

Understanding the Classical Researches in Contingency Theory: A Review

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Abstract: As a classical management theory, contingency theory is constantly developing and changing in today's globalized society. Contingency theory plays a guiding role in management practice in reality, and management practice enriches and improves contingency theory. The definition of contingency management theory could be concluded as the more fitting the contingency variables are, the better the organizational performance is, which is 'one best way to organize'. Then, the paper illustrated the brief history of contingency theory and its development. This paper also introduces the three famous scholars in the field of contingency theory, which are represented by Tom Burns and George Macpherson Stalker, Paul Roger Lawrence and Jay William Lorsch, and Fred Luthans and Todd Stewart. The changing world environment requires double changes in management theory and practice. As one of important management theories, contingency theory can guide practice and management practice can enrich and improve contingency theory.

1. Introduction

In today's globalized world, managers should be concerned with the characteristics of modern enterprise management and the development of management theories such as contingency theory, because it helps organizations improve their sustainable competitiveness. This paper is going to introduce a profile of contingency theory and new development of contingency theory in 21st century. It is going to help readers to understand the key features and content of contingency theory.

Notably, contingency theory could be used and applied in many ways, which are organization design, quantitative applications and quality management. Firstly, contingency theory could be used in organization design. Environmental variables (technology), management variables (organization structure) and performance are in contingent relationships [1][2]. Moreover, Chandler argues that environment, structure/strategy and performance are in contingent relationships [3].

Secondly, quantitative applications could be utilized in organizational management. According to Miller, the contingent relationships between various context and quantitative decision-making measures could achieve effective performance [4].

Lastly, the application of contingency theory to quality management can help to establish and maintain the strategic alliance of small and medium sized enterprises in the rapidly changing market

environment as contingency theory approach could address quality culture better and more appropriately [5][6][7].

Primarily, this paper is going to examine the definition of contingency theory. Then it will discover the brief history of contingency theory, and thirdly it will discuss the theoretical schools of contingency theory with some case study to illustrate the theoretical contribution of different scholars. Lastly, it is going to talk about the implications in theoretical and practice aspect of contingency theory.

2. Definitions of Contingency Theory

There are many variations in the definitions of contingency theory over decades. The following sentences illustrate the conventional terminology of it.

a) Contingency theory presents there is no single best way to manage organizing, decision-making and leadership process because different environments have different antecedents [8][9][10].

b) Contingency theory regards organizations as open systems and information is exchanged through this input-process-output process of open systems [11].

c) Contingency theory is a theory which makes proposition or 'law of interaction'. It holds and makes assumptions about starting premises, boundaries, and system states. Boundary conditions specify the ranges of relationships which are expected to hold, and system states specify the temporal period and other conditions of relationships hypothesized by a theory which are expected to occur [12].

d) Contingency theory is overwhelmingly adopted traditional macro-structures with innovations such as information technology or teams. It changes within this broader traditional framework and it is incremental, not radical [13].

e) Contingency theory emphasized 'one best way' to organize, as a response to prior management theories. The better the fitting among contingency variables, such as technology and organizational structure, the better the performance of organizations in management systems [14].

In this paper, we are defining the contingency theory as the same as Weill and Olson's, as shown in the sentence five above.

3. Brief History of Contingency theory

Starting from 1950s, Simpson examined more fully the meaning of contingency tables and its interpretation in practical examples [15]. Fiedler's contingency theory was a type of contingency theory [16]. It stated that the effectiveness of leadership depended on the context where numerous factors (such as the nature of tasks, characteristics of leaders, and make-up of groups) are playing an important role.

In 1960s, in the field of structural contingency theory, Woodward stated that the fit in a static state between structure and contingency would produce high performance, as statics was the heart of structural contingency theory [1]. However, Merton held the view that structural contingency theory was within a functionalism tradition of social science [17] and organizations adapted to the changing environment [18].

In 1970s, according to Luthans and Stewart, a comprehensive and integrative contingency theoretical model was introduced as situational factors, influencing the management of complex organizations [19]. Their model was called General Contingency Theory (GCT). It integrated different process, quantitative and behavioral approaches to management, and environment and filled the gap between management theory and practice. In addition, Waterhouse and Tissen stated that

organizations were set in an environment which consisted of an internal environment and a rather contingent external environment [20].

In 1980s, Drazin and Van de Ven argued that the difference between contingency theory and other theories was the specific form of the propositions [21]. Fry and Schellenberg clarified the difference as there were distinctions between congruent and contingent propositions [22].

In 1990s, Galunic and Eisenhardt argued that it was a challenge that structural contingency theory was static and it failed to solve organizational change and adaptation problem [23]. Cancel, Mitrook and Cameron held the view that contingency theory had the matrix of variables which could be applied in public relations sector [24].

In 2000s, contingency theory helped to predict organizational performance by the fit of different factors, which were strategy, organizational structure, new information technology in the context of environmental unpredictability and routineness of production technology [25]. According to Morton and Hu, structural contingency theory contributed to organizational effectiveness by matching organizational characteristics to the organizational type and dimension [26].

In 2010s, between network closure and organizational change, we developed a contingency theory in this hitherto underspecified relationship. It suggested a theoretical link between individual-level analyses and field-level analyses. Individual-level analyses was based on network for social influence in organizations and field-level analyses was under the pressure of institution on organizational action [27].

4. Theoretical Schools of Contingency Theory

As Tom Burns, Paul Roger Lawrence, Jay William Lorsch, Fred Luthans and Toddi I. Stewart are the distinct management scholars who make prominent contributions to contingency management theory, this section will focus on their classical theories. Also, examples are listed for better understanding their theories.

4.1. Tom Burns and George Macpherson Stalker

According to Burns and Stalker, management patterns were related to the external environment of organizations. Particularly, they carried out research on 20 firms in United Kingdom to examine the characteristics of external environment [28]. These characteristics were rates of change in the scientific techniques and markets. As a result, they classified two types of organizations, which were 'organic' organization and 'mechanistic' organization. These two types of organizations operated distinctly different management process and practices. The 'organic' organization practiced principles of 'human relations' school and it was more suitable for changing conditions. However, 'mechanistic' organization was highly centralized, more bureaucratic, and not flexible. This organization could be appropriate for relatively stable environment.

Negandhi and Reimann used Burns and Stalker's theory to consider the different factors of competitiveness of organization's market environment [29]. However, Burns and Stalker considered both market and technological environments [28]. Structural Adaptation to Regain Fit (SARFIT) theory also involved Burns and Stalker's contingency theory in structural contingency theory [28][30]. A SARFIT organization would keep fit until surplus resources led to expansion and misfit. Eventually, adaptive structural changes would lead to fit again [30].

For example, the human recourse management approaches adopted by Guangdong Gumai Optoelectronics Technology Co., Ltd was organic form to adapt to the environment and it can be seen

in the decisions making of establishing a new factory with considerations of government policies, industrial development directions and the general status of industrial technical level.

4.2. Paul Roger Lawrence and Jay William Lorsch

Lawrence and Lorsch put forward ‘contingency theory’ as the certainty and stability of markets and technological environments influence the effectiveness of organizational structure [2]. Specifically, in a relatively dynamic environment, the successful organization in operation was more decentralized. By contrast, those organizations in a stable environment were tended to be centralized. The ‘optimum’ organization form was contingent on the demands of organizational external environment. Furthermore, they argued that a fit could be established between internal structure and external environmental demands. Otherwise, for example, decentralization in stable environmental context and centralization in dynamic context could be dysfunctional. According to Van de Ven, Ganco and Hinings, Lawrence and Lorsch’s theory regarded that the uncertainty environment needed high level of differentiation and integration [2][31].

In today’s globalized world, resources factors are in different places. With the acceleration of industrial upgrading, investment promotion activities are active all over the world. The outward transfer of local enterprises, such as labor-intensive enterprises, can revive the economy. In this dynamic environment, Gumai company established a new factory in Henan Province and its company framework is decentralized.

4.3. Fred Luthans and Todd I. Stewart

Because the rate of change and the degree of complexity continues to accelerate, the role of environmental variables tended to be increasingly important to successful organizational management. This trend would make contingency theory to management more important. Systematic, unified and directed direction must be the characteristics of the development of contingency theory if contingency theory was to realize its potentiality of effective approach to improve and maintain managerial effectiveness in a hyperdynamic environment. The General Contingency Theory of Management had significant potential in future course of management as it had a conceptually-pragmatic, research-based framework [19].

According to Luthans, the best way to action depended on internal and external context of a company [10]. A company’s proactiveness to manage supply risks was also dependent on inter and intra organizational factors. The internal context consisted of organizational structures, processes and technologies, which could be influenced by management. The external context was hardly influenced by above factors because it was independent of organizations [32]. According to Luthans’ contingency theory, relevant environment determined the managerial decisions and Grötsch, Blome and Schleper investigated the contextual factors of proactively managing supplier insolvencies [10][32].

For example, in Gumai company, there is no fixed model of enterprise management. The formation of specific management model is a gradual cycle process. It is first improved, then maintained, then changed, and maintained again. This is an evolutionary path. It is constantly improved and updated according to the actual situation. The human resource approaches were adapted to the environment and were continuously developing and becoming rich. This process was systematic, unified and directed.

5. Conclusion and Implications

This paper talks about the definition of contingency theory, which is pursuing ‘one best way’ to organize. The better the fitting among contingency variables (e.g. between technology and organizational structure), the better the performance of the organization in management information systems [14]. Then, it illustrated the brief history of contingency theory. From 1950s to 2010s, contingency theory has different traits. For example, in 1950s, Fiedler held the view that contingency theory meant that different situational factors influenced the effectiveness of leadership [16]. However, in 2000s, contingency theory became more pragmatic as new information technology became one variable to be considered [25]. Thirdly, we discussed the representative schools of contingency theory, such as Tom Burns, Paul Roger Lawrence, Jay William Lorsch, Fred Luthans and Toddi I. Stewart. These scholars proposed typical theories and provided delightful insights to the contingency theory.

In 21st century, as the economic and politic globalization trend was speeding up, contingency theory and other management theories need to be updated in order to keep up with the development of the times and answer the new questions of the times. In addition, management practice should also adapt to the changing environment, so managers also need to change their management approaches. Management theory can guide managers to practice better. At the same time, management practice enriches and improves management theory. For example, industrial organizational theory, contingency theory and resource dependency theory have been utilized to applied in product development, manufacturing flexibility and supply chain management [33].

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