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Designing Organizations
21st Century Approaches

Springer
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Editors’ Introduction

In May 2006, a number of international scholars within the area of organization design met at a conference hosted by the University of Southern Denmark. The goal of the conference was to stimulate new design ideas and approaches appropriate for the 21st century. This book, which contains the papers presented at the conference, is a companion to Organization Design: The Evolving State-of-the-Art, the scholarly volume published from the first conference held at the same university in May 2005. In both conferences, the participants held wide-ranging discussions about design issues and then developed their papers into the two scholarly volumes.

The present volume presents new approaches to organization design with an emphasis on what they imply for both theory and practice. It is divided into four parts. In Part I, Donaldson and Williams examine how contingency theory compares and contrasts with institutional theory and evolutionary theory. Chapter 1, by Donaldson, discusses the basic tenets of contingency and institutional theory and then compares them. Contingency theory, according to Donaldson, focuses on an internal organizational fit for efficiency purposes whereas institutional theory refers to an organization’s external fit with its environment. The two theories suggest quite different design recommendations to achieve superior organizational performance, creating a dilemma for the executive who wishes to make informed design decisions. In Chapter 2, Donaldson explores this dilemma further and arrives at a proposed resolution. By using money as a common consideration, the differing design recommendations can be resolved to yield a meta-fit and thereby give the executive decision maker direction for action. In Chapter 3, Williams examines a different organization structure fit – that suggested by a comparison of contingency and evolutionary approaches. Both approaches are built on information processing and behavioral concepts of the firm. Yet,
the causal relationships between structure and strategy are substantially different. Contingency theory examines structural adaptation whereas evolutionary theory focuses on strategic issues such as market entry and exit as well as viable pathways to high performance. From the executive decision maker’s standpoint, evolutionary theory with its longer-term view is not as focused on short-term efficiency considerations as contingency theory typically is.

In Part II, important process issues in organization design are considered, including rational emotionality and psychological climate, asymmetric collaboration, asymmetric adaptability, and the process of strategic human resource management. In Chapter 4 Håkansson, Obel, and Burton examine the influence of affective events and employee emotions on psychological climate and then explore the implications of climate for organization design. The authors argue that the concept of bounded rationality does not capture the full effect of cognition on information processing and decision making, and they point out that executives must adapt to the organizational climate while at the same time recognize that their actions affect employee emotions and the longer-term psychological climate of the organization. Nielsen and Sørensen, in Chapter 5, examine collaboration in newer, ‘less-organized’ networks and in alliances between organizations. They argue that these relationships are often fragile in that they are based on more than asymmetric information, and they develop a taxonomy of interface arrangements across organizations. The authors offer seven propositions about the design of inter-organizational collaborative relationships rather than detailed design recommendations. In Chapter 6, Jørgensen and Boer examine change and adaptation in a longitudinal study of a Danish production facility which installed a matrix organization to deal with a highly turbulent environment. When a calmer environment ensued, the facility returned to a functional organization structure, but many problems emerged. The new knowledge and skills that had developed among the staff pushed the organization back towards the matrix, suggesting an asymmetric adaptation and path dependency to contingent relationships. That is, the current organization design, as well as employee experiences and skills, are themselves contingency factors. In Chapter 7, a case study by Andersen and Krogager, the authors examine the human resource management system of a Danish medical company. The practical issue faced the company was how to make the human resource department and its various divisions a central and important function in the organization. Andersen and Krogager develop a quantitative metric for human resources that measures its return on investment. One design implication of this case study is that good metrics can and should be developed so that the human resource department can play a stronger role in both the short-run and long-run management of an organization.
Part III explores the difficulties associated with stimulating and producing innovation in organizations. In Chapter 8, Vujovic and Ulhøi take an information-processing view of innovation and argue that the process should be more open to cooperation and knowledge sharing. They develop four archetypes of the innovation process classified according to type of user involvement and the organizational level at which cooperation with external sources takes place, and they emphasize the importance of clarifying the strategic purpose of innovation. Henttonen, in Chapter 9, investigates tensions in the innovation process. Using a dialectic approach in her case studies, she finds that firms tend to pursue exploitation (innovation in existing businesses) while hoping for exploration (innovation via new businesses). The implication for practice is a need to examine what the firm is actually doing with respect to innovation and comparing that with what the firm wants to do. Thus, in both of the chapters on innovation, the authors emphasize the importance of goals and strategies in the design and management of the innovation process.

In Part IV, the focus is on firm performance. In Chapter 10, Foss discusses product modularity and lead time, showing how the improvement of lead time for new product innovations affects job tasks and information structure in the organization. She argues that modular design can improve lead time, but it requires a well-specified product architecture which is not easily altered. For the executive decision maker, this implies evaluating the trade-off between speeding up the innovation process versus limiting its outcomes due to the use of the modular approach. Eriksen, in Chapter 11, investigates in a large sample of Danish firms whether strategic planning improves firm performance. He finds that a formal, centralized planning process improves firm performance but not in decentralized organizations. The misfit between centralized planning and decentralized operations highlights the need for executives to carefully align processes, structures, and strategies in order to achieve strong firm performance.

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October 2007
PART I: CONTINGENCY, INSTITUTIONAL, AND EVOLUTIONARY THEORY
Chapter 1

THE CONFLICT BETWEEN CONTINGENCY
AND INSTITUTIONAL THEORIES OF
ORGANIZATIONAL DESIGN

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Abstract: The contingency theory approach to organizational design states that the structure that fits the contingency produces beneficial outcomes for the organization. This chapter argues that institutional theory also implies that there is an institutional fit that produces beneficial outcomes for the organization. The argument is that contingency fit produces internal effectiveness, whereas institutional fit produces external legitimacy and support. Contingency and institutional theories tend to conflict by prescribing different structures as their fits. The chapter shows that these differences are widespread and the fits can be completely different structures. Hence the organizational designer may be placed in a dilemma.

Key words: Conflict, contingency, institutional, organizational design, fit, effectiveness, legitimacy, external support.

1. INTRODUCTION

Structural contingency theory specifies the structure that will be the optimal organizational design – by fitting with the contingencies. Institutional theory has the concept of a fit of the organizational structure to the institutional environment that has beneficial consequences for the organization, in terms of external legitimacy and support. The chapter seeks to establish the institutional fit and its beneficial outcomes as being analogous to the fit and beneficial outcomes of structural contingency theory. This leads to recognition that institutional fits are pertinent considerations in organizational design. The question then arises as to
whether the institutional fits complement, or conflict with, the contingency theory fits. This chapter argues that they tend to conflict. Sometimes the structure that is the institutional fit conflicts considerably with the structure that is the contingency fit. Thus, for an organization, contingency fit and institutional fit will often be conflicting structural choices for the organizational designer.

Traditionally, the study of organizational design (Burton and Obel, 2004; Burton, DeSanctis, and Obel, 2006) has been influenced by structural contingency theory (Pfeffer, 1982). However, institutional theory is a popular theory of organizational structure and is probably the major contemporary theory for the academic study of organizational structure (Scott, 1995). Does institutional theory have implications for organizational design? The present chapter will argue that the institutional theory approach may be used to yield implications for organizational design. Moreover, the theories are complementary only where the structural fits derived from contingency and institutional theories are the same. The analysis shows that this is the rare case. More usually, there will be a conflict between the prescriptions that can be drawn from the two theories, so that if one theory is fulfilled, the other would not be. Thus, the prescriptions from contingency theory may have to be revised in the light of an institutional theory analysis. Therefore, a sound and fully comprehensive organizational design analysis would have to supplement the contingency analysis by an institutional theory analysis. The present chapter raises this issue and seeks to point the way towards the kinds of analyses that might be made. In that way, it is conceptual and exploratory. Elsewhere we have critically discussed institutional theory, especially regarding its lack of integration with structural contingency theory (Donaldson, 1995). The present chapter is a modest step towards their rapprochement on the topic of organizational design.

As is well known, the contingency theory approach to organizational design strongly emphasizes the consequences for performance of structural fit (or misfit) (Donaldson, 2001). In contrast, institutional theory usually operates as a discourse quite removed from structural contingency theory and organizational design (DiMagio and Powell, 1983, 1991). Nevertheless, it can be seen that institutional theory contains arguments that have implications about the structure that fits or misfits the requirement of the institutional environment. The chapter seeks to draw out these ideas, and show how institutional theory can lead to an analysis of organizational design and its consequences, which parallels that from contingency theory. Thus, we can speak of institutional fit (or misfit) and its consequences in a similar fashion to that of contingency fit (or misfit). However, contingency theory and institutional theory posit different effects or outcomes of structure. Contingency theory deals in the outcome of structure on internal
effectiveness. Institutional theory deals in the outcome of structure on external legitimacy and support.

The analysis reveals where conflicts will exist between the contingency and institutional theories and the magnitude of the conflicts, that is, how much difference there is between the structures that fit the contingencies and the structure that fits the institutional requirement. In particular, a source of the conflict is the fact that, in contingency theory, the fitting structure varies with the contingencies, whereas the fits derived from institutional theory are typically not contingent, and so not changed by the contingency variables, such as organizational size. Therefore, there are widely varying contingency fits versus a singular institutional fit.

2. INSTITUTIONAL THEORY AND ORGANIZATIONAL DESIGN

Organizational design is the body of knowledge and techniques that seeks to offer useful advice to organizations about their structures (and other aspects) needed to attain their goals (Burton and Obel, 2004; Burton, DeSanctis, and Obel, 2006). It draws upon theories of organizational structure that yield knowledge of the effects (outcomes) of different structures. Structural contingency theory is such a theory (Donaldson, 2001), and it is used in the literature on organizational design to prescribe structures (Khandwalla, 1977; Burton and Obel, 2004). In contrast, institutional theory is a sociological theory that seeks to explain organizational structures, rather than to offer prescriptions (Scott, 1995).

Institutional theory explains the structure that an organization adopts as being conformity with cultural codes that thereby leads to legitimacy and support from external organizations. Therefore, institutional theory could also be used prescriptively, in that, knowing which structures will attain legitimacy and external support for an organization, could lead to valid prescriptions being offered about organizational design.

The theory itself is at a high-level of abstraction, dealing with isomorphic processes (DiMagio and Powell, 1983). Nevertheless, it sensitizes the researcher to identify the structure that is the model with which organizations tend to conform in an organizational field. Conformity results in legitimacy and external support, according to institutional theory (DiMagio and Powell, 1983, Scott, 1995). Therefore, an understanding of institutional theory leads the researcher to identify the effects of conforming, or failing to conform, which thereby could inform organizational design.

Thus, we need to discuss in turn the following issues about institutional theory, its explanation of causes of structure, its ideas about the
consequences of structures, the relation to organizational design, and conflicts between institutional and contingency theories about organizational design.

2.1 Causes of structure in institutional theory

Institutional theory is a sociological theory of organizations that explains processes through which structures of organizations are adopted. Institutional isomorphism is the process through which organizations become more similar to other organizations within their organizational field, through mimetic, normative and coercive isomorphisms (DiMagio and Powell, 1983). Thus the emphasis is upon the causes of structure. Institutional theory contains many causal mechanisms that are used to explain why an organization adopts a structure. Institutional theory might explain that the organization adopted the structure because it was taken-for-granted by its managers who were not able to think of any alternative (DiMagio and Powell, 1991). Again, institutional theory might explain that the organization adopted the structure because most other organizations had adopted that structure, i.e., mimetic isomorphism (DiMagio and Powell, 1983; Fligstein, 1985). Yet again, institutional theory might explain that the organization adopted the structure because the high-status organizations in its field had adopted it. Once again, institutional theory might explain that the organization adopted the structure because its managers were in a state of causal ambiguity and so any signal from powerful external groups that favoured a particular structure pushed them towards adopting it. Once again, institutional theory might explain that the organization adopted the structure because its consultants (i.e., professional organizations) favoured that as a positive role model (DiMagio and Powell, 1983). Again, institutional theory might explain that the organization adopted the structure because its auditing firms (i.e., professional organizations) required this to approve its audit, i.e., normative isomorphism (DiMagio and Powell, 1983). Yet again, an organization might adopt a structural feature because that was legally required and backed by punitive sanctions, i.e., coercive isomorphism (DiMagio and Powell, 1983).

Thus, institutional theory can be used to explain why a certain structure is adopted. This is the way in which institutional theory has mainly been used to date: to explain the social processes that lead to adoption. There is no necessity that the adopted structure is the most effective in terms of internal operations. The structure adopted could be ineffective. Likewise, the isomorphic processes could push an organization to adopt a structure that fits its contingencies (e.g., size), but they could also push it to adopt a structure that misfits its contingencies. Thus the structure adopted is not necessarily rational. It is primarily symbolic – as “ritual” (Meyer and Scott, 1983), or
“myth and ceremony” (Meyer and Rowan, 1977). The structure may accord with a cultural code or ideology of rationality, but its adoption is because of conformity to that ideology, not because it is actually rational. Thus, institutional theory is essentially sceptical about rational organizational design. To date, this is the main relationship between institutional theory and organizational design. However, institutional theory does postulate consequences and, indeed, benefits of adopting structures, and this has pertinence to organizational design. It is this more neglected aspect that we wish to address herein.

2.2 Consequences of structure in institutional theory

As we have seen, institutional theory is primarily about causes of structure, but it does contain ideas about consequences. The adoption of the normatively “right” structure by an organization has positive consequences for it. Conformity by an organization to the model of “correct” structure that prevails in its organizational field leads to legitimacy and support from external organizations. Such supports include accreditation, professional approval, grants and loans (DiMagio and Powell, 1983). Conversely, failure to conform to legal requirements imposed by the state can lead to sanctions (DiMagio and Powell, 1983), so that conformity can be considered here to confer the benefit of freedom from these sanctions, as another kind of external support.

Thus, there is a concept of institutional fit that is analogous to contingency fit. Contingency fit is that level of the structural variable that fits the level of the contingency variable and so produces the highest level of internal effectiveness for the organization (Donaldson, 2001). Institutional fit is that level of the structural variable that fits the institutional environment of an organization, i.e., the structure that is the model structure which is approved as legitimate for organizations within an organizational field. Institutional fit produces the highest level of legitimacy and, hence, external support for the organization.

In institutional theory, one process whereby the organization conforms is by some of its members (e.g., managers) deliberately conforming to gain the advantages of legitimacy and external support. Thus, such action is conscious and calculating. Hence, organizational actors are seen, on occasion, as acting calculatively, with an eye to securing beneficial consequences, by adopting the right structure. More generally, extant organizations might be structured to secure beneficial consequences of institutional conformity through survival processes, such that, organizations which in the past had not been structured in this way, as a result, failed and so were disbanded (Hannan and Freeman, 1989). Thus, by conscious choice or differential survival, organizations can become structured in ways that
make them conform to their institutional environment and so receive beneficial outcomes from their environment.

2.3 Organizational design and institutional theory

Organizational design seeks to assist managers attain more effective organizations. Therefore, securing any benefits of conformity is a pertinent consideration to be entered into the calculus along with the more traditional benefits from contingency fit. In this way, institutional theory has a capacity to contribute to organizational design.

As regards organizational design, however, there is a difference in specificity between contingency and institutional theories. Structural contingency theory gives detailed prescriptions, e.g., an organization in an unstable environment with high levels of market and technological change is best fitted by an organic structure (Burns and Stalker, 1961). Institutional theory lacks such detailed guidance as to which structure fits the institutional environment. Instead, it holds that there is a general process, institutional isomorphism, whereby organizations adjust to accord with the normatively approved type for their organizational field (DiMagio and Powell, 1983). Thus, the approved structural type may be specific to an organizational field. It requires knowledge of that field to know its approved structural type. Thus, institutional theory does not allow deductions from its core premises to define the approved type, rather, the theory is an approach or perspective, that sensitizes the analyst to inquire into the approved structural type within a field. Once that approved structural type has been identified, then institutional theory can be used to predict that there will be benefits from adopting it. Hence institutional theory may be used to prescribe that adopting the institutionally approved structure as the organizational design will lead the organization to receive the benefits of legitimacy and external support.

Clearly, using institutional theory in this way is compatible with rational organizational design. However, this is not to claim that all of institutional theory is consistent with rational organizational design. There are some mechanisms of conformity in institutional theory that are not consistent with the process of rational organizational design. These include unconsciously following a way of thinking, so that a structure is adopted without thought of alternatives, i.e., it is taken-for-granted. This is not compatible with organizational design which features comparison of alternatives and selection based on consequences. Thus, in writing about the organizational design implications of institutional theory, we are selectively applying elements from the theory that lend themselves to the organizational design project.
3. DIFFERENTIAL OUTCOMES OF CONTINGENCY AND INSTITUTIONAL FITS

Both structural contingency theory and institutional theory deal in outcomes, and it is these outcomes that are the focus of this chapter, consistent with the interest in organizational design. Each theory yields prescriptions; the organizational design issue is how to bring them together in an overall prescription, or meta-prescription. This raises the issue of whether structural contingency theory and institutional theory lead to complementary or conflicting prescriptions, and the implications for organizational design.

Both contingency and institutional theories are sociological functionalist theories in that they explain structures (at least partly) by their beneficial consequences (Merton, 1968). For institutional theory, the benefits of legitimacy and external support provide reasons for adopting and retaining a structure, though some adoption and retention may be due to other causes, such as unreflective conformity to cultural codes.

Both contingency and institutional theories postulate a fit or matching between structure and some other factor. For contingency theory, the fit is of the organizational structural variable to the contingency variable. For institutional theory, there is an analogous fit between the actual structure of the organization and the structure that is institutionally approved.

Contingency and institutional theory both posit a fit that leads to beneficial outcomes. However, the nature of the benefit differs between the two theories. Structural contingency theory posits that structures that fit the contingencies produce more internal effectiveness. Effectiveness essentially means attaining goals (Parsons, 1961). Therefore, for a business firm, effectiveness typically involves sales growth, profitability and such financial measures of success. For a hospital, effectiveness might involve providing high quality treatment at low cost. The effectiveness from fit comes about because of superior internal operations, such as better decision-making and more efficient use of resources.

In institutional theory, organizations are shaped by the wider institutional environment, i.e., organizational field, in which they are located. The institutional environment of an organization typically involves other organizations such as competitors, suppliers, customers, professions, regulators and governments. These organizations influence the focal organization. In institutional theory, conformance produces benefits to the organization such as legitimacy, accreditation, financial support and survival (DiMagio and Powell, 1983). These benefits typically flow through a process whereby the conformity by the focal organization is witnessed by outsiders, who in return bestow the benefits. Thus, the process involves
adherence by the focal organization to cultural codes or beliefs held by people in the organizational field.

Hence, institutional theory posits beneficial outcomes, but differing in type and origins from those of contingency theory. Contingency theory posits as the beneficial outcome, the effectiveness that is generated internally from the fit of structure to contingency. Institutional theory posits as beneficial outcomes, the legitimacy and support that come externally, as a result of conformance to cultural codes and norms. Thus two dimensions of outcomes can be distinguished: internal effectiveness and external support.

3.1 Complementary or conflicting theories?

Clearly, the predictions of the two theories differ about the type of beneficial outcomes, however they are potentially complementary. An organization might simultaneously adapt its structure to the contingencies, to gain the benefits of high internal effectiveness, while also conforming to the externally approved model structure to gain the benefits of high external support. There are two ways in which this compatibility could be attained: identical prescriptions about the best structure, or segmentation, meaning that the theories dealt with different aspects of structure.

Identical prescriptions. The structural contingency theory and institutional theory processes are compatible, if the structure that fits the contingency also fits the approved external model. In other words, the structural solution favoured by the two theories is identical.

Segmentation. Compatibility between structural contingency theory and institutional theory is feasible, even if they differ, if the aspects of structures that fit the contingencies are different from those that fit the external model. Then the structural domains of the two theories are separate, so that there is no overlap and no conflict between them.

Thus, the logic of our analysis leads to the realization that, in these two ways, the two theories can be compatible. Where structural contingency theory and institutional theory are complementary, the organization simultaneously has both high internal effectiveness and high external support, i.e., it enjoys both benefits. In organizational design terms, there is a structural design that enables the organization to enjoy the best of both worlds.

Beguiling though this idea of complementary may be, a deeper analysis shows that it is unlikely. More specifically, there are grounds for rejecting both the pathways to complementarity: identical prescriptions and segmentation (i.e., separate structural domains). Each pathway will be critically discussed next. Their rejection leads to recognition that structural
Conflict Between Contingency and Institutional Theories

4. REASONS FOR THE CONFLICT BETWEEN CONTINGENCY THEORY AND INSTITUTIONAL THEORIES OF ORGANIZATIONAL STRUCTURE

4.1 Critique of identical prescriptions

In order to better understand why identical prescriptions are infeasible, it is necessary to identify some other differences between structural contingency theory and institutional theory. Structural contingency theory holds that there are many fits. In contrast, institutional theory says there is one structural model that is approved in an organizational field, i.e., there is only one structure which is the institutional fit. An organization could be in institutional fit and also be in contingency fit. But many contingency fits are also institutional theory misfits. Therefore the prescriptions of contingency and institutional theories usually differ.

In structural contingency theory, the effective structure varies according to the contingency, which it must fit. In the Cartesian version of structural contingency theory (Donaldson, 2001), the fit is itself a continuum with many points of fit sequentially along the fit line, e.g., between size and formalization (Child, 1975; Keller, 1994). Figure 1 shows the fits between the size contingency and the formalization structural variable. In the configurational version of structural contingency theory, the fits are discrete in space and fewer (Van de Ven, and Drazin, 1985). In both versions of structural contingency theory, however, there is more than one fit point of structure to contingency.

In an organizational field, the externally approved model, that is, the institutional fit, would be only one level of the structural variable. In contrast, there would be many structural levels that fitted the various possible levels of the contingency variable of an organization. One of these structural levels that fitted the level of the contingency variable might also be the institutional fit. However, the other structural levels that fitted the levels of the contingency variable would not be the institutional fit – they would be institutional misfits. Thus, most contingency fits would be institutional misfits.

For a set of organizations with varying contingency levels, the structural levels that were fits would vary. For organizations in contingency fit, only a few would have structures whose contingency fits matched the externally
approved model institutional fit. An organization might happen to have a structure that simultaneously fitted both the contingency and the institutional requirements. But this would be a rare case. Most organizations would not fit both requirements. Instead, those organizations in institutional fit will tend to be in some degree of misfit with the contingency. Hence the contingency fit and institutional fit will mostly conflict.

Figure 1 depicts the differing fits of structural contingency and institutional theories, respectively. The structural variable is formalization and takes five different levels, ranging from 20 to 100 per cent. The contingency variable is size and ranges from 1 to 5. Structural contingency theory fits (shown as ovals) are defined as existing on the diagonal line running from the origin to the top-right hand corner. The institutional theory fit (shown as squares) is defined as being at the maximum level of the structural variable. The institutional theory fit holds for all the five values of the contingency variable. The contingency and institutional theory fits converge at the point where contingency level is 5 and the structural level is also 5, so that this point is both a contingency theory fit and an institutional theory fit. Thus, an organization at contingency level 5 can be in fit both with contingency and institutional requirements.

Figure 1. Conflict between institutional fit and contingency fit
For all other levels of the contingency variable, however, the contingency fit and institutional fit are different points. The institutional fit is always structural level 5. In contrast, the structural levels that fit the contingency variable are less than structural level 5, for levels 1 to 4 of the contingency variable. For contingency level 4 the fitting structure is 4, for contingency level 3 the fitting structure is 3, and so on. Hence, the lower the contingency level, the more that the contingency fit diverges from the institutional fit. At contingency level 1, the fitting structure is formalization of 20 per cent, which is 80 per cent different from the institutional fit of 100 per cent. Thus, the contingency and institutional theory fits diverge for four out of the five contingency levels (1 to 4). Hence the fits prescribed by the theories are mostly in conflict.

As an example of the difference between contingency and institutional fits of the same aspect of organizational structure, consider bureaucratic structure. Weber defines bureaucracy as a single type of structure. Institutional theory discusses Weberian bureaucracy as this single type of structure, towards which organizations around the world are converging, because that is the legitimate structure in the Western cultural account (DiMaggio and Powell, 1983). In contrast, structural contingency theory holds that bureaucratization is a variable (Pugh, Hickson, Hinings and Turner, 1968), and that its optimal level is that which fits the size of the organization (Child, 1975). To be in institutional fit, that is, conform to the Weberian model, an organization would need to be highly bureaucratized. Thus, a large organization that is highly bureaucratized would simultaneously fit the size contingency and the institutional requirement. However, the many other structural fits to the size contingency would not fit the institutional requirement. For example, an organization of medium size with medium bureaucratization would be a structural contingency theory fit, but would not be an institutional theory fit, because it was insufficiently bureaucratized to be a Weberian bureaucracy. Again, structural contingency theory would prescribe that a small organization should be low on bureaucratized, that is, be substantially unbureaucratic, even though in a Western culture, where this violates the legitimate, culturally imbued, highly rationalized, institutional model. Hence, structural contingency theory sees a wide range of fits to degrees of bureaucratization, whereas institutional theory sees only a high level of bureaucratization as being the fit. Therefore, only large, highly bureaucratic organizations will simultaneously fit the size contingency and the institutional requirement. Many other, smaller organizations that are less bureaucratic, are in institutional misfit, even if they are in contingency fit.

Another example of difference between fit in contingency theory and institutional theory is “strategy and structure”. Structural contingency theory holds that the optimal structure fits the corporate strategy, that is, the level of