge</li> <li>• Loyalty, respect, and care of personal relationships</li> <li>• Social activities</li> <li>• Interdependence</li> <li>• Frequency, amount, and/or reciprocal relations</li> </ul>   |
| Social components (extent)                                      | <p>Our managers gain a positive support from</p> <ul style="list-style-type: none"> <li>• Multiple relationships</li> <li>• Short- or long-term relationships</li> <li>• Working with partners</li> <li>• Close strong ties</li> <li>• Distant weak ties</li> </ul>   |
| Social components (effort)                                      | <p>Our managers use external relationships to</p> <ul style="list-style-type: none"> <li>• Solve problems</li> <li>• Respond to customer needs</li> <li>• Educate stakeholders</li> <li>• Get close to target customers</li> </ul>  |
| Social components (ease)  | <p>Our managers have access to personal and network ties through</p> <ul style="list-style-type: none"> <li>• Technological compatibility</li> <li>• Convenience</li> <li>• Goal congruence</li> </ul>  |
| Social components (quality)                                     | <p>Our managers assess quality of external relationships in terms of</p> <ul style="list-style-type: none"> <li>• Communication quality</li> <li>• Familiarity</li> <li>• Knowledge of business needs</li> <li>• Working well together</li> <li>• Satisfaction</li> <li>• Loyalty to interaction</li> </ul>   |

(continued)

## Appendix (continued)

| Constructs                                    | Interview cues with probing  |
|---|--|
| Social capital (network structure)            | Our managers use existing relationships to <ul style="list-style-type: none"> <li>• Gain introductions to third party</li> <li>• Develop close relationships</li> <li>• Explore complementary benefits</li> <li>• Understand expectations</li> <li>• Develop mutual norms</li> </ul>   |
| Heightened accountability                     | We undertake both social and commercial activity to <ul style="list-style-type: none"> <li>• Fulfill social goals</li> <li>• Ensure consistency with our principal social mission</li> <li>• Adopt our social philosophy</li> <li>• Support our social mission</li> <li>• Serve and help our targeted communities</li> <li>• Enhance our ethical standards</li> </ul>  |
| Social mission performance<br>(social impact) | We measure social mission performance through <ul style="list-style-type: none"> <li>• Societal benefits, for example, education, poverty reduction</li> <li>• Economic benefits, for example, jobs creation, business growth</li> <li>• Financial benefits, for example, profits, return-on-investment</li> <li>• Customer satisfaction, for example, customer feedback, complaints</li> <li>• Quality, for example, product durability, product attributes,</li> <li>• responsive services</li> <li>• Operational efficiency, for example, lower overheads, efficient logistics</li> </ul> |

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