A **contingency variable** refers to the specific factor that lcould impact the outcome of a particular situation positively or negatively.

**The contingency variables to be studied are briefly discussed in the following paragraphs:**

Managers having the responsibility for organizational design, study the contingency factors that affect organizational design and then design a structure to fit these contingency factors.

**(i) Strategy:**

Logically structure follows strategy because organizational structures are built to achieve objectives by implementing the strategies. When strategy changes, structures must change. At the corporate level, strategies are formulated based on the company’s mission and strategic goals or objectives.

**(ii) Environment:**

Environment has an impact on decision making – specifically the difficulty of making decisions in an uncertain or unpredictable environment. Similarly, the stability and predictability of the environment have a direct bearing on the ability of the organization to function effectively. An unstable environment that changes rapidly and is less predictable has two requirements:

i. The organization must be able to adapt to change, for which it needs to be flexible and responsive.

ii. The organization needs greater coordination among departments.

**(iii) Size of the organization:**

The number of employers working in an organization indicates its size. It is observed that large organizations differ structurally from small ones in terms of division of labor, rules and regulations, performance appraisal and budgeting procedures.

**(iv) Age of the organization:**

With age; an organization incorporates standardized systems, procedures and regulations. Like people, organizations evolve through stage of life cycle – birth, youth, midlife and maturity. In the birth stage, the organization created by the entrepreneur is informal, with no rules and regulations. Decision making is centralized with the owner and tasks are not specialized.

In the youth stage, the organization is growing – it expands and hires more employees. It incorporates division of labor and formal rules and policies. Decision making is still with the owner although it is shared by few persons close to the owner.

In the midlife stage, the company has become quite large. It now has extensive sets of rules, regulations, policies and systems to guide the employees. Control systems are used, professionals are hired, tasks are decentralized and authority is delegated to functional departments. In the maturity stage, rules, regulations, specialized staffs, budgets, a refined division of labor and control systems are in place.

**(v) Technology:**

Some kind of technology is used to convert the resources into outputs in every organization. Technology includes the knowledge, machinery, work procedures, and materials that convert the inputs into outputs. The technology used to manufacture the products decides the kind of the organization for the production system.