Analyzing Organizational Structure based on 7s model of McKinsey

Mohammad Mehdi Ravanfar

Master Student, strategic management University of Hormozgan
E-mail: Mohammad.ravanfar@gmail.com

Abstract

Aim of this research was investigating and analyzing organizational structure free zone of Qeshm based on 7 S of McKinsey. Current research was applicable as well as descriptive and surveying. Statistical of research included managers and experts of free zone of Qeshm. We used n order to determine of simple random sampling in order to determine type of statistical sample and we used Cohcaran in order to determine amount of statistical sample. Following, we used 84 people as statistical sample. We used questionnaire in order to measure tools of the research and reliability of research is tested by alpha Cronbach (0.848) and validity of research is determined by professor and experts. We used Kolmogorov-Smirinov and T-test and Freedman test in order to analyze data. Results of research indicated that organizational structure based on 7-S McKinsey. Result of research indicated that organizational structure based on 7-S McKinsey in free zone of Qeshm is unfavorable and common value, clerks and structure had the worst conditions. In according to findings of research, it is recommended that managers of free zone of Qeshm more pay attention to internal environment of organization and improvement of procedure.

Keywords: Organizational structure, Qeshm, Style, Shared value, Skills

Introduction*:*

Organizational structure is the way responsibility and power are allocated, and work procedures are carried out, among organizational members (Blau, 1970; Dewar and Werbel, 1979; Germain, 1996; Gerwin and Kolodny, 1992; Ruekert et al., 1985; Walton, 1985). The literature suggests that the nature of organizational structure in industrial versus post-industrial firms could be distinguished as mechanistic (inorganic) versus organic (Daft, 1995; Lawrence and Lorsch, 1967; Nemetz and Fry, 1988; Parthasarthy and Sethi, 1992; Zammuto and O'Connor, 1992). states, "significant changes are occurring in organizations in response to changes in the society at large." He contends that the mechanistic paradigm is effective when environments have a high degree of certainty, technologies tend to be routine, organizations are designed for large-scale, and employees are treated as another resource. Internal structures tend to be vertical, functional, and bureaucratic. The organization uses rational analysis and is guided by parochial values reflected in the vertical hierarchy and

superior-subordinate power distinctions. The organic paradigm recognizes the unstable, even chaotic nature of the external environment (i.e. post-industrial). Technologies are typically non-routine, and size is less important. Organizations are based more on teamwork, face-to-face interactions, learning, and innovation. Qualities traditionally considered egalitarian such as equality, empowerment, horizontal relationships, and consensus building become more important (Daft, 1995; Burns and Stalker, 1961).

Organizational structure is partly affected by the firm's external environment (Bourgeois et al., 1978; Duncan, 1972; Hrebiniak and Snow, 1980; Lawrence and Lorsch, 1967). Research suggests that firms organized to deal with reliable and stable markets may not be as effective in a complex, rapidly changing environment (Gordon and Narayanan, 1984; Spekman and Stern, 1979). The more certain the environment, the more likely the firm's organizational structure may and procedures (Lawrence and Lorsch, 1967). Organizations that operate with a high degree of environmental uncertainty may decentralize decision-making (Ruekert et al., 1985), rely less on formal rules and policies (Jaworski, 1988), and flatten their hierarchies (Walton, 1985).

"**McKinsey 7s model** is a tool that analyzes firm's organizational design by looking at 7 key internal elements: strategy, structure, systems, shared values, style, staff and skills, in order to identify if they are effectively aligned and allow organization to achieve its objectives."

Understanding the tool

McKinsey 7s model was developed in 1980s by McKinsey consultants Tom Peters, Robert Waterman and Julien Philips with a help from Richard Pascale and Anthony G. Athos. Since the introduction, the model has been widely used by academics and practitioners and remains one of the most popular strategic planning tools. It sought to present an emphasis on human resources (Soft S), rather than the traditional mass production tangibles of capital, infrastructure and equipment, as a key to higher organizational performance. The goal of the model was to show how 7 elements of the company: Structure, Strategy, Skills, Staff, Style, Systems, and Shared values, can be aligned together to achieve effectiveness in a company. The key point of the model is that all the seven areas are interconnected and a change in one area requires change in the rest of a firm for it to function effectively.

Below you can find the McKinsey model, which represents the connections between seven areas and divides them into 'Soft Ss' and 'Hard Ss'. The shape of the model emphasizes interconnectedness of the elements.
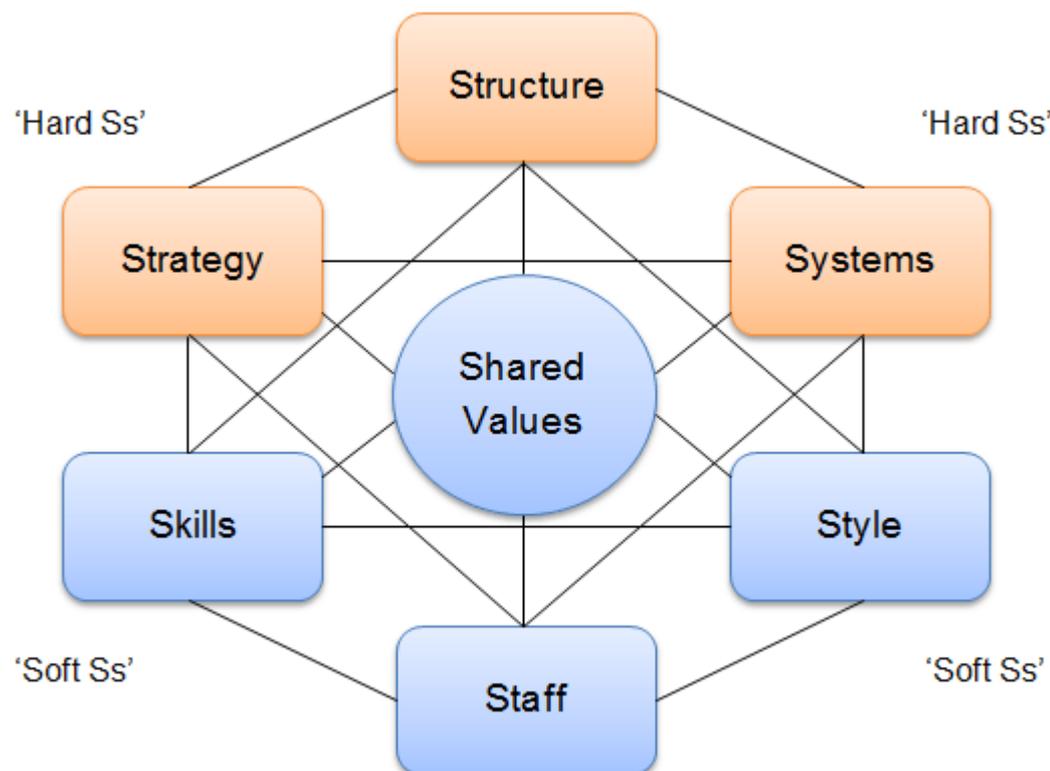
The model can be applied to many situations and is a valuable tool when organizational design is at question. The most common uses of the framework are:

- To facilitate organizational change.
- To help implement new strategy.
- To identify how each area may change in a future.
- To facilitate the merger of organizations.

7s factors

In McKinsey model, the seven areas of organization are divided into the 'soft' and 'hard' areas. Strategy, structure and systems are hard elements that are much easier to identify and manage when compared to soft elements. On the other hand, soft areas, although harder to manage, are the foundation of the organization and are more likely to create the sustained competitive advantage.

Hard S	Soft S
Strategy	Style
Structure	Staff
Systems	Skills
	Shared Values

Strategy is a plan developed by a firm to achieve sustained competitive advantage and successfully compete in the market. What does a well-aligned strategy mean in 7s McKinsey model? In general, a sound strategy is the one that's clearly articulated, is long-term, helps to

achieve competitive advantage and is reinforced by strong vision, mission and values. But it's hard to tell if such strategy is well-aligned with other elements when analyzed alone. So the key in 7s model is not to look at your company to find the great strategy, structure, systems and etc. but to look if its aligned with other elements. For example, short-term strategy is usually a poor choice for a company but if its aligned with other 6 elements, then it may provide strong results.

Structure represents the way business divisions and units are organized and includes the information of who is accountable to whom. In other words, structure is the organizational chart of the firm. It is also one of the most visible and easy to change elements of the framework.

Systems are the processes and procedures of the company, which reveal business' daily activities and how decisions are made. Systems are the area of the firm that determines how business is done and it should be the main focus for managers during organizational change.

Skills are the abilities that firm's employees perform very well. They also include capabilities and competences. During organizational change, the question often arises of what skills the company will really need to reinforce its new strategy or new structure.

Staff element is concerned with what type and how many employees an organization will need and how they will be recruited, trained, motivated and rewarded.

Style represents the way the company is managed by top-level managers, how they interact, what actions do they take and their symbolic value. In other words, it is the management style of company's leaders.

Shared Values are at the core of McKinsey 7s model. They are the norms and standards that guide employee behavior and company actions and thus, are the foundation of every organization.

As we pointed out earlier, the McKinsey 7s framework is often used when organizational design and effectiveness are at question. It is easy to understand the model but much harder to apply it for your organization due to a common misunderstanding of what should a well-aligned elements be like. There is a useful paper from excellencegateway.org.uk, which provides examples showing how effective and ineffective elements look like. Yet, separate elements that are effective on their own do not necessarily lead to optimal organizational alignment.

We provide the following steps that should help you to apply this tool:

Step 1. Identify the areas that are not effectively aligned
During the first step, your aim is to look at the 7S elements and identify if they are effectively aligned with each other. Normally, you should already be aware of how 7 elements are aligned in your company, but if you don't you can use the checklist from WhittBlog to do that. After you've answered the questions outlined there you should look for the gaps, inconsistencies and weaknesses between the relationships of the elements. For example, you designed the strategy that relies on quick product introduction but the matrix structure with conflicting relationships hinders that so there's a conflict that requires the change in strategy or structure.

Step 2. Determine the optimal organization design
With the help from top management, your second step is to find out what effective organizational design you want to achieve. By knowing the desired alignment you can set your goals and make the action plans much easier. This step is not as straightforward as identifying how seven areas are currently aligned in your organization for a few reasons. First, you need to find the best optimal alignment, which is not known to you at the moment, so it requires

more than answering the questions or collecting data. Second, there are no templates or predetermined organizational designs that you could use and you'll have to do a lot of research or benchmarking to find out how other similar organizations coped with organizational change or what organizational designs they are using.

Step 3. Decide where and what changes should be made

This is basically your action plan, which will detail the areas you want to realign and how would you like to do that. If you find that your firm's structure and management style are not aligned with company's values, you should decide how to reorganize the reporting relationships and which top managers should the company let go or how to influence them to change their management style so the company could work more effectively.

Step 4. Make the necessary changes

The implementation is the most important stage in any process, change or analysis and only the well-implemented changes have positive effects. Therefore, you should find the people in your company or hire consultants that are the best suited to implement the changes.

Step 5. Continuously review the 7s

The seven elements: strategy, structure, systems, skills, staff, style and values are dynamic and change constantly. A change in one element always has effects on the other elements and requires implementing new organizational design. Thus, continuous review of each area is very important.

Methodology:

Current research was applicable as well as descriptive and surveying. Statistical of research included managers and experts of free zone of Qeshm. We used n order to determine of simple random sampling in order to determine type of statistical sample and we used Cohcaran in order to determine amount of statistical sample. Following, we used 84 people as statistical sample. We used questionnaire in order to measure tools of the research and reliability of research is tested by alpha Cronbach (0.848) and validity of research is determined by professor and experts. We used Kolmogorov-Smirinov and T-test and Freedman test in order to analyze data.

Hypotheses:

In current research, we investigate condition of organizational structure of free Qeshm based on 7s of McKinsey. We used eighth hypotheses as following:

H1: Condition of organizational structure of free zone of Qeshm is unfavorable based on 7s model of McKinsey

H2: Condition of structure factor of free zone of Qeshm is unfavorable based on 7s model of McKinsey

H3: Condition of strategy factor of free zone of Qeshm is unfavorable based on 7s model of McKinsey

H4: Condition of system factor of free zone of Qeshm is unfavorable based on 7s model of McKinsey

H5: Condition of shared value of free zone of Qeshm is unfavorable based on 7s model of McKinsey

H6: Condition of staff factor of free zone of Qeshm is unfavorable based on 7s model of McKinsey

H7: Condition of style factor of free zone of Qeshm is unfavorable based on 7s model of McKinsey

H8: Condition of skill factor of free zone of Qeshm is unfavorable based on 7s model of McKinsey

Results of research:

Based on Kolmogorov-Smirinov test distribution of data is normal and we used T- test and Freedman in order to test of research.

H1: Condition of organizational structure of free zone of Qeshm is unfavorable based on 7s model of McKinsey

Table 1: T-test of Organizational structure

Organizational Structure	P-value	Mean	SD	t
7-S McKinsey	0.000	1.94	0.2908	-33.146

Based on the table, t is -33.146 and amount of P-value is less than 0.05 and it shows that condition of organizational structure of free zone of Qeshm is unfavorable based on 7s model of McKinsey

H2: Condition of structure factor of free zone of Qeshm is unfavorable based on 7s model of McKinsey

Table 2: T-test of structure

Factor	P-value	Mean	SD	t
Structure	0.000	1.91	0.4514	-22.116

Based on the table, t is -22.116 and amount of P-value is less than 0.05 and it shows that condition structure of free zone of Qeshm is unfavorable based on 7s model of McKinsey

H3: Condition strategy factor of free zone of Qeshm is unfavorable based on 7s model of McKinsey

Table 3: T-test of strategy

Factor	P-value	Mean	SD	t
Strategy	0.000	2.07	0.5209	-16.232

Based on the table, t is -16.232 and amount of P-value is less than 0.05 and it shows that condition strategy of free zone of Qeshm is unfavorable based on 7s model of McKinsey

H4: Condition of system factor of free zone of Qeshm is unfavorable based on 7s model of McKinsey

Table 4: T-test of system

Factor	P-value	Mean	SD	t
System	0.000	2.08	0.6031	-13.899

Based on the table, t is -23.564 and amount of P-value is less than 0.05 and it shows that condition system of free zone of Qeshm is unfavorable based on 7s model of McKinsey

H5: Condition of shared value of free zone of Qeshm is unfavorable based on 7s model of McKinsey

Table 5: T-test of shared value

Factor	P-value	Mean	SD	t
Shared Value	0.000	1.60	0.4591	-27.919

Based on the table, t is -27.919 and amount of P-value is less than 0.05 and it shows that condition shared value of free zone of Qeshm is unfavorable based on 7s model of McKinsey
H6: Condition of staff factor of free zone of Qeshm is unfavorable based on 7s model of McKinsey
Table 6: T-test of staff

Factor	P-value	Mean	SD	t
Staff	0.000	1.86	0.4398	-23.564

Based on the table, t is -23.564 and amount of P-value is less than 0.05 and it shows that condition staff of free zone of Qeshm is unfavorable based on 7s model of McKinsey
H7: Condition of style factor of free zone of Qeshm is unfavorable based on 7s model of McKinsey
Table 7: T-test of style

Factor	P-value	Mean	SD	t
Styles	0.000	1.92	0.5705	-17.243

Based on the table, t is -17.243 and amount of P-value is less than 0.05 and it shows that condition style of free zone of Qeshm is unfavorable based on 7s model of McKinsey
H8: Condition of skills factor of free zone of Qeshm is unfavorable based on 7s model of McKinsey

Table 8: T-test of style

Factor	P-value	Mean	SD	t
Skills	0.000	2.09	0.5207	-15.757

Based on the table, t is -15.757 and amount of P-value is less than 0.05 and it shows that condition style of free zone of Qeshm is unfavorable based on 7s model of McKinsey
Following table shows priorities factors of 7s McKinsey based on Freedman test.
Table 9: priorities factors of 7s McKinsey

7-S of McKinsey	Mean	Priorities
Systems	4.79	First
Skills	4.76	Second
Strategies	4.54	Third
Styles	4.01	Fourth
Structures	3.96	Fifth
Clerks	3.73	Sixth
Shared value	2.20	Seventh

Table 10: Final Point based on 7s of Mckinsey

Row	Type	Point	Distance gap
1	Hard s	5	3.09
2		5	2.93
3		5	2.92
4	Soft s	5	3.40
5		5	3.13
6		5	3.08
7		5	2.91

In according to the table the least gap is skill factor (58.20 percentage) and the highest distance gap of shared value gap (68 percentage)

Conclusion and discussion:
Results of research indicated that organizational structure based on 7-S McKinsey. Result of research indicated that organizational structure based on 7-S McKinsey in free zone of Qeshm is unfavorable and common value, clerks and structure had the worst conditions. In according to findings of research, it is recommended that managers of free zone of Qeshm more pay attention to internal environment of organization and improvement of procedure.

Recommendation of research:
Based on theoretical principles, stable and secure environment compatible with the machine and in turbulent environments, organic structures can better respond to the needs of the environment. Moreover, the organization of the vertical and horizontal resolution is more complex, more needs to be communication and high Rsymt, undermine innovation and reduces communication. As organizations become more focused, bottlenecks decision to respond appropriately to the environment, slower and organizational performance is flawed. Furthermore, the number of hierarchy levels and possibly reduce repetitive decisions and actions taken by staff
Based on the theoretical foundations of harmony and balance between strategy and organizational structure is essential for success in implementing the strategy, the specific structural features are required so that the prospective implementation, the structural characteristics and strategies need to recognize and low complexity and decentralized prospective Mntfpzyr is proportional to the structural characteristics. As your organization grows and marching forward may consider different strategies. So for better implementation of these strategies should use all available fields to the structural characteristics of these cases. According to the theory, Chandler, it is desirable to determine the appropriate strategy with regard to the environment, the organizational structure appropriate to explain the strategy. Since the formalization of Qeshm Free Zone Organization is high, it may, by cession and miniaturization activities (outsourcing) to go organic structure and flexible. It also aims to improve the current situation and be proportionate. Each program in the organization should be performed in order to achieve the desired goal and departments should also consider any plan that is coordinated with the strategies and goals of the organization. Opportunity to express opinions about the goals to be created for all staff. The views of other organizations free zones used in drawing the goals of the organization

Achieving an agile organizational structure is subject to mechanize the organizational processes and eliminate time-consuming and repetitive tasks by the system. In addition, the system software will help you better identify bottlenecks and weaknesses and work to improve immobilized. With the integrated systems of communication between the units and the decision is clearly defined in the stylish prevented. The sources and uses of the plan will be optimal. It also recommended the organization, decision management systems, systems of communication with customers (investors, traders, etc), office automation system, integrated system and develop written procedures for all parts of the organization to improve the performance of the organization.

Given the role of organizational culture in the acceptance or rejection of any changes and new developments in the organization, it is recommended that before any change in the organizational structure, necessary for the realization of cultural values and beliefs accordingly provided using methods such as training and recruitment of qualified human resources and laws, regulations and procedures appropriate for the raising of risk taking and a fair distribution of power and to maintain and strengthen the organizational culture of collectivism. Statement of organizational values and behavioral evidence suggested that the review and to inform all interested parties raise

Leadership in any organization is the basic process and the success or failure of an organization to provide leadership in the organization, therefore, when you consider the success or failure of an organization is usually the leader. Appropriateness of the type of leadership style could enhance the performance of organizations. Therefore the researcher to align the structure of the organization's leadership style. The mechanical structure is to be considered at the appropriate leadership style should be applied. The system creates an open door for better communication between employees and managers and making recommendations for the use of employee feedback is very effective.

Achieving organizational goals depends on the ability of the employee's duties and adapt to a changing environment. Education and improvement of human resources in accordance with organizational change and environmental causes people to effectively work to continue and increase their efficiency. It is recommended to increase the knowledge and skills of managers and employees working in the field of technology, through a contract with the scientific and academic centers, sharing relevant journals, this information are made available to managers and employees.

References:
1. Zamani. A(2014), Assessing the readiness of Iranian insurance companies for successful implementation of BPM based on McKinsey 7S Model, Science Road Publishing Corporation Trends in Social Science, ISSN: 2251-967XTSS 10(1) 37-47, Journal homepage: http://www.sciroad.com/tss.html.
2. Blau, P. M., 1970. Decentralization in bureaucracies. In: Zald, M.N. (Ed.), Power in Organisations. Vanderbilt University Press, Nashville, TN, pp. 150–174.
3. Bourgeois, L. J., McAllister, D.W., Mitchell, T.R., 1978. The effects of different organizational environments upon decisions about organization structure. Academy of Management Journal 21,508–514.
4. Burns, T., Stalker, G.M., 1961. The Management of Innovation, Tavistock, London
5. Daft, R.L., 1995. Organization Theory and Design, 5th ed. West Publishing Company, St. Paul, MN.

6. Dewar, R., Werbel, J., 1979. Universalistic and contingency predictions of employee satisfaction and conflict. Administrative Science Quarterly 24, 426–448.

7. Duncan, R.B., 1972. Characteristics of organizational environments and perceived environmental uncertainty. Administrative Science Quarterly 17, 313–327.

8. Germain, R., 1996. The role of context and structure in radical and incremental logistics innovation adoption. Journal of Business Research 35, 117–127.

9. Gerwin, D., Kolodny, H., 1992. Management of Advanced Manufacturing Technology: Strategy, Organization, and Innovation. Wiley/Interscience, New York, NY.

10. Gordon, L., Narayanan, V.K., 1984. Management accounting systems, perceived environmental uncertainty, and organizational structure: an empirical investigation. Accounting, Organizations and Society 9, 33–47.

11. Hrebiniak, L.G., Snow, C.C., 1980. Industry differences in environmental uncertainty and organizational characteristics related to uncertainty. Academy of Management Journal 23, 750–759.

12. Jaworski, B.J., 1988. Toward a theory of marketing control: environmental context, control types, and consequences. Journal of Marketing 52, 23–29..

13. Lawrence, P.R., Lorsch, J.W., 1967. Organization and Environment. Irwin, Homewood, IL

14. Nemetz, P.L., Fry, L.W., 1988. Flexible manufacturing organizations: implication for strategy formulation and organization design. Academy of Management Review 13 (4), 627– 638.

15. Parthasarthy, R., Sethi, S.P., 1992. The impact of flexible automation on business strategy and organizational structure. Academy of Management Review 17 (1), 86– 111.

16. Paul T. Bartone and Linton Wells II(2009), Understanding and Leading Porous Network Organizations An Analysis Based on the 7S Model, Center for Technology and National Security Policy National Defense University.

17. Ruekert, R.W., Walker Jr., O.C., Roering, K.J., 1985. The organization of marketing activities: a contingency theory of structure and performance. Journal of Marketing 49, 13–25.

18. Spekman, R.E., Stern, L.W., 1979. Environmental uncertainty and buying group structure. Journal of Marketing 43, 54–64.

19. Thanaphan Naipinit, Somkier Kojchavivong, Vorawit Kowittayakorn1 & Thongphon Promsaka NaSakolnakorn (2014), McKinsey 7S Model for Supply Chain Management of Local SMEs Construction Business in Upper Northeast Region of Thailand, Asian Social Science; Vol. 10, No. 8; ISSN 1911-2017 E-ISSN 1911-2025.

20. Theophilus Francis Gyepi-Garbrah, Frederick Binfor(2013), An Analysis of Internal Environment of a Commercial-oriented Research Organization: Using Mckinsey 7S Framework in a Ghanaian Context,International Journal of Academic Research in Business and Social Sciences, Vol. 3, No. 9, ISSN: 2222-6990.

21. Walton, R.E., 1985. From control to commitment: transforming work force management in the United States. In: Clark, K., Hayes, R., Lorenz, C. (Eds.), The Uneasy Alliance: Managing the Productivity–Technology Dilemma. Harvard Business School Press, Boston, pp. 237–265.

22. Waterman. R, Piters.jr ,T & pilips,j.r (1980), Structur is not Organization, Business Horizions, 22(3)14-26.

23. Zammuto, R.F., O'Connor, E.J., 1992. Gaining advanced manufacturing technologies' benefits: the roles of organizational design and culture. Academy of Management Review 17 (4), 701–728.