Chapter 8

NEW DEVELOPMENTS IN CONTINGENCY FIT THEORY

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Abstract: The profile deviation perspective on fit (Venkatraman 1989; Drazin & Van de Ven 1985; Donaldson 2001) has been used frequently in organization design to investigate how design affects performance. Because most studies have opted for empirical profiles, its theoretical underpinnings are underdeveloped. This, in turn, may lead research to underestimate the true impact from organization design on performance. In order to address such shortcomings, we use the information 'processing view' (Galbraith 1973, Tushman & Nadler 1978; Burton & Obel 2004) to develop a theoretical profile. We then use this profile to consider how three currently unresolved issues concerning external vs. internal misfits, the relative importance of different misfits and asymmetric misfits may be understood and tested in terms of the profile deviation perspective.

Key words: Fit, contingency theory, new developments.

1. INTRODUCTION

Contingency frameworks and the notion of fit are experiencing a revival (Nadler & Tushman 1997; Zajac et al. 2000; Siggelkow 2001; Russo & Harrison 2005). The fit concept lies at the heart of organization design (Drazin & Van de Ven 1985; Donaldson 1996). While a number of different conceptualizations of fit have been suggested (Drazin & Van de Ven 1985; Venkatraman 1989; Donaldson 2001), research has argued in favour of specifying fit as "profile deviation" (Venkatraman & Prescott 1990:1) or "pattern analysis" (Drazin & Van de Ven 1985). However, for reasons mentioned below, we believe that the potential of this frequently used

approach for understanding and explaining the performance implications of fit design has not yet been fully realized because of insufficient theoretical development.

The critical issue of the profile deviation approach is thus to understand exactly what constitutes a fit profile, and why and how deviations from it affect performance negatively. As such, deviations from the fit profile is a special case of the more general issue of how to measure deviations from the fit line within the Cartesian approach, which Donaldson discusses at length in his chapter. The profile deviation approach specifies a profile in terms of a set of structural dimensions that are appropriate for a particular environment (Venkatraman 1989:434). E.g., a profile consisting of a simple configuration, low complexity, high formalization, and high centralization is an ideal profile for an environment which is low on equivocality, complexity and uncertainty. The understanding of what specifies a profile and, especially, why this is so, can only be granted theoretically. Unfortunately, the profiles which have been used in this popular approach to fit have mainly been developed empirically, i.e. using a calibration sample consisting of the high-performing organizations in the sample (Venkatraman 1989:435).

This inductive approach to establishing the "ideal" (Drazin & Van de Ven 1985:522) profile seems unfortunate, because it may in several ways severely limit the potential of the profile deviation approach to fit. First, the profiles of the high performing organizations in the calibration sample may well be less than ideal or optimal; if this is the case, the empirical results will accordingly underestimate the negative performance implications from misfits, i.e. deviations from the ideal profile. Second, deviations from the ideal profile and how they affect performance can logically be measured in a very large number of different ways, and we have identified three issues where current research lacks sufficient theoretical underpinning: 1) How should deviations from the internal and external elements of the profile be measured and aggregated to establish the overall deviation from the profile? 2) Are all the elements of a profile, and hence their deviations, equally important for performance, or are some more critical than others? And, 3): How do different directions, i.e. deviations to the left or to the right from the ideal profile, affect performance? It is important to develop theoretical answers to these questions and implement these in (more complex) corresponding statistical models, because otherwise empirical testing may underestimate the negative impact on performance from flawed design.

The objective of this article is to address these three limitations inherent in the prevailing empirical approach to the profile deviation model of fit. To meet our objective, we develop a theoretically ideal profile and present corresponding theoretical arguments for how and why deviations from it are expected to affect performance, and how they may be measured accordingly.