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# Analyzing Organizational Structure Based on 7s Model of Mckinsey

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**Keywords:** *organizational structure, Qeshm, style, shared value, skills.*

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**Keywords:** organizational structure, Qeshm, style, shared value, skills.

## I. 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; Ruckert 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). Significant changes are occurring in organizations in response to changes in the society at large. 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

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traditionally considered egalitarian such as equality, empowerment, horizontal relationships, and consensus building become more important (Daft, 1995; Burns and Stalker, 1961).

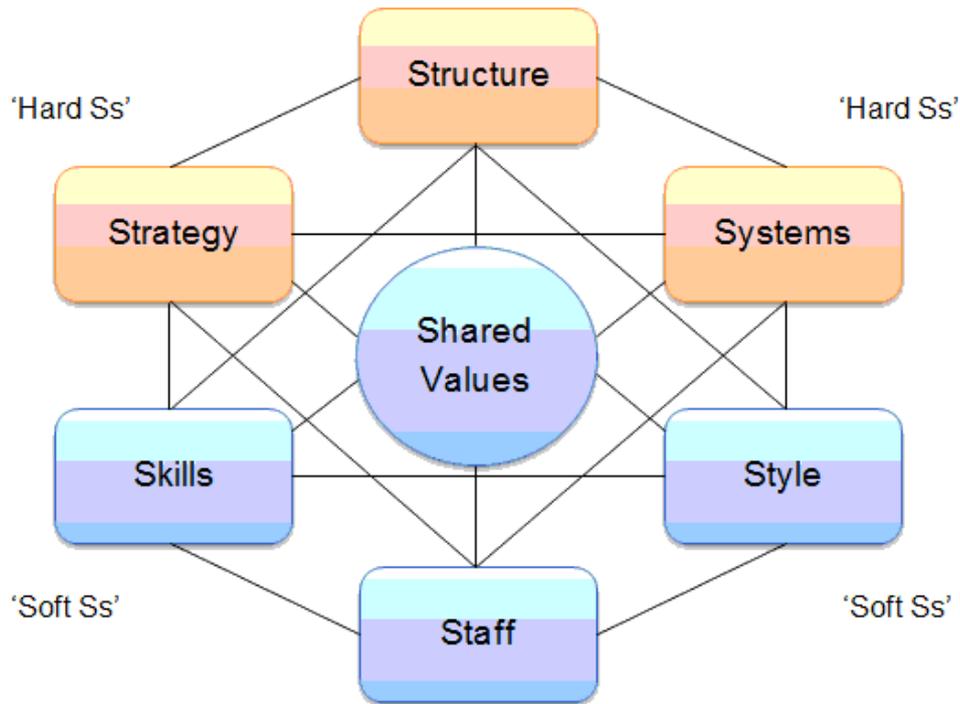
Organizational structure is partly affected by the firm's external environment (Bourgeois et al., 1978; Duncan, 1972; Hrebiniak and Snow, 1980; Lawrence and Lorsch, 1967). Research suggests that firms organized to deal with reliable and stable markets may not be as effective in a complex, rapidly changing environment (Gordon and Narayanan, 1984; Spekman and Stern, 1979). The more certain the environment, the more likely the firm's organizational structure and procedures (Lawrence and Lorsch, 1967). Organizations that operate with a high degree of environmental uncertainty may decentralize decision-making (Ruckert 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 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 the future.
- To facilitate the merger of organizations.

#### a) 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 is clearly articulated, is long-term, helps to achieve competitive advantage and is reinforced by strong vision, mission and values. But it is 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](http://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 are not, you can use the checklist from *WhittBlog* to do that. After you have 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 is 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 will 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.

## II. METHODOLOGY

The present study was a descriptive-survey research. The research population included managers and experts of Qeshm free zone. Simple random sampling was used to select research population, and the number of population was decided according to Cochran formula, which was 84. The research was conducted in the form of questionnaires. The reliability and validity of the questions were tested by alpha Cronbach (0.848) and the use of experienced professors and experts respectively. To analyze research data Kolmogorov-Smirnov, T-test and Freedman test were used.

### a) Hypotheses

In the present research, we investigated the condition of organizational structure of Qeshm free zone based on 7s of McKinsey. We used the following eight hypotheses:

*H1:* The condition of organizational structure of Qeshm free zone is unfavorable based on 7s model of McKinsey.

*H2:* The condition of structure factor of Qeshm free zone is unfavorable based on 7s model of McKinsey.

*H3:* The condition of strategy factor of Qeshm free zone is unfavorable based on 7s model of McKinsey.

*H4:* The condition of system factor of Qeshm free zone is unfavorable based on 7s model of McKinsey.

*H5:* The condition of shared value of Qeshm free zone is unfavorable based on 7s model of McKinsey.

*H6:* The condition of staff factor of Qeshm free zone is unfavorable based on 7s model of McKinsey.

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

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

### III. RESULTS OF RESEARCH

Based on Kolmogorov-Smirnov test, distribution of data is normal. In order to test research hypothesis, T- test and Freedman test were used.

H1: The condition of organizational structure of Qeshm free zone 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 P-value is less than 0.05. Therefore, that condition of organizational structure of Qeshm free zone is unfavorable based on 7s model of McKinsey.

H2: The condition of structure factor of Qeshm free zone 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 P-value is less than 0.05. Therefore, the condition of structure of Qeshm free zone is unfavorable based on 7s model of McKinsey.

H3: The condition of strategy factor of Qeshm free zone 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 P-value is less than 0.05. Thus, the condition of strategy of Qeshm free zone is unfavorable based on 7s model of McKinsey.

H4: The condition of system factor of Qeshm free zone 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 P-value is less than 0.05. Therefore, the condition of system of Qeshm free zone is unfavorable based on 7s model of McKinsey.

H5: The condition of shared value of Qeshm free zone 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 P-value is less than 0.05. So, the condition of shared value of Qeshm free zone is unfavorable based on 7s model of McKinsey.

H6: The condition of staff factor of Qeshm free zone 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 P-value is less than 0.05. Thus, the condition of staff of Qeshm free zone is unfavorable based on 7s model of McKinsey.

H7: The condition of style factor of Qeshm free zone 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 P-value is less than 0.05, so it shows that the condition of style of Qeshm free zone is unfavorable based on 7s model of McKinsey.

H8: The condition of skills factor of Qeshm free zone 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 P-value is less than 0.05. Therefore, the condition of style of Qeshm free zone is unfavorable based on 7s model of McKinsey.

The following table ranks the 7 elements of McKinsey model for Qeshm free zone, based on Freedman test.

Table 9 : The ranking of 7 elements of McKinsey model for Qeshm free zone

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

According to the table, skill factor represents the smallest gap (58.20 percentage); whereas, the largest gap belongs to the element of shared value (68 percentage).

#### IV. CONCLUSION AND DISCUSSION

The results of the research indicated that Qeshm free zone organizational structure based on 7-S McKinsey is unfavorable, with the elements of common value, clerks and structure having the worst conditions. According to the research findings, it is recommended that managers of Qeshm free zone pay more attention to internal environment of organization and ways to improve it.

#### V. RECOMMENDATIONS OF RESEARCH

Based on theoretical principles, stable and secure environments are more compatible with the machines; whereas, in insecure environments, organic structures can respond better to the needs of the environment. Moreover, the more complex an organization is vertically and horizontally, the more communication is needed. Formalizations undermine innovation and reduce communication. As organizations become more focused, decision making processes to respond appropriately to the environment take longer and organizational performance is flawed. Furthermore, the number of hierarchy levels should be reduced, and specific, repetitive decisions should be made by operational staff.

Based on the theoretical foundations, harmony and balance between strategy and organizational structure is essential. To implement the strategy successfully, specific structural features are required. For example in implementing prospective strategies, structural features such as low formalization and complexity as well as flexibility are needed. As the organization grows and develops, it may consider different strategies. So, for better implementation of these strategies all available resources should be used, one of which is the structural characteristics.

According to the Chandler theory, it is desirable to determine the appropriate strategy with regard to the environment, and later the organizational structure which is compatible with that strategy. Since Qeshm Free Zone Organization is highly formalized, some strategies like assigning and reducing the activities (outsourcing) can

be applied to help the organizational structure become organic and flexible. In addition, the aims should be adjusted to the current situation. Each program in the organization should be performed in order to achieve the desired goal and departments should also adjust their plans with the strategies and goals of the organization. Opportunity to express opinions about the goals should be provided for all staff. The views of other national free zone organizations should be considered in determining the goals of the organization.

Achieving an agile organizational structure is subject to mechanizing the organizational processes and elimination of time-consuming and repetitive tasks by the system. In addition, the software systems will help identifying weaknesses which results in the improvement of working processes. With the integrated systems, the communication between units would be more defined and arbitrary decisions are prevented. In addition, the resources and consumption rates of the organization can be well planed. Since problems in coordination, communication and control are due to high complexities, it is also recommended that the organization officials continuously record data through information technology to be able to control and supervise the organizational activities more precisely.

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 implementing any changes in the organizational structure, necessary cultural backgrounds with the use of methods such as training and recruitment of qualified human resources, setting laws and regulations be provided. These help increasing risk taking, fair distribution of power and to maintain and reinforce the collectivism in the organization. It is suggested that, the statement of organizational values and its behavioral examples be revised and informed to all interested parties.

Leadership is the basic process in any organization to which the success or failure of an organization is related; therefore, during the success or failure of an organization usually the leadership is considered. Appropriateness of the organizational structure with the type of leadership could enhance the performance of organizations. Therefore the researcher recommends to align the organizational structure with the leadership style. In case the mechanical structure is to be considered in the organization, an appropriate leadership style should be applied. Creating an open door system for better communication between employees and managers, and providing feedback systems to implement employees' ideas would be very effective.

Achieving organizational goals depends on the ability of the employees to perform their duties and adapt themselves to the changing environment. Educating and improving human resources would

enable them to continue performing their tasks effectively and increase their efficiency. Therefore, to increase the knowledge and skills of managers and employees, it is recommended to sign contracts with the scientific and academic centers, and subscribe to the relevant professional journals to help make the information available to them.

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