

Decision-Making Under Institutional Constraint: How Incentives Shape Strategic Choices in Public and Nonprofit Organizations

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Decisions in public and nonprofit organizations do not occur in a vacuum. Rather, they are shaped by institutional constraints and incentives that delimit how leaders and managers define problems, evaluate alternatives, and choose strategies. In Canada, where governments, funders, and civil society actors interact within layered regulatory and political environments, institutional incentives exert powerful influence on organizational choice—often as much as, or more than, internal analysis or mission priorities.

At a fundamental level, institutional theory posits that organizational strategies are influenced by the **norms, rules, and expectations** embedded in the environment in which organizations operate (DiMaggio & Powell). These pressures can manifest as *coercive* requirements (legal and regulatory rules), *normative* expectations (professional standards), and *mimetic* pressures (imitation of peer organizations that face similar constraints) (DiMaggio & Powell). For Canadian public agencies and nonprofits, this means compliance with funding rules, accountability frameworks, and professional norms frequently guides strategic choice as much as mission-driven logic.

In the Canadian nonprofit sector, institutional incentives tied to **government funding** often shape strategic positioning and risk tolerance. Research on Canadian charities' engagement in public policy suggests that organizations with significant government support tend to adopt *insider advocacy* strategies—quiet, relationship-based influence aimed at policymakers—because overt public campaigning may jeopardize funding relationships, even when legal constraints have been relaxed. This underscores how institutional incentives, rather than legal rules alone, shape strategic choices: fear of losing financial support or legitimacy encourages organizations to prioritize strategies that *sustain institutional standing* over those that may be more directly mission-aligned or disruptive.

Similarly, institutional constraints influence **revenue strategies** of social enterprises and hybrid nonprofit forms in Canada. Empirical research finds that when social enterprises operate under **institutional constraints and competitive pressures**, they often concentrate on commercial revenue streams and limit diversification relative to less constrained peers, in part to satisfy expectations from funders, partners, and regulators. Such strategic decisions reflect the interplay between external incentives (e.g., funding models, regulatory regimes) and organizational responses, where the institutional environment narrows the feasible strategic options.

In the public sector, institutional incentives embedded in **accountability frameworks** and political oversight also shape strategic priorities. Public administrators often balance pressures to demonstrate compliance with legal norms, manage risk, and maintain legitimacy with elected officials' expectations. This can result in *risk-averse planning* and incremental change, especially where performance metrics and reporting requirements are emphasized more than innovative problem-solving.

Institutional constraints can also generate **hybridity in organizational identity and strategy**. In complex environments, public and nonprofit organizations face multiple, sometimes conflicting logics—such as market, state, and community logics—that create competing incentives (Skelcher &

Smith, 2014). Strategic choices then become exercises in negotiation between institutional expectations and organizational values, not purely rational calculations of internal objectives.

Understanding how incentives shape decision-making is critical for leaders and policymakers in Canada seeking to align organizational behavior with public value. It highlights the importance of examining not only formal rules but also the broader institutional incentives—including funding structures, regulatory regimes, professional norms, and political pressures—that influence strategic choices. Recognizing these forces allows organizations to navigate constraints more consciously and to design reforms that support innovation and mission fulfillment rather than merely institutional compliance.

References

- DiMaggio, P. J., & Powell, W. W. (1983). *The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields*. *American Sociological Review*.
- Skelcher, C., & Smith, S. R. (2014). *Theorizing hybridity: Institutional logics, complex organizations, and actor identities*. *Public Administration*, 93(2), 433–448.