The organizational environment is a key issue in management and organization studies (Boyd and Gove, 2006). Contingency theorists, in particular, posit a direct link between the relative ‘task difficulty’ that the environment poses and organizational outcomes (see Donaldson, 2001). In this chapter, we theorize the nature of the organizational environment in the public sector, distinguishing between its technical and institutional aspects; survey the existing quantitative evidence on the environment–performance relationship in public organizations; and empirically assess the effects of the technical and institutional environment on the achievements of local government service departments in Wales. Drawing on the Miles and Snow model, we then go on to examine the combined effects of the environment and strategic management on public service performance in subsequent chapters.

Miles and Snow emphasize that managers make strategic choices about their organization’s relationship with the environment. Actively shaping the organization and its structures and processes to meet contextual challenges is therefore a key goal of strategic management – and one with serious implications for organizational outcomes. Indeed, Miles and Snow (1978) suggest that performance is ultimately dependent on the adoption of strategies, structures and processes that are aligned with an organization’s environment. To explore the impact of the organizational environment on performance, this chapter draws on the model of the task environment developed by Dess and Beard (1984) to conceptualize the technical operating circumstances faced by public organizations. It then examines recent theories of the institutional environment in the public sector. Existing evidence on the impact of the technical and institutional environment on public service performance is reviewed, and hypotheses on the environment–performance
relationship are developed. The measures of performance that we use for our empirical analyses are also described, along with measures of the technical and institutional environment. Finally, the results of our empirical analysis are presented and discussed.

Organizational environments

The conceptualization and measurement of organizational environments is a key theme within organization theory. Boulding (1978) reminds us that, broadly speaking, environments are ‘everything else’ beyond the immediate boundary of the organization. First and foremost, this comprises the technical constraints that are placed on how an organization delivers goods and services, such as the sheer quantity and diversity of clients’ needs and demands. But it also encompasses the institutional constraints that legitimize certain forms of organizational activity and proscribe others, such as the formal and informal regulations through which powerful external stakeholders restrict an organization’s behaviour.

Organizational theorists have developed a variety of methods for conceptualizing an organization’s environment. Some of these, such as Michael Porter’s (1980) well-known ‘Five Forces’ model focus on features of the environment faced by private firms, such as market structure and competition. Others, such as the popular Political, Economic, Social, Technological, Environmental and Legal (PESTEL) analysis (Johnson and Scholes, 2002), are basic classification schema rather than theoretically coherent accounts of the antecedents and effects of organizational environments. In this chapter, two key theoretical perspectives on the environment shape the empirical analysis that follows: Dess and Beard’s (1984) model of organizational task environments, and the insights of institutional theory (Scott, 2001).

Drawing on contingency theories, Dess and Beard (1984) identify three dimensions of the organizational environment that influence the behaviour of organizations: (1) munificence (resource capacity), (2) complexity (client homogeneity–heterogeneity, concentration–dispersion) and (3) dynamism (environmental stability–instability, turbulence). These analytical categories are arguably as applicable in the public as they are in the private sector, since issues of capacity, client characteristics and environmental change are all key to strategic management in public and private organizations. Moreover, the openness of these categories means that they are able to incorporate the insights of other theoretical perspectives on the organizational environment, such as those found in institutional theory.