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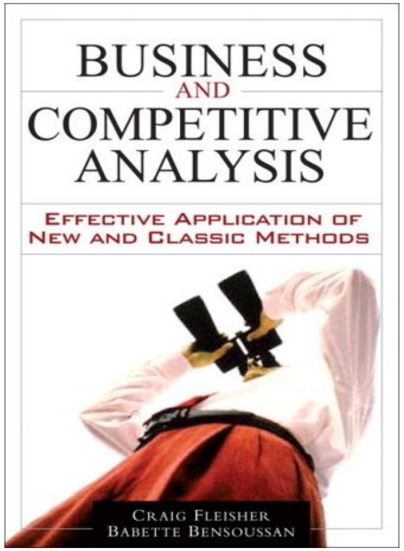

Chapter 12

McKinsey 7S

Ch12. McKinsey 7S

- Short Description
- Background
- Strategic Rationale & Implications
- Strengths & Advantages
- Weaknesses & Limitations
- Process for Applying Technique
- Case Study: Kenya Airways
- FAROUT

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Short Description

- The McKinsey 7S model is a diagnostic management tool used to test the strength of the strategic degree of fit between a firm's current and proposed strategies.
- It is a management tool designed to facilitate the process of strategy implementation within the context of organizational change.

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Background

- Idea that structure will follow strategy had been a prominent concept in modern strategy theory.
- Consultants at McKinsey & Co. recognized a circular problem central to their client's failure to effectively implement strategy, and co-developed the McKinsey model.
- Successful implementation of strategy requires management of the interrelationships between seven elements.

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Background

- Seven elements are:
    1. Structure
    2. Strategy
    3. Systems
    4. Style
    5. Staff
    6. Skills
    7. Shared values

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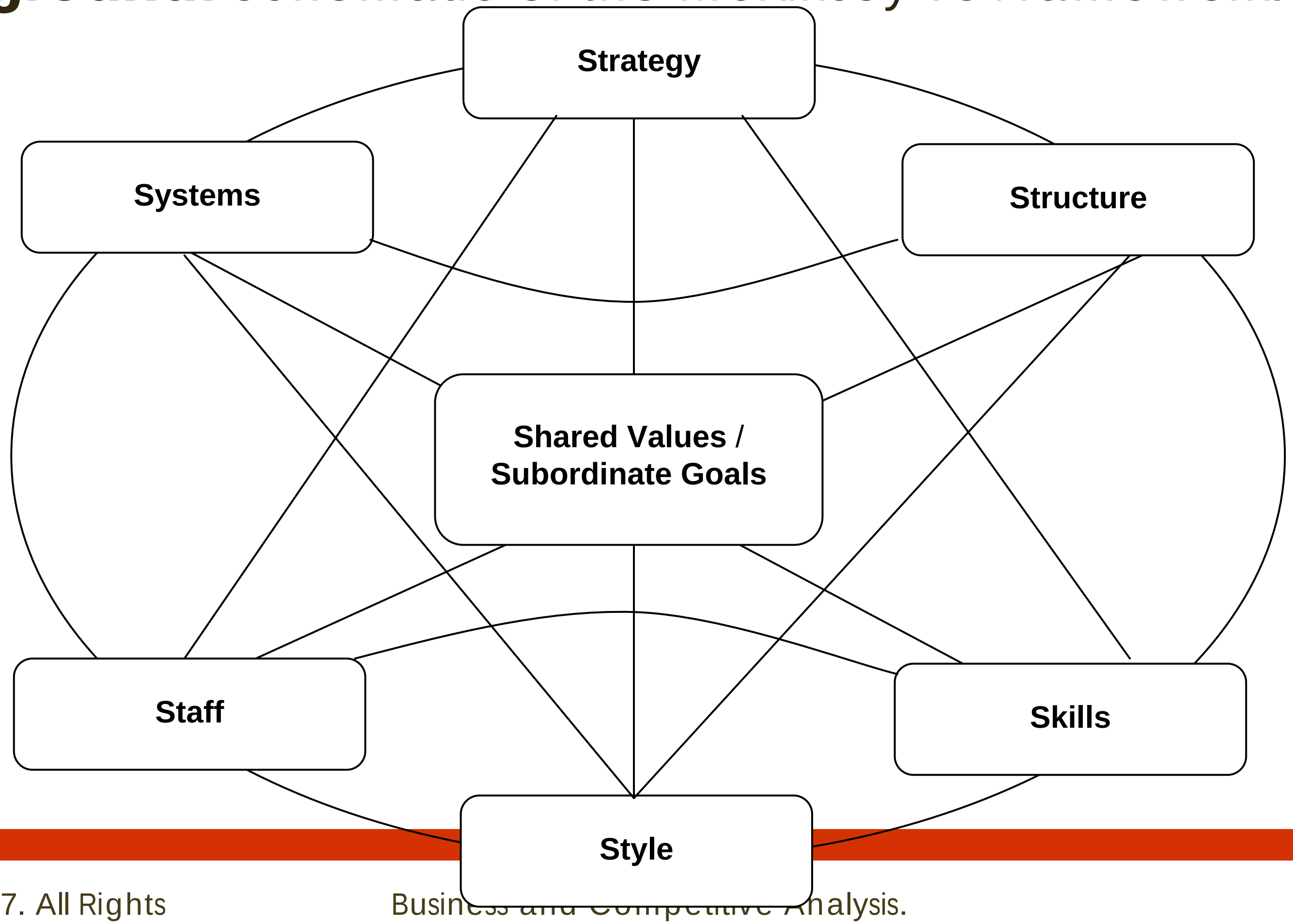
Background: Schematic of the McKinsey 7S Framework.



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Background

- There are four key insights which can be derived from this model:
  – Five other elements comprise organizational effectiveness in addition to the traditional strategy and structure.
  – The lines connecting each element identify the mutual dependency between each element.
  – Strategic failure may be attributable to inattention to one or a combination of seven elements.
  – The circularity of the model focuses the analyst's attention on the absence of hierarchical dominance.

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Strengths and Advantages

- Emphasis on a firm's strategy implementation.
- Organizational effectiveness was not dependent on just strategy and structure.
- Comprehensive because the analyst must consider each of the seven constructs, and how they interact.
- First model to meld the "hard" and "soft" aspects of the enterprise.
- Emphasizes coordination of key tasks.
- Model was also one of the first to help connect academic research with managerial practice.

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Weaknesses and Limitations

- May miss some fine-grained areas in which gaps in strategy conception or execution can arise.
- Little empirical support for the model or of its originator's conclusions.
- Remains difficult to properly assess the degree of fit.
- Difficult for analysts to explain what should be done for implementation using the model.
- The 7S is mostly a static model.

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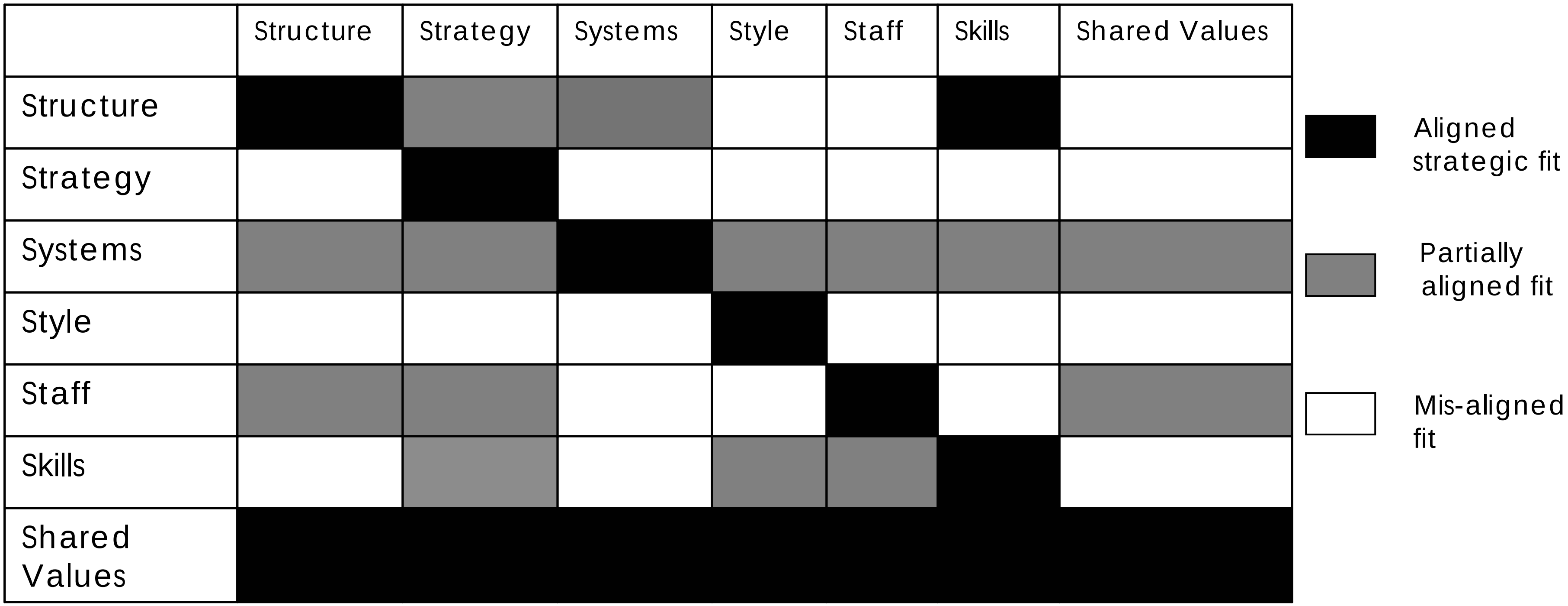
Process for Applying the Technique

- The first step is to closely examine each ‘S’.
- The key success factors for each element need to be identified.
- Can create a 7 X 2 matrix with the top row containing critical features of each ‘S’ that the company does extremely well.
- The bottom row would contain the elements of each ‘S’ where the company is achieving sub-par performance. (Waterman, 1982)
- This matrix can be extremely useful in organizing the analysis.

- **Process for Applying the Technique**



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Process for Applying the Technique

- After isolating the strategic distance between the seven elements of strategic fit, there are essentially three options:
  - The firm can work to change the required components of each ‘S’ so that they are consistent with strategy.
  - It can change the strategy to fit the existing orientation of the other six elements of the model.
  - Often, a compromise between each option is the realistic alternative.

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Case Study: Privatization of Kenya Airways

- Kenya Airways was originally established in 1977 as a corporation owned by the Kenyan Government.
- Senior management was appointed by politicians and had virtually no airline experience.
- The company lacked structure and direction, had very little equipment (seven planes), and was burdened with high interest foreign currency loans.
- By 1991 the airline was losing market share due to poor service and unreliable flight schedules and its debts were an enormous strain on the Kenyan Government.

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Case Study: Privatization of Kenya Airways

- In 1991, the commercialization process began.
- A new and capable management team was hired.
- Needs of all stakeholders were identified
- IT department was created to introduce new consistent systems and controls for accounting, scheduling, operations, management, and ticketing.
- By 1994, the airline recorded its first profits.
- 1995 created a strategic alliance with KLM Royal Dutch Airlines.
- In 1996 the Kenyan Government sold 26% of its stock to KLM, and most of the remainder of its stock to the Nairobi Stock Exchange, leaving only a 22% minority ownership block held in the airline.

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BEFORE	AFTER
Strategy • Lack of strategy. • No market direction. • Mainly unprofitable. • Unreliable and rarely on time. • Government pricing policies dictated too low fare schema.	**Strategy** • Goal to 'achieve world-class standards in service delivery, product quality and performance'. • Deliver profitability consistently. • Always be safe. • Be the 'airline of choice in Africa'. • Anticipate industry change factors. • Operate a modern fleet of aircraft. • Create alliances with other respectable airlines.
Shared Values • Not suited to commercial profit-driven firm. • Very little attention paid to managing firm-wide human factors.	**Shared Values** • Identify needs of internal staff, customers and travel agents. • Change culture to be service-oriented by taking every employee through customer service training program. • Increase shareholder value. • Aim to become Africa's leading airline. • Keep product offerings consistent and of the highest quality.

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BEFORE (cont'd)	AFTER (cont'd)
Structure •Bloated workforce. •Bureaucratic. •Lack of accountability in governance.	**Structure** •Workforce reduction. •Managers expected to be responsible and accountable for their units. •De-centralized with offices or agents in every region the airline serviced.
Systems •Lack of measurement for operations. •Imprecise financial reporting. •Lack of accountability. •Technical skills misused and underutilized. •No means to measure productivity. •Computer systems not sufficient to sustain business.	**Systems** •New financial control and accountability systems. •New budget planning and reporting systems. •Creation of IT department. •New program to continuously improve operations and reliability.

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BEFORE (cond't)	AFTER (cond't)
Style •Politically influenced. •CEOs were rarely held the station longer than a couple of years and lacked adequate time to implement strategies.	**Style** •Profit-oriented culture. •Hiring of upper management with airline experience. •Executives expected to re-vamp budget planning, sales and marketing, control and reporting systems.
Staff •Employees were friends and relatives of politicians. •More employees were employed than needed. •Unused talent and energy at almost every level. •Low standards of customer service.	**Staff** •Reduction of staff. •All staff get customer service training. •Increased productivity. •All staff expected to be responsible and accountable.
Skills •Large market share of regional routes. •Decent share of international routes. •Technical skills misused and underutilized. •Weak sales and marketing.	**Skills** •Efficient use of fleet. •Strategic alliance with KLM. •Stakeholder driven culture. •Attracting business class customers. •Consistently profitable

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- **FAROUT Summary**

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Related Tools and Techniques

- Competitive Benchmarking
- Customer Segmentation and Needs Analysis
- Customer Value Analysis
- Functional Capability and Resource Analysis
- SERVO Analysis
- SWOT Analysis
- Value Chain Analysis

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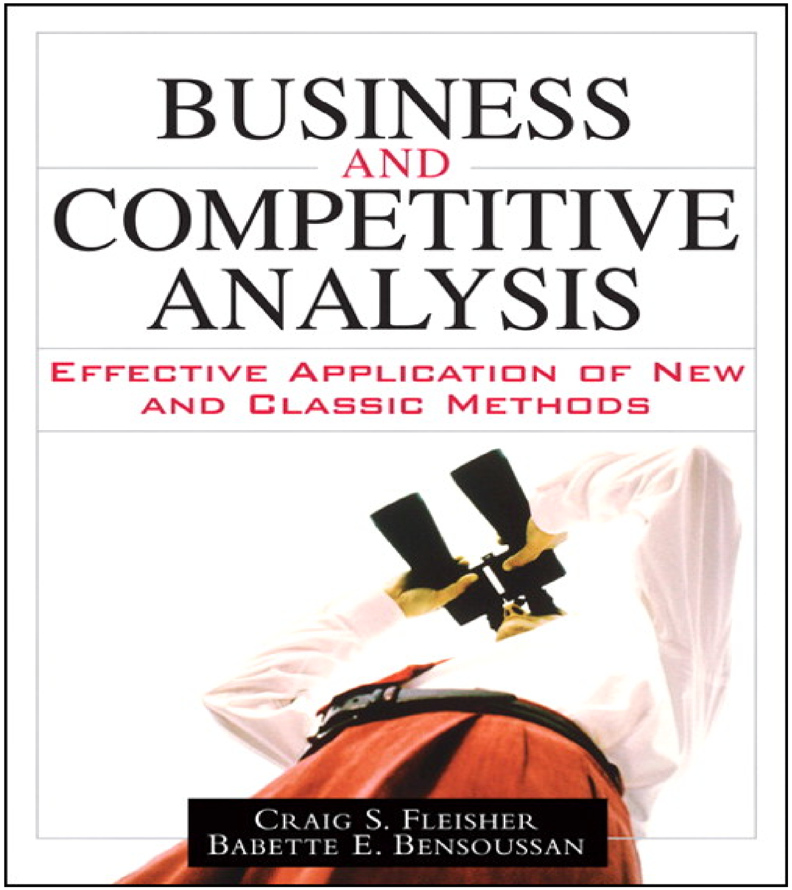

For More About McKinsey 7S and 23 Other Useful Analysis Methods, see:

Fleisher, Craig S. and Babette E. Bensoussan

Business and Competitive Analysis: Effective Application of New and Classic Methods

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