Open School of Management is a division and trademark of Open.PS - The Open Professional School SE.

Copyright © 2015 by Open.PS—The Open Professional School SE. Find us on www.openschoolofmanagement.com

All rights reserved.

The entire content of this module book (e.g. text, pictures, illustrations, tables, etc.) and each selection of it is subject to the copyright and other intellectual property rights or other protective rights of Open.PS--The Open Professional School SE (Open.PS) or other owners. Any exploitation of this module book and its parts (reproduction, photocopying, scanning, storing in a retrieval system, publishing, distribution, transmission (in any form or by any means, electronic or mechanical), broadcasting, selling, making derivative works, etc.) beyond that permitted within the tight constraints of the copyright laws without the prior written permission of the copyright owner is unlawful and punishable by law.

The mentioning of trademarks, descriptive names, registered names, etc., in this course book, which may be subject to the intellectual property rights of the respective owners does not imply that they are exempt from the relevant intellectual property rights or protective rights and therefore free for use.

Although every precaution has been taken to verify the accuracy of the information contained herein, Open.PS assumes no responsibility for any errors or omissions.

No liability is assumed for damages that may result from the use of information contained within.
Contingency Theory

Niran Subramaniam
In their text book, Organisation & Environment, Laurence & Lorsch (1967) argued that different economic, market and operating conditions require different forms and structures of organisations. So in lay terms, their answer to “What kind of organization does it take to deal with various economic and market conditions?” (1986, p. 1) could be “it depends” or “it is contingent upon”...a number of factors that are external and outside the sphere of influence and control of an organisation. Thus, the authors Laurence & Lorsch are considered to be the founders of what came to be known as the ‘contingency theory’ (Donaldson, 1995, p. xii).

Contingency Theory is thought to be providing a neo-classical view of an organisation where its organisation structure is contingent upon the demands that are placed upon its resources, and tasks. This view was widely supported by scholars (i.e. Lawrence and Lorsch, 1967; 1986; Burns & Stalker, 1968; Woodward, 1958) who had shown that organisations of different size, and complexity adjust to their external environments by having different forms of structures that best organise their resources and tasks. Contingency research is thus based on an ‘open systems’ approach, as compared to the classical, ‘closed systems’ approach where more rigid and hierarchical managerial structures guide practices and tasks of an organisation. As such, the contingency theory approach to organisations is thought to provide a hybrid and flexible structure, balancing the classical ‘one size fits all’ structure and a structure based on the demands of human relations. Thus, the contingency perspective incorporates uncertainty with respect to the resources and tasks.
1. Concepts underlying the contingency theory

Donaldson (1996) identifies three main concepts that underpin contingency theory, namely: task uncertainty, size and innovation.

In an environment where there is a high level of uncertainty in the performance of tasks, organisations tend to structure themselves around task specialisations and process complexity. On the other hand, if tasks can be defined clearly, there exist low levels of uncertainty in performing such tasks, where they can be closely co-ordinated, and most effectively be performed via a centralised and hierarchical organisation.

Similarly, the larger the size of the organisation, the greater is the level of uncertainty. As such, the resulting organisation structure tends to be more defined and hierarchical. Donaldson (1986) argues that the degree of innovation and change, mainly technological, can be regarded as factors similar to the size and the level of uncertainty, in the way in which they impact on organisation structure.

Research evidence shows that organisations that have a formalised structure with defined protocols for task accomplishment and predominantly vertical communication are successful in stable economic and environmental climate. This type of organisation is shown to possess the ‘mechanistic’ form of management. In contrast, Burns and Stalker (1968, p.119) found that finds that ‘organic’ form of management structure exists where:

1. Organisations have a flexible and network structure which fosters lateral communication
2. Information rather than instructions form the basis for work communication
3. Economic and environmental conditions of the organisation are dynamic

Based on these early research insights, Lawrence and Lorsch (1986) argued that organisational units such as departments and functions are impacted in different ways by the different segments of environment. Donaldson (1996) also showed that changing rates of change in environment also causes different levels of differentiation and integration between organisational units.

“Greater rates of environmental change require certain parts of the organization, such as the R&D department, to face high levels of uncertainty relative to other parts, such as the production department” (Donaldson, 1996, p. 60).
Contingency Theory
Niran Subramaniam