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
**Ch12. McKinsey 7S**

**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.
Ch12. McKinsey 7S

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.
Ch12. McKinsey 7S

Background

- Seven elements are:
  1. Structure
  2. Strategy
  3. Systems
  4. Style
  5. Staff
  6. Skills
  7. Shared values
Ch12. McKinsey 7S

Background: Schematic of the McKinsey 7S Framework.

- Strategy
- Systems
- Structure
- Shared Values / Subordinate Goals
- Staff
- Skills
- Style
Ch12. McKinsey 7S

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.
**Ch12. McKinsey 7S**

**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.
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.
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.
### Ch12. McKinsey 7S

**Process for Applying the Technique**

<table>
<thead>
<tr>
<th></th>
<th>Structure</th>
<th>Strategy</th>
<th>Systems</th>
<th>Style</th>
<th>Staff</th>
<th>Skills</th>
<th>Shared Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structure</td>
<td>❌</td>
<td>❌</td>
<td>❌</td>
<td></td>
<td></td>
<td>❌</td>
<td>❌</td>
</tr>
<tr>
<td>Strategy</td>
<td></td>
<td>❌</td>
<td>❌</td>
<td></td>
<td></td>
<td>❌</td>
<td>❌</td>
</tr>
<tr>
<td>Systems</td>
<td></td>
<td></td>
<td>❌</td>
<td></td>
<td></td>
<td>❌</td>
<td>❌</td>
</tr>
<tr>
<td>Style</td>
<td></td>
<td></td>
<td></td>
<td>❌</td>
<td></td>
<td>❌</td>
<td>❌</td>
</tr>
<tr>
<td>Staff</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>❌</td>
<td>❌</td>
<td>❌</td>
</tr>
<tr>
<td>Skills</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>❌</td>
<td>❌</td>
</tr>
<tr>
<td>Shared Values</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>❌</td>
<td>❌</td>
</tr>
</tbody>
</table>

- **Aligned strategic fit**
- **Partially aligned fit**
- **Mis-aligned fit**
Ch12: McKinsey 7S

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.
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.
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.
- An 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.
### Ch12. McKinsey 7S

<table>
<thead>
<tr>
<th>BEFORE</th>
<th>AFTER</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategy</strong></td>
<td><strong>Strategy</strong></td>
</tr>
<tr>
<td>- Lack of strategy.</td>
<td>- Goal to ‘achieve world-class standards in service delivery, product quality and performance’.</td>
</tr>
<tr>
<td>- No market direction.</td>
<td>- Deliver profitability consistently.</td>
</tr>
<tr>
<td>- Mainly unprofitable.</td>
<td>- Always be safe.</td>
</tr>
<tr>
<td>- Unreliable and rarely on time.</td>
<td>- Be the ‘airline of choice in Africa’.</td>
</tr>
<tr>
<td>- Government pricing policies dictated too low fare schema.</td>
<td>- Anticipate industry change factors.</td>
</tr>
<tr>
<td>-</td>
<td>- Operate a modern fleet of aircraft.</td>
</tr>
<tr>
<td>-</td>
<td>- Create alliances with other respectable airlines.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shared Values</th>
<th>Shared Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Not suited to commercial profit-driven firm.</td>
<td>- Identify needs of internal staff, customers and travel agents.</td>
</tr>
<tr>
<td>- Very little attention paid to managing firm-wide human factors.</td>
<td>- Change culture to be service-oriented by taking every employee through customer service training program.</td>
</tr>
<tr>
<td></td>
<td>- Increase shareholder value.</td>
</tr>
<tr>
<td></td>
<td>- Aim to become Africa’s leading airline.</td>
</tr>
<tr>
<td></td>
<td>- Keep product offerings consistent and of the highest quality.</td>
</tr>
</tbody>
</table>
### Ch12. McKinsey 7S

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

**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.
## Ch12. McKinsey 7S

### FAROUT Summary

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>F</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>O</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>T</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Ch12. McKinsey 7S

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
Ch12. McKinsey 7S

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

Upper Saddle River, NJ
2007