Key Marketing Challenges for Micro and Small Sized Non–Profit Organisations: A Study of Australian Third Sector Firms

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Key Marketing Challenges for Micro and Small Sized Non–Profit Organisations: A Study of Australian Third Sector Firms

Simon J. Wilde and David M. Herold

ABSTRACT

This chapter offers exploratory evidence on critical marketing issues impacting small to medium (SME) sized non–profit firms. Extant literature advances that utilising marketing platforms and services – including digital marketing channels – offers several prospects for non–profit business practitioners to interact and communicate with customers, clients, stakeholders, and the wider public [1,2]. Whilst recent research [3,4] clearly highlights that the potential uptake of modern marketing approaches by non–profits, like social media applications, can help drive new marketing possibilities within the third sector, understanding how non–profits develop and deploy their marketing activities most effectively appears to be of critical importance to organisations competing in this space. Drawing on the knowledge and experiences of 115 non–profit managers in Australia, this study identified four prominent marketing themes/issu: fundraising and other monetary related pressures; donor acquisition and relationship management; a ‘lag behind’ mentality in using new marketing platforms like social media; and a perceived lack of expertise in the area of marketing. The results in this chapter affirm the need for a greater adoption of a marketing approach in non–profits firms, particularly within small and micro non–profit enterprises.

Keywords: SMEs; marketing; non–profit; third sector; organisational activities.

1. INTRODUCTION

Reflecting an often growing gap between societal need, and the activities of the public and private sectors, the past decade has seen substantial growth in non–profit undertakings. Fuelling this growth of non–profit and non–governmental organisations is a newfound appreciation, legitimacy and an increasing pool of opportunities for cross-sectoral involvement for those firms working in what is now often referred to as the ‘third sector’. In Australia, the Productivity Commission’s 2010 research non–profit report [5] estimated that there were roughly 600,000 non–profits in Australia; of these, nearly 60,000 were registered with the Australian Charities and Not–for–profits Commission (reflecting the specific charitable mission of this important subset of the sector). Further to this, previous research undertaken by the Australian Bureau of Statistics highlighted that the local non–profit sector employed 890,000 people, approximately 8.6% of Australians in employment; had an income of $76 billion; contributed 3.4% to Australia’s overall gross domestic product (GDP); and made an economic contribution equivalent to that of the government administration and defence industry and one and a half times the size of the economic contribution of the agriculture sector [6].

Yet despite the seemingly central role non–profits play, both within Australia, but also the broader world economy, numerous industry–based reports highlight a series of ongoing challenges for those operating within the. For example, succession and development of boards and management, articulating and actioning the mission focus, and realising the similarities and differences in for–profit

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and not-for-profits appear to be some of the major governance–centred challenges facing third sector firms [7]. Considerable human resource issues such as lower salaries, increased instances of burnout, and lower employee morale are also prevalent [8]. In order to both survive and thrive in an increasingly competitive third sector environment, non–profits must also strive (like any other organisation, including for–profits) to develop and sustain a strong customer/client focus [9]. With respect to this customer/client lens, there is a growing body of literature that asserts the importance of marketing and marketing activities for non–profit organisations (White and Simas 2008). The development and reporting of practical outcomes within this literature stream appears to be vital for small to medium sized (SME) firms competing in the non–profit sector, given a number of academic researchers have identified a distinct absence of market orientation, or the organisational skills and foundations linked to the development of a market orientation within SME firms. Many of these examinations focus their theoretical lens on for–profit SMEs. Relatively scant research attention has been paid to non–profit SMEs [10]. The main aim of this paper therefore is to first extend our general understanding of marketing within SMEs, but secondly and perhaps more importantly, to seek to identify a series of critical marketing challenges faced by a sample of Australian SME non–profit, third sector firms.

2. MARKETING CHALLENGES IN SMES

It is acknowledged among scholars that marketing characteristics and challenges in SMEs are fundamentally different from that of larger organisations (e.g. [11,12,13,14,15]). In particular, SMEs are recognised for a series of unique characteristics affecting the way in which they approach marketing [16]. The important issues for marketing in SMEs is a focus on simple and workable approaches that are affordable and efficient and, most importantly, in line with their unique strategy [17]. As a consequence, their marketing practices are divergent from traditional marketing and represent rather an experimental marketing style [18]. In other words, SME marketing is efficient, intuitive and aligned with their internal culture (Carson et al. 1995), [19, 20]. SMEs actually draw on the advantages of being small and their experimental marketing styles have been referred to as informal, reactive and haphazard [21]. Thus, SMEs execute ‘bottom–up’ interactive approaches, without long–term planning of marketing practices rather than classical ‘top–down’ strategies [11, 18](Stokes et al. 2013).

Moreover, marketing in SMEs include their flexibility and rapid ability to respond to environmental needs which includes a focus on opportunities and easy access to market information (Carson et al. 1995) [12; 17]. More importantly, SMEs do have a tendency to form closer, more personal relationships with customers than larger organisations which give them the ability to satisfy rapidly changing customer needs [22, 23]. As such, the main differences between traditional and experimental SME marketing can be found at the tactical level, which is seen as leading to superior customer and market understanding and market positioning [24], (Stokes et al. 2013). SMEs focus on opportunity recognition and exploitation by placing knowledge of their customers at the heart of their business [14]. High–performing SMEs ‘live’ continuously with the market, innovating their customer orientation through development and maintenance of meaningful relationships with their key customers [25].

SME’s are also seen as a major source of innovation within many economic sectors, mainly due to their flatter organisational structures, and the lack of bureaucracy, which in business terms, often improves communication, knowledge sharing, and collaboration within the firm [26]. In established and competitive markets, SMEs often find it difficult to make their presence known, and therefore are often compelled to create their own marketplace by developing an innovative product/service, or alternatively, by seeking to supply a neglected, untapped niche market [24, 27]. Perhaps it is therefore without surprise the critical role played by the SME owner–manager. Core personal aspects including personality and ambitiousness have been seen to the linked to the SME’s growth (Carson et al. 1995), [29]. A study by Hogarth–Scott, Watson and Wilson [30] found that small business owners were often generalists as opposed to specialists and thus, complex marketing models may not be appropriate for SMEs. Although this can be seen as an opportunity due to low hierarchy, others argue that marketing-related decisions made through meaningful analysis, with particular regards to the macro and micro business environment, are often put aside, with the personal preference of the owner–manager taking precedent [31].
In addition, SMEs tend to face a range of other challenges in marketing, characterised by a lack of resources, limited finances, a lack of formal and strategic planning [32, 17]. Additionally, due to overall business resource constraints, SMEs are often powerless to first develop, but secondly, to sustain a cost leadership posture or to fund business-related research and development activities, and as a consequence, may suffer from limited access to industry knowledge [33]. Further disadvantages include a limited client base, limited access to markets and in particular marketing expertise [17]. The impact of these potential shortcomings clearly have the ability to influence a SMEs’ capacity to carry out proper marketing practices [34].

2.1 Non–profit and micro–firms

Marketing challenges are even more prevalent in micro–firms, despite the immense value such firms have on an economy and their contribution both in terms of GDP and employment, particularly the generation of primary and secondary incomes [35]. But while research of SMEs is relatively well developed, a number of researchers assert that such a broad understanding is acutely deficient when viewed in the context of micro–sized enterprises [36, 37].

A micro–firm in Australia is defined as an actively trading business with 0–4 employees [38]. In comparison, a small business is as an actively trading business with 0–19 employees. Micro and small firms make up some 98 per cent of Australian firms and accounted for 41 per cent of total employment. Compared to other OECD countries, Australia also has a relatively high share of micro businesses with 87 per cent of all firms in the business population (OECD average 81 per cent), but this share accounts only for around 16 per cent of total employment [38].

Several studies have shown that micro firm challenges and obstacles for growth differ significantly from those of larger SMEs (e.g. [39, 10, 17, 40, 41]). Micro firms lack the capabilities to develop economies of scale, and suffer from an inability to gain access to financial resources outside of personal funds, or funding from family or friends, and to survive robust competition arising from larger SMEs in the marketplace [42]. In addition, micro firms have very few full–time, ongoing employees; do not maintain sizeable capital assets, and often rely upon more simplified technologies and procedures when compared to larger entities including SMEs. They have also been found to be labour intensive – as noted previously, the owner–manager of smaller firms play a critical role in its success or otherwise through a strong drive to succeed due to their ownership, in the potential hope that continued business growth may eventually lead to the possibility of some form of succession [43].

For non–profit micro–firms, incremental challenges can be observed. In general, non–profits ‘possess certain characteristics’ making them different to for–profit organisations [44 p. 337]. Crucially, non–profits stress different organisational goals when to compared with for–profit organisations, operating solely for the clients, whereas for–profit organisations ultimately report and are accountable to shareholders – wanting capital growth and/or regular dividends – and other influential stakeholders. Other key differences and characteristics of non–profits can include: the use of volunteers, the extent of for–profit competition, and sources/level of access to funds [45].

Funding is generally tight within non–profits and due to limited financial resources and capital of micro firms, securing additional sources of funding is crucial for survival. Consequently, non–profit organisations have gradually been introducing core marketing activities into their business operation, through the realisation that such outward facing actions and tactics may help the organisation better meet its overall organisational mission and survive long term [46]. Similar evidence suggests adoption of for–profit marketing practices is not without problems for non–profits organisations, e.g. sponsorship acceptance might jeopardize the mission values [47, 9]. Although it could be claimed that the concept of market orientation is not entirely appropriate for non–profit organisations, given that their overall mission is crafted well in advance and traditionally could not be freely amended based on, for example, changing market needs; the chase for funding in a ‘corporate’ marketing environment continues to influence or compromise the mission non–profit firms exist to serve, where ‘mission creep’ sees an increasing number of organisations moving away from their original mission [45, p. 353]. Therefore, it is crucial that balancing ‘financial and operational objectives and organisational
purpose’ [48, p. 80], and the need to infuse into non-profit professionalisation ‘virtuous behaviour and judgement capacity’ [48, p. 81], are emphasise in finding a balance between mission and money.

However, there is an extensive array of other marketing strategies and tactics available to non-profits that can be employed without adversely affecting the overarching mission of the firm. For example, such approaches may involve a sharper use of segmentation bases to better identify clients who are most interested in supporting their mission, building a positive product/service brand image, and using appropriate public relations messaging (including a variety of mediums) to best communicate this mission [9]. Still, it appears that the marketing concept still remains an unfamiliar concept for a significant number of non-profit organisations [49]. Despite a developing body of academic literature focused on the area of for-profit SME marketing (see for example Blankson and Omar [50, 16, 51], little empirical research into the marketing activities of micro and small non-profits appear available, particularly in an Australian context. It is the aim of this research therefore to further highlight the marketing-related challenges faced by non-profit Australian SMEs, in an effort to understand more fully how such firms can serve the needs of their customers (or clients).

3. METHOD

In order to address this research endeavour, a sample of senior managers from small to medium Australian–based third sector/non-profit organisations were contacted to complete a web–based self–administered survey. Respondents were recruited through an opt–in business research panel. The use of online business panels for non–profit research is supported in the literature (see [9, 52]). Information such as (but not limited to) the nature of the organisation’s marketing activities, size of the firm (in respect to both paid employees and volunteer staff), core industry/sector focus (for example, the environment, culture, health, religious activities etc), and the overall mission of the organisation was obtained. A number of screening questions were utilised within the survey instrument to ensure the appropriateness of the sample. Firstly, respondents were asked ‘Do you currently work for a non–profit firm?’ Those that responded in the positive were permitted to continue. Furthermore, the respondents’ knowledge of the firm’s marketing activities was considered. Only those respondents that indicated to having either (what they perceived as) a limited understanding of the firm’s marketing activities, or were fully aware of marketing–related activities were able to continue with the survey.

In total, 115 non–profit managers and senior executives in Australia responded to the survey, identifying the three most critical marketing aspects (or challenges) faced by their SME non–profit. In addition to identifying the nature of the challenge, respondents were also asked to provide some detail as to why they believed it to be a critical challenge, and how they endeavoured to deal with or respond to each respective challenge. Although electronic methods of coding qualitative–based data are increasingly being used by researchers, by ‘eyeballing’ the data, responses were clearly marked to detect key themes i.e. searching for repetitions within qualitative responses is best done by eyeballing, although this can be quite time consuming [53].

4. RESULTS AND DISCUSSION

Non-profit firms from across eleven non–profit sectors (as defined by the International Classification of Non–Profit Organisations, which are replicated in the Australian and New Zealand Standardised Industrial Classification) were represented in the data. Social service–based non–profits (n=27), health services (n=25), and religious services (n=11) accounted for 55% of the respondent firms. Furthermore, 36% of respondents noted that their current non–profit employer had a faith–based mission (n=41). 37% of firms had less than 20 paid employees, with 20 respondents indicating that their non–profit meets the Australian industry definition of a ‘micro–enterprise’ (being 5 employees or less).

Respondents were also asked to specify the primary funding source for their non–profit. 37% (n=43) identified their organisation’s primary source of funding being Government (which can include three distinct tiers in Australia, being Federal, State and Local Government). Donations and other fees/charges/service fees also rated highly as an important source of funding for respondent firms.
As noted previously, respondents were asked to identify the three most critical marketing aspects (or challenges) faced by their SME non-profit. Perhaps unsurprisingly, there were a myriad of challenges put forward by respondents. As noted by Brady et al. [54], ‘marketing’ is often described or characterised as a philosophy, a process, a culture, a set of tools or a management process. Hence, each respondent may retain a wide variety of views of what ‘marketing’ is, and what impact it may have operationally on the firm. Despite this broad spectrum of highly specific challenges, four consistent marketing challenge–based themes were identified from the data, being: fundraising and other monetary related market pressures; donor acquisition and relationship management; a ‘lag behind’ mentality in using new marketing platforms like social media; and a perceived lack of expertise in the area of marketing generally.

**Fundraising** was gleaned to be the most critical aspect for SME respondents:

‘**Fundraising is critical as it is the main source of income**’ – respondent.

The notion of ‘fundraising’ as a marketing challenge was expressed through a number of monetary related issues. Firstly, the increasingly competitive non–profit space featured heavily in the view of respondents. As a whole, community organisations dominate several sectors of the Australian economy. The community services sector, for example, assists and supports individuals, families and communities in need, with nearly 90% of organisations operating in this sector being non–profit [55]. With the broader non–profit sector growing rapidly, respondents noted that their third sector firms are starting to ‘feel the squeeze’:

‘This is a critical challenge as our awareness is reducing within the competitive sector. It’s like saying that our organisation is becoming non–existent in the eyes of donors’ – respondent.

As noted by Kinzey [56, pg. 5–6], ‘small charities and other nonprofit organisations have great difficulty getting the world to pay attention to them. They compete with hundreds of other organisations clamouring for newspaper space and air time for their equally important stories and events. Small organisations all too often get lost in the deluge of public relations material that reach media gatekeepers every day’. This appears to align closely with the views of SME respondents in the current research.

Another monetary externality impacting on SME non–profits was the general economic climate in Australia, for example:

‘I think that people would love to give more, but are really feeling the pinch’ – respondent.

‘**Donor apathy (including members of the public) has a serious consequence on our activities which the community still expects us to provide**’ – respondent.

Despite Australia’s relatively strong economic foundations (when viewed against other OECD countries post global financial crisis), local donors (individuals, organisations and governments) appear to be maintaining as ‘cautious approach’ to charitable giving’s. Whilst the February 2013 NAB Charitable Giving Index [57] showed a 2.6% growth in donations (against a 12–month average), this figure was down from 8.3% in the same period one year earlier. Perhaps then, in this conservative fiscal climate, it would bear to reason that the second most prominent theme expressed by respondents was one of **donor acquisition and relationship management** – ‘In today’s climate it’s much harder to get new supporters then to keep the current ones. We are implementing a number of strategies aimed at setting accurate expectations and developing great ongoing relationships’ – respondent.

According to Bray [58], for most non–profits, it costs much less to keep an existing donor versus acquiring a new one – around 20% of the amount it would typically cost to acquire a new funder. This is largely because successive studies (both in for–profit and non–profit contexts) have determined that it costs up to five times as much to recruit a new customer as to do business with an existing one [59]. Researchers have long suggested that developing long–term relationships with key stakeholders is an important strategy in a modern competitive business environment [60].

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Respondents posit that this concept also appears critical in the SME non-profit sector. Key responses noted in support of this theme included (but are not limited to):

‘With a relatively low profile and lack of empathy for our situation [ie. limited funds available in the community]; it accordingly restricts our ability to generate new support. We seek to overcome this challenge by developing strategic alliances with higher profile partners and stakeholders, including existing donors’ – respondent.

‘As a community based organisation, it is critical that we keep in touch with the community, involving the community in our mission. We do this by mail outs notices in our various offices and word of mouth’ – respondent.

Through the development of tools like micro blogs (for example Twitter, Tumblr), publishing tools (like WordPress or Squarespace), photo sharing sites (Instagram), video sharing sites (Youtube and Vimeo as leading industry players) and popular social media platforms (Facebook, Google Plus), opportunities exist for non-profit organisations to potentially increase their community presence, impact, effectiveness, and efficiency (Waters 2009). Yet despite this immense evolutional shift in how organisations communicate with key stakeholders, extant literature has reported that many non-profit organisations ‘lag behind’ in terms of social media adoption. This notion would appear to be supported in the current study, forming another critical marketing challenge identified by study respondents from micro and small third sector entities:

‘Seniors have a challenge in this technology and may miss out on information’ – respondent.

‘Seniors are very challenge on this. They still prefer to donate by cheque or given by hand’ – respondent.

‘Working in an online environment, there is scepticism about outcomes achieved’ – respondent.

‘We are slowly working into the field. We do not have the ability to spend on commercial publishers [on social media content], so we can’t afford to make mistakes’ – respondent.

‘We don’t have and can’t afford a dedicated resource, and so we are struggling to manage our social media strategies’ – respondent.

The challenges with respect to social media adaptation would appear multifaceted. On a number of occasions, the late adoption of technology within some demographic segments (like seniors) was raised as a restrictive factor when considering the use of social media for business purposes. This aspect was elevated by some respondents as a having a negative impact on their ability to raise money online. Various respondents moreover detailed that suspicion and uncertainty around the ‘value’ that social media strategies can bring to a firm are still prevalent within the sector. This is despite a plethora of academic studies, practitioner case studies, and popular press articles confirming that social networking sites have become an important avenue where firms generally can extend their marketing message to a wider range of consumers/clients and stakeholders. Perhaps this scepticism, and recognition that there is a clear absence of social media–related skill sets amongst employees in many micro and small non–profits, is naturally linked to the next critical marketing challenge.

The strong opinion of respondents with respect to ‘getting the message out’ to existing stakeholders (including donors) helped frame the foundation for the fourth (and final) critical marketing challenge, that being a perceived lack of expertise in the area of marketing. As noted in the non–profit literature, it has been argued that managers and workers in non–profits need less monitoring because they are more committed to the organisation’s overall mission. By extension, non–profits may more easily attract committed employees precisely because the lack of equity holders is a signal to them that their selflessness is not enriching someone else [61]. This early claim was empirically supported by Preston [62], Weisbrod [63], and Roomkin and Weisbrod [64]. Yet, despite such commitment,
according to the SME respondents, marketing–related skill sets and a meaningful marketing resource base is often lacking within non–profit firms:

‘Very little money is specifically put aside for marketing – realistically we need to look more professionally at this aspect, and an appropriate budget would help that’ – respondent.

‘We are seriously challenged by for profit competitors, with their marketing budget and expertise in marketing’ – respondent.

‘We lack appropriate human resources to conduct marketing activities. Without dedicated man hours budgeted for, marketing won’t happen’ – respondent.

This challenge appears to be especially acute for respondents, given the potential benefits from the use by non–profits of marketing based tools such as social media (as discussed previously). As noted by Fairall [65], a solid grasp of social media platforms is fundamentally important for SMEs, as firms continue to move into the digital age. Being ‘agile’ in one’s messaging to the market (consumers/clients/donors) as it moves in that direction is therefore critical:

‘How do we reach out to potential donors/supporters in a way that will appeal to them and that they will see or hear – how do we speak their language?’ – respondent.

5. CONCLUSION AND CORE IMPLICATIONS

It was the aim of this exploratory research to highlight critical marketing–related challenges faced by non–profit Australian SMEs, in an effort to understand more fully how such firms can better serve the needs of their customers. Four key challenges/themes were garnered from the research: fundraising and other monetary related market pressures; donor acquisition and relationship management; a ‘lag behind’ mentality in using new marketing platforms like social media; and a perceived lack of expertise in the area of marketing generally. These challenges are by no means new with respect to the broader non–profit literature. However, the degree of influence or strength of these challenges appears to be substantially magnified for SMEs seeking to operate and compete within the third sector. These findings provide non–profit practitioners with a marketing–based insight into the sector, in particular those practitioners seeking to enter the sector for the first time, be it as a manager, or perhaps even as a new non–profit founder.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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Available: http://www.youtube.com/watch?v=59TA6BGrLVg
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