

## Chapter 2

# THE CONTINGENCY THEORY OF ORGANIZATIONAL DESIGN: CHALLENGES AND OPPORTUNITIES

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**Abstract:** Contingency theory presently provides a major framework for organizational design. There are, however, several major challenges to it. Contingency theory is said to be static. However, the SARFIT formulation of structural adaptation, with the Cartesian approach to fit, provides a theory of organizational change. Moreover, difficulties become opportunities for theory development, in the new concepts of quasi-fit and hetero-performance. The contingency theory of organizational structure is said to be obsolete because of new organizational forms, but this lacks credibility. A rival theory of organizational structure is institutional theory, however it is problematic. Challenges and opportunities in methodology are also discussed.

**Key words:** Contingency theory, fit, organization design.

## 1. INTRODUCTION

The contingency theory of organizational structure presently provides a major framework for the study of organizational design (Donaldson, 1995a, 2001). It holds that the most effective organizational structural design is where the structure fits the contingencies. There are, however, several major challenges to it. Some of these are theoretical, while some are empirical. This paper will assess some of these challenges and show that they are overstated. However, some challenges lead to innovations in theory. Other challenges are accompanied by innovations in method. Both these theoretical and methodological innovations constitute opportunities for the contingency

theory of organizational structure. In turn, they can feed into the study of organizational design.

This paper will discuss first some theoretical challenges to, and opportunities for, the contingency theory of organizational structure. It will then discuss the empirical and methodological challenges to, and opportunities for, the contingency theory of organizational structure.

## **2. THEORETICAL CHALLENGES AND OPPORTUNITIES**

### **2.1 The challenge of organizational change**

The contingency theory of organizational structure may be referred to more succinctly as structural contingency theory (Pfeffer, 1982). A challenge is that structural contingency theory is static and fails to deal with organizational change and adaptation (Galunic and Eisenhardt, 1994). It is true to say the heart of structural contingency theory is statics, in the sense that it deals with how a static state of fit between structure and contingency causes high performance (e.g., Woodward, 1965). However, structural contingency theory writings are within a functionalist tradition of social science (Merton, 1968) that sees organizations as adapting to their changing environments (Parsons, 1961). Therefore, organizations change from one fit to another over time.

More specifically, there is a process that has been articulated in the theoretical model of Structural Adaptation to Regain Fit (SARFIT) (Donaldson, 1987, 2001). An organization in fit enjoys higher performance, which generates surplus resources and leads to expansion (Hamilton and Shergill, 1992), such as growth in size, geographic extension, innovation or diversification. This increases the level of the contingency variables, such as size, leading to a misfit with the existing structure (see Figure 2.1). The misfit lowers performance, eventually leading to a performance crisis and adaptive structural change into fit (Chandler, 1962).

This SARFIT theory subsumes several seminal works in structural contingency theory, such as Chandler (1962) on divisionalization changes in response to changing strategies and Burns and Stalker (1961) on changes from mechanistic to organic structures in response to technological and market change in the environment. Thus, the structural contingency theory tradition has always contained ideas about dynamics and these are formulated in the SARFIT theory.