Dynamics of Nonprofit Organizations under Economic Pressure: Institutional Responses and Long-Term Sustainability

Jaroslav Šetek[1], Hana Donéeová[2], Veronika Zvánovcová[3]

Abstract: Nonprofit organizations constitute an integral part of civil society, as they contribute to the provision of public services, the promotion of social cohesion, and the representation of disadvantaged groups. In recent years, however, they have faced increasing economic pressures that threaten their stability and long-term sustainability. Rising inflation, growing labor and energy costs, limited availability of public funding, and changes in the structure of private donors create an environment in which nonprofit organizations must fundamentally redefine their financial and organizational strategies. This article analyzes the institutional responses of the nonprofit sector to these challenges, with particular emphasis on resource diversification, internal process optimization, and strengthening strategic management. It also discusses the risks associated with reliance on limited funding sources and presents examples of best practices that can enhance sector resilience. The study aims to deepen understanding of the dynamics of nonprofit organizations in a changing economic context and to highlight factors that may support their long-term institutional sustainability.

Keywords: nonprofit organizations, economic pressure, financial sustainability institutional responses resource diversification

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JEL Classification: L31, H84, M14, O35

1. Introduction

Nonprofit organizations represent a key pillar of civil society. Their role goes beyond providing public services—they act as intermediaries between citizens, the state, and the market, contributing to social cohesion, solidarity, and democratic participation (Anheier, 2014). In the Czech context, the nonprofit sector underwent significant transformation after 1989—from limited volunteer activities to a developed network of professional organizations with diverse legal forms, from associations to public-benefit corporations (Frič & Goulli, 2010). This structural diversity reflects the plurality of the sector's functions, increasing professionalization, and growing social significance.

Based on the aforementioned facts, this article analyzes the transformations and adaptation strategies of nonprofit organizations in the Czech Republic in the context of growing economic pressures and technological changes. Using theoretical approaches from civic participation, institutional economics, and social capital, the study examines the role of the nonprofit sector in civil society, the impact of economic constraints on its activities, and the main directions of institutional adaptation.

The main goal of this article is to analyze the current dynamics of the Czech nonprofit sector, identify economic and institutional pressures it faces, and evaluate strategies for adaptation and long-term sustainability.

2. Methodology

The analysis of the Czech nonprofit sector was carried out using a combined approach, including qualitative and quantitative methods. The qualitative part focused on identifying institutional adaptation strategies, optimization of internal processes, digitalization, and fundraising practices in selected nonprofit organizations. Primary data sources included annual reports,

[1] University of South Bohemia in České Budějovice, Faculty of Economics, Studentská 13, 370 05 České Budějovice, Czech Republic, jsetek@ef.jcu.cz.

[2] University of South Bohemia in České Budějovice, Faculty of Thelogy, Kněžská 8, 370 01 České Budějovcie, Czech Republic, doneeova@tf.jcu.cz.

[3]University of South Bohemia in České Budějovice, Faculty of Theology, Kněžská 8, 370 01 České Budějovice, Czech Republic, zvanovcova@tf.jcu.cz.

strategic plans, publicly available documents, and case studies of selected organizations, such as Caritas Czech Republic, People in Need, and the Institute for Liberal Studies. These case studies provided deeper insights into practical adaptation mechanisms to economic and non-economic pressures, allowed assessment of organizational capacity and flexibility, and demonstrated differences in approaches between smaller and larger entities (Anheier, 2014; Frič & Goulli, 2010). Qualitative data were analyzed using content analysis, systematically identifying strategies, procedures, and practical impacts of adaptation.

The quantitative part of the study focused on structural composition and economic stability of the sector. Main data sources included STEM statistical reports (STEM, 2025), data on income and financing structures of nonmarket nonprofit institutions, volunteer work information, and development of operating costs and organizational investments. The analysis included calculation of the share of public vs. private funding, income diversification, and financial vulnerability measurement through indicators of dependency on key sources. Secondary data from literature (Salamon, 2012; Hansmann, 1980; Billis, 2010) provided a framework for interpreting empirical results and linking them with theoretical approaches to the roles and functions of nonprofits, social capital, institutional economics, and the third sector. The combination of qualitative and quantitative methods allowed a comprehensive assessment of institutional adaptations, structural vulnerability, and long-term sustainability strategies of the Czech nonprofit sector under growing economic, social, and technological pressures.

3. Research results

3.1 Theoretical framework: roles and functions of nonprofit organizations

Nonprofit organizations constitute a crucial subsystem of modern society, complementing the state and market in providing public goods and services. Their theoretical foundation is linked to the third-sector concept (Salamon & Anheier, 1997), civil society (Putnam, 2000), and public goods theory (Weisbrod, 1977). According to Salamon's "third revolution" concept in social organization, nonprofits respond to market and state failures - where the market cannot efficiently provide public goods and the state responds slowly or rigidly.

From an economic perspective, nonprofit activity can be seen as part of a hybrid economy, mixing market and nonmarket relations. Hansmann (1980) notes that a key characteristic is the non-distribution constraint, ensuring all surplus is reinvested into organizational activities rather than distributed to owners or investors. This principle fosters trustworthiness and legitimacy.

Sociological approaches emphasize nonprofits as carriers of social cohesion, participation, and civic values (Evers & Laville, 2004). The sector is thus not only a service provider but also a tool for cultivating public space, trust, and collective identity (Putnam, 2000; Edwards, 2014).

Three primary roles of nonprofits are recognized: service, advocacy, and participation (Salamon et al., 2000).

- Service role: delivering public goods and services, often where the market and state cannot, such as social care, education, healthcare, culture, and environmental protection. Nonprofits compensate for market failures and complement state activities (Weisbrod, 1977; Salamon, 2012).
- Advocacy role: representing marginalized groups and mediating between citizens and public institutions. Two dimensions exist: political advocacy (policy involvement) and public advocacy (influencing public opinion) (Anheier, 2014).
- Participation role: promoting civic engagement, volunteering, and community life. Participation within nonprofits generates social capital, i.e., networks of trust, reciprocity, and cooperation (Putnam, 2000).

Nonprofits also serve as intermediaries between the state and market, performing complementary, substitutive, cooperative, corrective, and innovative functions (Anheier, 2014; Evers & Laville, 2004; Kooiman, 2003). Over the past two decades, the sector has seen increasing professionalization (Billis, 2010), incorporating management principles such as strategic planning, project management, impact evaluation, and quality management. Hybrid forms, including social enterprises, combine economic and social logic (Defourny & Nyssens, 2017). Social impact measurement tools, e.g., SROI, help demonstrate effectiveness (Nicholls et al., 2015).

3.2 Economic pressures and structural vulnerability of the sector

The nonprofit sector in the Czech Republic has faced growing economic pressures since the early 2020s, significantly affecting financial stability and its ability to fulfill its mission. The economic environment has become increasingly unpredictable, both in terms of costs and funding availability. Inflation, rising energy, material, and staff costs increase operational expenses, while the financing structure remains partially rigid and heavily dependent on public sources. According to STEM (2025), public transfers and grants constituted 37,2 % of nonmarket nonprofit institution revenues, income from nonmarket production 22,2 %, and the value of volunteer work 8,8 %. This income profile highlights the sector's high dependence on state and municipal budgets, increasing structural vulnerability to policy changes, grant reductions, or fiscal restrictions.

Changes in private funding are also significant. Private donors increasingly prefer projects with quick, measurable impact, making long-term programs less attractive for traditional fundraising models. This trend pressures organizations to adapt financing strategies and develop new income forms, such as crowdfunding campaigns, partnerships with the commercial sector, or income from entrepreneurial activities (Salamon, 2012; Anheier, 2014).

Structural vulnerability is also reflected in income concentration and insufficient diversification. Organizations dependent on a limited number of donors or state transfers are especially sensitive to changes, affecting both short-term cash flow and long-term institutional stability. Reduction of state grants, loss of key sponsors, or economic crises can threaten program continuity, reduce staff hours, limit service scope, or, in extreme cases, lead to organizational closure (Hansmann, 1980; Salamon, 2012).

Rising operational and administrative costs also drive the need for internal efficiency. Digitalization, project management, accounting standardization, and implementation of control mechanisms have become essential tools for maintaining efficiency and competing for limited resources. However, these processes require investments in personnel capacity, staff training, and monitoring tools, imposing additional burdens on smaller organizations (Billis, 2010; CRM pro neziskovky, 2024).

The changing role of philanthropy and donor preferences is another trend. In 2024, donor interest shifted toward emergency aid for natural disasters, humanitarian crises, and social emergencies, while long-term projects saw decreased attention. Nonprofits needed to adapt fundraising strategies, emphasizing transparency and building long-term donor relationships (OSF, 2024). Structural vulnerability is further influenced by broader macroeconomic and social conditions, including population aging, rising demand for social and healthcare services, energy crises, and geopolitical uncertainty (Anheier, 2014; Salamon, 2012).

To ensure long-term sustainability and minimize risks from economic pressures, nonprofits must systematically diversify revenue sources, invest in digitalization and internal process optimization, strengthen human resources, and develop strategic management capacities. Monitoring risks, predicting impacts, and proactively adjusting organizational structures and program activities are critical for maintaining financial stability, institutional legitimacy, and effective mission fulfillment.

3.3 Institutional adaptation and long-term sustainability strategies

In response to economic and structural pressures, nonprofits develop strategies to maintain their mission and long-term sustainability. A key element of institutional adaptation is diversification of funding sources, combining state grants, foundation grants, corporate sponsorship, income from own activities, and crowdfunding campaigns. This diversification enhances financial stability and allows organizations to respond flexibly to economic changes, minimizing risks associated with the loss of main funding sources (Salamon, 2012; Anheier, 2014).

Optimization of internal processes is another critical adaptation aspect. Efficient project management, digitalized administration, implementation of control mechanisms, and strategic planning reduce costs and use resources effectively. Investments in human resources development, employee training, and volunteer motivation, forming the backbone of the sector, are essential for maintaining long-term capacity. Professionalization of management and use of outcome monitoring, impact evaluation, and social return measurement (SROI) enhance the ability to demonstrate value and social impact (Billis, 2010; Nicholls et al., 2015).

Strategic management becomes central for risk anticipation and response to changing conditions. Organizations develop strategic plans, assess potential risks, set success indicators, and monitor outcomes regularly. This process allows anticipation of crises, optimal resource allocation, and flexible adjustment of programs to target group needs. Strategic planning also involves creating and maintaining partnerships with public and private sectors, community organizations, and educational institutions, enhancing social capital, legitimacy, and resilience to economic and non-economic pressures (Evers & Laville, 2004; Kooiman, 2003).

Digitalization is a crucial adaptation tool, enabling more efficient donor management, fundraising optimization, increased transparency, and project impact monitoring. CRM systems, online fundraising platforms, and analytical tools allow better communication, campaign targeting, and outcome evaluation. Digital tools require staff training and organizational capacity building, representing initial costs but yielding long-term efficiency and sustainability gains (Salesforce.org, 2023; TechSoup Europe, 2023).

Fundraising strategies are evolving with donor preferences, increasingly favoring projects with rapid, measurable impact, such as responses to natural disasters or humanitarian crises. Organizations must be flexible, transparent, and capable of building long-term donor relationships (OSF, 2024). Combining short- and long-term projects with diversified funding and strategic planning is the most effective way to minimize risk and ensure continuity.

Advocacy and active engagement in public policy are also key elements of institutional adaptation. Nonprofits enhance their capacity to influence policies, promote legislative changes, and raise awareness of socially significant issues. Capacity building, coalition formation, and modern communication channels increase advocacy effectiveness and support long-term sustainability (Anheier, 2014; Frič, 2010). Collaboration with the commercial sector is another effective sustainability strategy. Partnerships provide mutual benefits: nonprofits gain funding and expertise, while commercial entities enhance social responsibility and reputation. Cooperation often focuses on education, environment, and social inclusion, enabling more efficient resource use and broader impact (Good Company Circle, 2024).

Institutional adaptation in the nonprofit sector thus involves a comprehensive set of measures: revenue diversification, internal process optimization, human resources strengthening, strategic planning, digitalization, advocacy enhancement, and collaboration with public and commercial sectors. These mechanisms collectively enable organizations to maintain stability, flexibility, and mission fulfillment in a changing economic and social environment. Adaptation requires investment in organizational capacity and management development but ensures long-term sector resilience and sustainability, keeping nonprofits as key actors in civil society.

3.4 Dynamics of the Czech nonprofit sector under economic pressure – current trends and adaptation examples

In 2024, the Czech nonprofit sector faced significant economic pressures that affected its stability and ability to fulfill its mission. Gross value added increased by only 0.3%, representing the lowest growth in the past four years. An industrial recession, coupled with weak demand from Germany, impacted sectors dependent on exports and international cooperation, which also negatively affected nonprofit organizations involved in international projects and grant programs (STEM, 2025). In response to these challenges, Czech nonprofit organizations implemented various adaptation strategies. Organizations such as Caritas Czech Republic and People in Need strengthened their fundraising activities and diversified funding sources to reduce reliance on public funds and ensure the continuity of their programs (Anheier, 2014). These organizations also invested in digitalization and streamlining internal processes, enabling them to respond more quickly to changing conditions and the needs of their target groups (CRM for Nonprofits, 2024).

The Institute for Liberal Studies, responding to geopolitical crises and growing humanitarian needs, launched the "Kyseláč" operation. This initiative provided assistance to Ukraine through collections, logistics, and collaboration with local organizations, demonstrating flexibility and the ability to respond rapidly to crises (Frič, 2010). Similarly, smaller organizations focused on local community projects, such as civic associations supporting seniors or children in socially disadvantaged areas, had to reassess their budgets, optimize operational costs, and seek new forms of funding, including community fundraising and partnerships with local businesses (Salamon, 2012).

Beyond crisis response, Czech nonprofits also focus on ensuring long-term financial stability. Rising operational, staffing, and service costs require organizations to continuously seek new revenue sources, including partnerships with the commercial sector, foundation grant programs, and income from their own entrepreneurial activities, such as social enterprises or products with a charitable dimension (Defourny & Nyssens, 2017). This trend shows that the adaptability of the nonprofit sector is not only a reaction to immediate economic problems but also part of a systematic effort to strengthen its institutional capacity (Billis, 2010).

A crucial part of adaptation strategies is also investing in human resources and the education of employees and volunteers. Organizations emphasize the development of competencies in project management, fundraising, communication, and digital skills (Nicholls et al., 2015). For example, People in Need regularly organizes training for both staff and volunteers, focusing on crisis management, fundraising, and project evaluation. This approach increases organizational flexibility, allows for more efficient use of resources, and strengthens the ability to provide high-quality services to target groups even under growing economic and social pressures (Anheier, 2014).

Another trend is the strengthening of collaboration between nonprofit organizations and community actors at the local level. Partnerships with municipalities, schools, healthcare facilities, or cultural institutions allow not only for resource and knowledge sharing but also for better identification of community needs and targeted support for specific groups (Evers &

Laville, 2004). For example, collaboration between local cultural associations and nonprofits provides not only leisure activities for children and seniors but also creates a network of volunteers and promotes social cohesion. This collaboration model enhances the social relevance of nonprofits and supports the development of social capital, which is crucial for the long-term stability of the sector (Putnam, 2000).

Nonprofit organizations also leverage digitalization to improve efficiency and transparency. Implementing donor relationship management tools (CRM, 2024), analytical platforms for project impact assessment, and online fundraising campaigns enables more targeted communication with the public and better monitoring of resource use (Salesforce.org, 2023; TechSoup Europe, 2023). Digitalization also facilitates faster adaptation to changes in service demand, which is particularly important during unexpected crises or sudden increases in needs, such as humanitarian emergencies or environmental disasters (OSF, 2024).

These examples illustrate how Czech nonprofit organizations respond to economic pressures through innovation, collaboration, and strategic planning. Continuous adaptation of strategies, diversification of funding, and strengthening of institutional capacity are essential for long-term sustainability and the ability to respond effectively to future challenges. The Czech nonprofit sector thus becomes not only a provider of public benefit services but also an active actor promoting social cohesion, citizen participation, and innovation in the public sphere.

4. Conclusion

Analysis of the Czech nonprofit sector shows its irreplaceable role in society. Nonprofits not only provide services often unfulfilled by the market or state but also strengthen social cohesion, promote civic participation, and represent disadvantaged groups. Theoretical frameworks such as social capital, civic participation theory, and institutional economics confirm the sector's significance for democratic functioning and public space development. Current economic and non-economic pressures present considerable challenges. Rising operational costs, evolving donor expectations, changes in public funding, and technological innovations demand high flexibility, strategic management, and adaptive capacity. Structural vulnerability is especially evident in organizations dependent on limited sources, whose stability is threatened by funding gaps, shifts in public policy priorities, or economic crises. Institutional adaptation is key to long-term sustainability. Revenue diversification, internal process optimization, human resources development, digitalization, advocacy, and collaboration with the commercial sector enable organizations to maintain stability and respond effectively to changing conditions. Implementing these strategies requires investment and organizational capacity but ensures resilience and mission fulfillment.

Empirical examples of Czech nonprofits show that an effective combination of adaptive and strategic measures allows not only survival during economic fluctuations but also development of innovative projects and increased social influence (Frič & Vyskočilová, 2020; Pospíšil & Hyánek, 2018). The nonprofit sector thus remains a key civil society actor, responding to community needs while actively shaping conditions for participation, social cohesion, and public welfare (Škarabelová, 2019; Salamon & Anheier, 1998).

In conclusion, long-term sustainability of nonprofits results from the combination of adaptation, strategic management, and innovation (Helmig, Ingerfurth, & Pinz, 2014). Studying institutional adaptation mechanisms provides deeper understanding of sector dynamics, vulnerabilities, and opportunities to respond effectively to economic and non-economic pressures, contributing to the development of a stable, inclusive, and participatory civil society (Maier, Meyer, & Steinbereithner, 2016; Frumkin, 2002).

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