



## UNIT 32

# BUSINESS STRATEGY

LO2: Assess an organisation's internal environment and capabilities

**P2** Analyse the internal environment and capabilities of a given organisation using the given frameworks

# MCKINSEY'S 7S MODEL AS A MANAGEMENT TOOL

THE 7S FRAMEWORK IS MAINLY USED TO TRACE PERFORMANCE PROBLEMS IN AN ORGANIZATION TO SUBSEQUENTLY CHANGE AND/OR IMPROVE THESE. WITH A BLUEPRINT OR (PHOTO) OF THESE PERFORMANCE PROBLEMS, SEVERAL ELEMENTS COULD BE PUT TO USE IN A TARGETED MANNER. IT IS IMPORTANT IN THIS TO COMPARE THE PRESENT SITUATION (IST) WITH THE DESIRED AND FUTURE SITUATION (SOLL).

THE 7S FRAMEWORK CONSTITUTES A GOOD FRAMEWORK, IN WHICH POSSIBLE GAPS AND INCONSISTENCIES BETWEEN IST AND SOLL CAN BE TRACED AND ADJUSTED.

(VLIET, 2010)

# MCKINSEY'S 7S MODEL AS A MANAGEMENT TOOL

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.

(JUREVICIUS, 2013)

# MCKINSEY'S 7S MODEL AS A MANAGEMENT TOOL

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.

(JUREVICIUS, 2013)

# USING THE MCKINSEY'S 7S MODEL

- STEP 1. IDENTIFY THE AREAS THAT ARE NOT EFFECTIVELY ALIGNED
- STEP 2. DETERMINE THE OPTIMAL ORGANIZATION DESIGN
- STEP 3. DECIDE WHERE AND WHAT CHANGES SHOULD BE MADE
- STEP 4. MAKE THE NECESSARY CHANGES
- STEP 5. CONTINUOUSLY REVIEW THE 7S

(JUREVICIUS, 2013)



# USING THE MCKINSEY'S 7S MODEL

A PRACTICAL EXAMPLE REGARDING THE USE OF THE THE 7S MODEL  
MCKINSEY IS A COMMERCIAL TRAINING INSTITUTE THAT FOCUSES ON  
EMPLOYEES WHO WANT TO OBTAIN AN MBA DEGREE.

(VLIET, 2010)



# USING THE MCKINSEY'S 7S MODEL

## ❖ STRATEGY

THE COMMERCIAL EDUCATION PROVIDER IS FULLY FOCUSED ON ADULT MBA EDUCATION. THEY OFFER A SERIES OF COURSES AND AIM TO BE LARGEST PROVIDER IN THE NETHERLANDS.

## ❖ STRUCTURE

GIVEN THE SIZE OF THE ORGANISATION, IT IS IMPORTANT THAT THERE IS A PROPER STRUCTURE, AND SO A PRODUCT CLASSIFICATION HAS BEEN MADE; EACH BRANCH HAS ITS OWN TRAINING MANAGERS, REPRESENTATIVES AND SUBJECT TEACHERS. THIS HIERARCHY IS CLEAR TO BOTH EMPLOYEES AND STUDENTS. IN ADDITION, THERE ARE MANY SUPPORTING DEPARTMENTS SUCH AS ICT, ADMINISTRATION AND PLANNING.

# USING THE MCKINSEY'S 7S MODEL

## ❖ SYSTEMS

THE ORGANISATION USES AN INTERNAL CUSTOMER RELATIONSHIP MANAGEMENT SYSTEM TO KEEP UP-TO-DATE WITH STUDENT PROGRESS, CONTRACTS AND INTERNSHIP AGREEMENTS. STUDENTS HAVE AN ONLINE LEARNING ENVIRONMENT THAT IS LINKED TO THE INTERNAL SYSTEM SO THAT EVERYONE IS AWARE OF THE STUDENT'S WELL-BEING.

## ❖ STYLE

THE ORGANISATION WAS FOUNDED 10 YEARS AGO BY A PASSIONATE PIONEER AND HAS A FRIENDLY AND OPEN ATMOSPHERE RIGHT FROM THE BEGINNING. AS A LEADER, HE CONSIDERS IT IMPORTANT THAT WORK IS DONE ACCORDING TO PROCEDURES AND LEGISLATION, BUT EVERYONE CAN FURTHER DETERMINE THEIR OWN GOALS AND ARE THUS SELF-GOVERNING. THIS CREATES A PLEASANT WORKING ENVIRONMENT AND A GOOD MUTUAL UNDERSTANDING..



# USING THE MCKINSEY'S 7S MODEL

## ❖ SHARED VALUES

YOU ARE FRIENDLY TO ONE ANOTHER WITHIN THE ORGANISATION, BIRTHDAYS ARE CELEBRATED WITH CAKE AND A SMALL GIFT, DRINKS EVERY FRIDAY AFTERNOON AND A TEACHER'S DAY TWICE A YEAR. THE STUDENT ALWAYS REMAINS TOP PRIORITY, BOTH IN AND OUTSIDE THE OFFICE.

## ❖ SKILLS

THE ORGANISATION ONLY WORKS WITH TEACHERS WHO HAVE MADE THEIR MARK IN THE INDUSTRY; AS REPRESENTATIVES, THEY CAN PRESENT STUDY MATERIAL VERY WELL. EMPLOYEES ARE EXPECTED TO KNOW THE EXACT GUIDELINES ISSUED BY THE MINISTRY OF EDUCATION AND HOW TO INTEGRATE THEM INTO THE LESSON PROGRAM.

## ❖ STAFF

IN ADDITION TO SKILLS, IT IS ALSO IMPORTANT THAT THE STAFF KNOWS WHAT THEIR RESPONSIBILITIES ARE AND DARE TO TAKE IT. PROBLEMS IN CLASS OR WITH INDIVIDUAL STUDENTS MUST BE REPORTED TO THE HEAD OFFICE IN ORDER TO COOPERATIVELY FIND A SOLUTION.

# USING THE MCKINSEY'S 7S MODEL

## ❖ CURRENT POSITION #1

WE'LL START WITH A SMALL STARTUP, WHICH OFFERS SERVICES ONLINE. THE COMPANY'S MAIN STRATEGY IS TO GROW ITS SHARE IN THE MARKET. THE COMPANY IS NEW, SO ITS STRUCTURE IS SIMPLE AND MADE OF A VERY FEW MANAGERS AND BOTTOM LEVEL WORKERS, WHO UNDERTAKE SPECIFIC TASKS. THERE ARE A VERY FEW FORMAL SYSTEMS, MAINLY BECAUSE THE COMPANY DOESN'T NEED MANY AT THIS TIME.

(JUREVICIUS, 2013)

## McKinsey 7s Example (1/3)

		Aligned?
Strategy	Market penetration	Yes
Structure	Simple structure	Yes
Systems	Few formal systems. The systems are mainly concerned with customer support and order processing. There are no or few strategic planning, personnel management and new business generation systems.	Yes
Skills	Few specialized skills and the rest of jobs are undertaken by the management (the founders).	Yes
Staff	Few employees are needed for an organization. They are motivated by successful business growth and rewarded with business shares, of which market value is rising.	Yes
Style	Democratic but often chaotic management style.	Yes
Shared Values	The staff is adventurous, values teamwork and trusts each other.	Yes

# USING THE MCKINSEY'S 7S MODEL

## ❖ CURRENT POSITION #2

THE STARTUP HAS GROWN TO BECOME LARGE BUSINESS WITH 500+ EMPLOYEES AND NOW MAINTAINS 50% MARKET SHARE IN A DOMESTIC MARKET. ITS STRUCTURE HAS CHANGED AND IS NOW A WELL-OILED BUREAUCRATIC MACHINE. THE BUSINESS EXPANDED ITS STAFF, INTRODUCED NEW MOTIVATION, REWARD AND CONTROL SYSTEMS.

SHARED VALUES EVOLVED AND NOW THE COMPANY VALUES ENTHUSIASM AND EXCELLENCE. TRUST AND TEAMWORK HAS DISAPPEARED DUE TO SO MANY NEW EMPLOYEES.

## McKinsey 7s Example (2/3)

		Aligned?
Strategy	Market penetration	No
Structure	Bureaucratic machine	Yes
Systems	Order processing and control, customer support and personnel management systems.	No
Skills	Skills related to service offering and business support, but few managerial and analytical skills.	No
Staff	Many employees and appropriate motivation and reward systems.	Yes
Style	Democratic but often chaotic management style.	No
Shared Values	Enthusiasm and excellence	No



# USING THE MCKINSEY'S 7S MODEL

## ❖ CURRENT POSITION #3

THE COMPANY REALIZES THAT IT NEEDS TO EXPAND TO OTHER REGIONS, SO IT CHANGES ITS STRATEGY FROM MARKET PENETRATION TO MARKET DEVELOPMENT. THE COMPANY OPENS NEW OFFICES IN ASIA, NORTH AND SOUTH AMERICAS.

COMPANY INTRODUCED NEW STRATEGIC PLANNING SYSTEMS HIRED NEW MANAGEMENT, WHICH BROUGHT NEW ANALYTICAL, STRATEGIC PLANNING AND MOST IMPORTANTLY MANAGERIAL SKILLS. ORGANIZATION'S STRUCTURE AND SHARED VALUES HAVEN'T CHANGED.

(JUREVICIUS, 2013)



## McKinsey 7s Example (3/3)

		Aligned?
Strategy	Market development	Yes
Structure	Bureaucratic machine	No
Systems	Order processing and control, customer support, personnel management and strategic planning systems.	Yes
Skills	Skills aligned with company's operations.	Yes
Staff	Employees form many cultures, who expect different motivation and reward systems.	No
Style	Democratic style	Yes
Shared Values	Enthusiasm and excellence	No

# STRATEGIC CAPABILITIES

STRATEGIC CAPABILITIES REFER TO THE CAPABILITIES OF THE MEMBERS OF THE ORGANIZATION THAT ENABLE THE FORMATION AND DEPLOYMENT OF STRATEGY IN PURSUIT OF A SUSTAINABLE ADVANTAGE.

WORKING WITHIN THE STRATEGIC MANAGEMENT FRAMEWORK, CAPABLE PEOPLE ARE WOVEN INTO EFFECTIVE PROCESSES, INSPIRED BY THE BUSINESS DESIGN CONSTRUCT, AND COMPELLED BY PURPOSE TO CREATE THE COMPETENCIES OF THE BUSINESS ORGANIZATION THAT PRODUCES ADVANTAGE.

(KORN, 2015)

# WHAT IS A CAPABILITY?





# STRATEGIC CAPABILITIES; TIERS

1. LEADERSHIP & MANAGEMENT
2. INNOVATION
3. BUSINESS ARCHITECTURE

(KORN, 2015)

**Exhibit 3.1****Strategic capabilities and competitive advantage**

	Resources	Competences
Threshold capabilities	<b>Threshold resources</b> <ul style="list-style-type: none"><li>● Tangible</li><li>● Intangible</li></ul>	<b>Threshold competences</b>
Capabilities for competitive advantage	<b>Unique resources</b> <ul style="list-style-type: none"><li>● Tangible</li><li>● Intangible</li></ul>	<b>Core competences</b>



## Strategic capability

Resources: what we have, e.g.		Competences: what we do well, e.g.
Machines, buildings, raw materials, products, patents, data bases, computer systems	Physical	Ways of achieving utilisation of plant, efficiency, productivity, flexibility, marketing
Balance sheet, cash flow, suppliers of funds	Financial	Ability to raise funds and manage cash flows, debtors, creditors etc.
Managers, employees, partners, suppliers, customers	Human	How people gain and use experience, skills, knowledge, build relationships, motivate others and innovate

Long-term survival and competitive advantage





# STRATEGIC CAPABILITIES

TO DETERMINE WHETHER YOU HAVE THAT STRATEGIC CAPABILITY, YOU CAN CONDUCT A STRATEGIC ANALYSIS. WHILE THIS ANALYSIS INCLUDES CONSIDERATIONS LIKE IDENTIFYING CUSTOMER NEEDS AND SETTING GOALS, PART OF IT FOCUSES ON YOUR BUSINESS'S CAPABILITIES.

(JOHNSTON, 2019)

# RESOURCE BASED VIEW

THIS IS A MODEL THAT SEES RESOURCES AS KEY TO SUPERIOR FIRM PERFORMANCE. IF A RESOURCE EXHIBITS VRIO ATTRIBUTES, THE RESOURCE ENABLES THE FIRM TO GAIN AND SUSTAIN COMPETITIVE ADVANTAGE

IN RBV MODEL, RESOURCES ARE GIVEN THE MAJOR ROLE IN HELPING COMPANIES TO ACHIEVE HIGHER ORGANIZATIONAL PERFORMANCE.

(JUREVICIUS, 2013)

# RESOURCE BASED VIEW

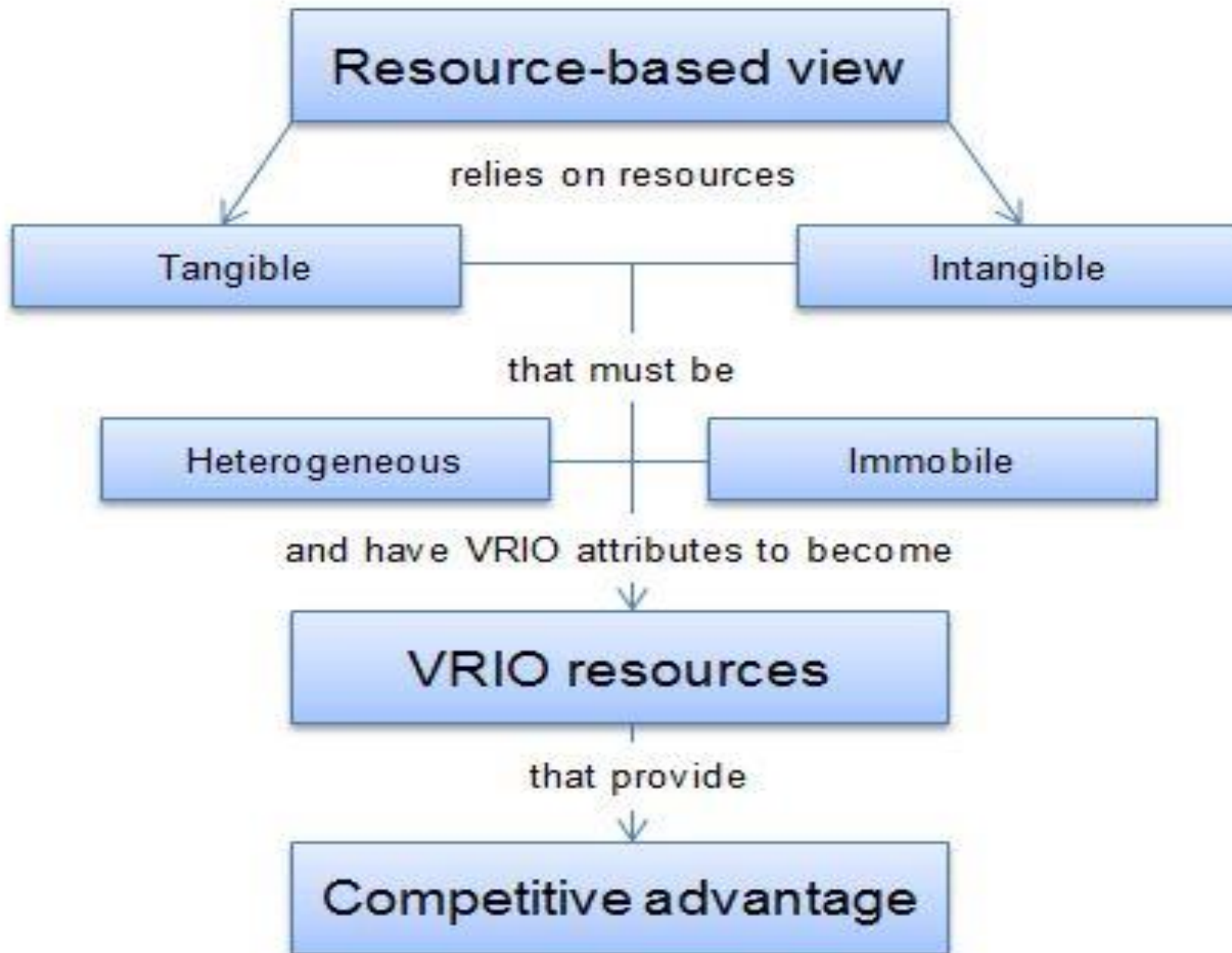
THERE ARE TWO TYPES OF RESOURCES:

- TANGIBLE AND INTANGIBLE.

THE TWO CRITICAL ASSUMPTIONS OF RBV ARE THAT RESOURCES MUST ALSO BE:

- HETEROGENEOUS AND IMMOBILE.

(JUREVICIUS, 2013)





# TANGIBLE

1. LAND
2. BUILDINGS
3. MACHINERY
4. EQUIPMENT
5. CAPITA

(JUREVICIUS, 2013)



# INTANGIBLE

1. BRAND REPUTATION
2. TRADEMARKS
3. INTELLECTUAL PROPERTY

(JUREVICIUS, 2013)



# HETEROGENEOUS

THE FIRST ASSUMPTION IS THAT SKILLS, CAPABILITIES AND OTHER RESOURCES THAT ORGANIZATIONS POSSESS DIFFER FROM ONE COMPANY TO ANOTHER. IF ORGANIZATIONS WOULD HAVE THE SAME AMOUNT AND MIX OF RESOURCES, THEY COULD NOT EMPLOY DIFFERENT STRATEGIES TO OUTCOMPETE EACH OTHER.

WHAT ONE COMPANY WOULD DO, THE OTHER COULD SIMPLY FOLLOW AND NO COMPETITIVE ADVANTAGE COULD BE ACHIEVED.

(JUREVICIUS, 2013)



# IMMOBILE

THE SECOND ASSUMPTION OF RBV IS THAT RESOURCES ARE NOT MOBILE AND DO NOT MOVE FROM COMPANY TO COMPANY, AT LEAST IN SHORT-RUN. DUE TO THIS IMMOBILITY, COMPANIES CANNOT REPLICATE RIVALS' RESOURCES AND IMPLEMENT THE SAME STRATEGIES.

(JUREVICIUS, 2013)

# THE VRIO FRAMEWORK

THE FIRST STEP OF YOUR COMPETITIVE ADVANTAGE STARTS WITH EVALUATING ENTERPRISE-WIDE INTERNAL STRENGTHS AND WEAKNESSES. IT LETS YOU FILTER OUT THOSE RESOURCES AND CAPABILITIES THAT FIT TOGETHER TO GIVE YOU A COMPETITIVE ADVANTAGE.

1. VALUE
2. RARITY
3. IMITABILITY
4. ORGANIZATION

(MOHAN, 2018)

# VALUE

YOUR RESOURCES USE THEIR KNOWLEDGE TO CREATE VALUE. BESIDES TRANSFORMING INPUTS TO OUTPUTS, VALUE-ADDITION ALSO OCCURS WHEN YOUR RESOURCES SUCCESSFULLY EXPLOIT PROFITABLE VENTURES OR BRING DOWN EXTERNAL COSTS.

A COMPETITIVE ADVANTAGE IS BASED ON THE SCOPE OF KNOWLEDGE INTEGRATION INTERNALLY. BY WIDENING THIS SCOPE, YOU'LL HAVE ON BOARD A WIDE VARIETY OF RELEVANT AND USEFUL SKILLS THAT COMPLEMENT YOUR RESOURCES' EXPERIENCE

(MOHAN, 2018)



# RARITY

WHILE RESOURCES DEVISE AND IMPLEMENT STRATEGIES, CAPABILITIES LET YOU TAKE FULL ADVANTAGE OF YOUR RESOURCES. IMMOBILIZING THEM MAY SEEM LIKE A STEP BACKWARDS. BUT WHEN YOU COMBINE IT WITH THE HETEROGENEITY THAT WE MENTIONED EARLIER, BOTH RESOURCES AND CAPABILITIES ACQUIRE RARITY.

(MOHAN, 2018)



# IMITABILITY

A SUBSET OF RARITY, IF YOUR RESOURCES AND CAPABILITIES CAN'T BE SUBSTITUTED OR REPRODUCED ELSEWHERE, THEY'RE SAID TO POSSESS LOWER IMITABILITY. BIG DECISIONS DON'T OFFER YOU A COMPETITIVE ADVANTAGE BECAUSE OTHER FIRMS WOULD HEAR OF IT THROUGH PUBLIC ANNOUNCEMENTS.

(MOHAN, 2018)



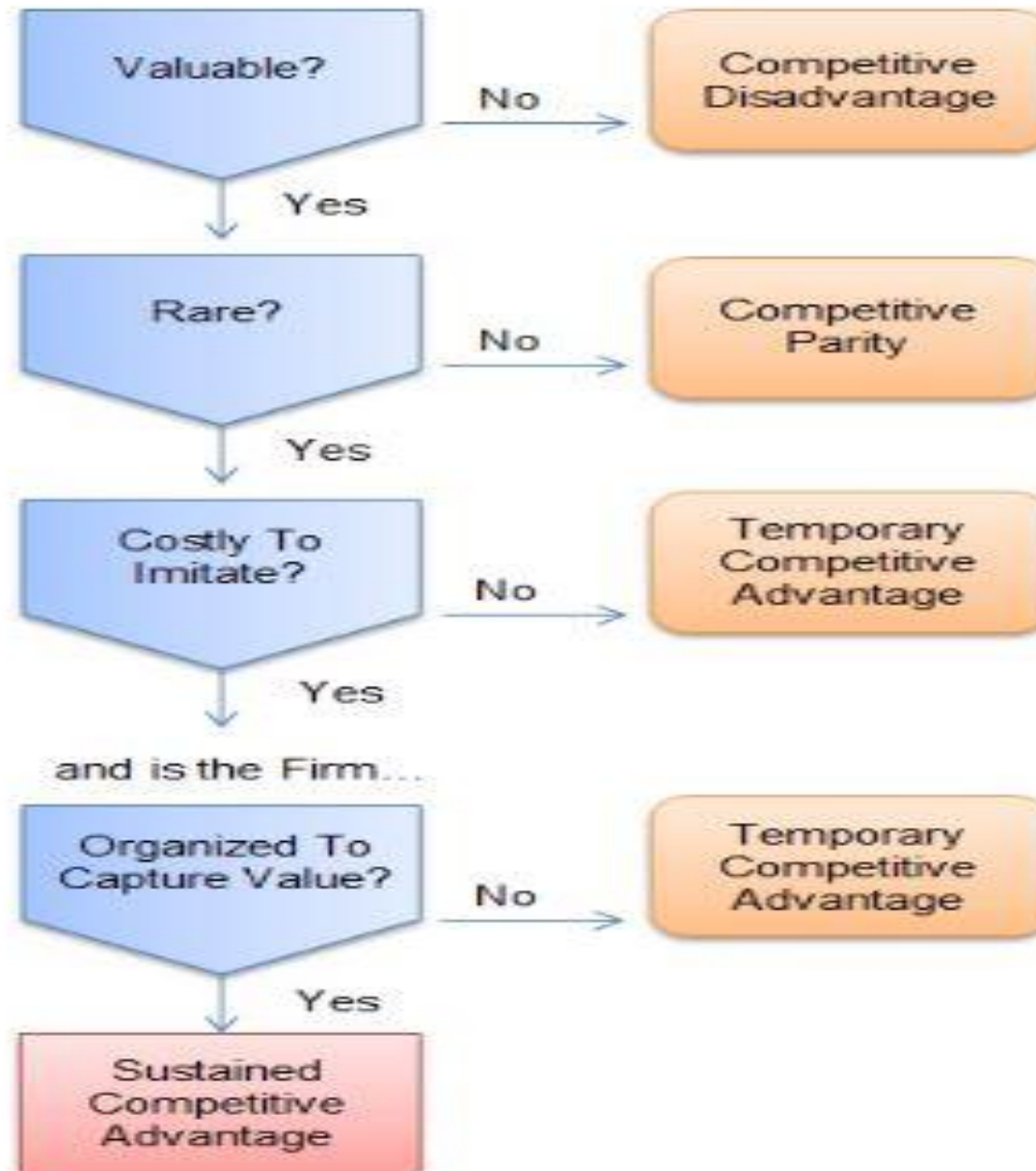


# ORGANIZATION

CONTROL MECHANISMS SUCH AS FORMAL REPORTING STRUCTURES, COMPENSATION PACKAGES AND A COLLABORATIVE ENVIRONMENT TIE THESE 3 POINTS TOGETHER, THUS HELPING YOU CAPTURE THE ACTUAL VALUE THEY BRING IN.

(MOHAN, 2018)

Is the Resource or Capability...



# USING VRIO

1. IDENTIFY VALUABLE, RARE AND COSTLY TO IMITATE RESOURCES
2. FIND OUT IF YOUR COMPANY IS ORGANIZED TO EXPLOIT THESE RESOURCES
3. PROTECT THE RESOURCES
4. CONSTANTLY REVIEW VRIO RESOURCES AND CAPABILITIES

(JUREVICIUS, 2013)

# VALUE CHAIN ANALYSIS

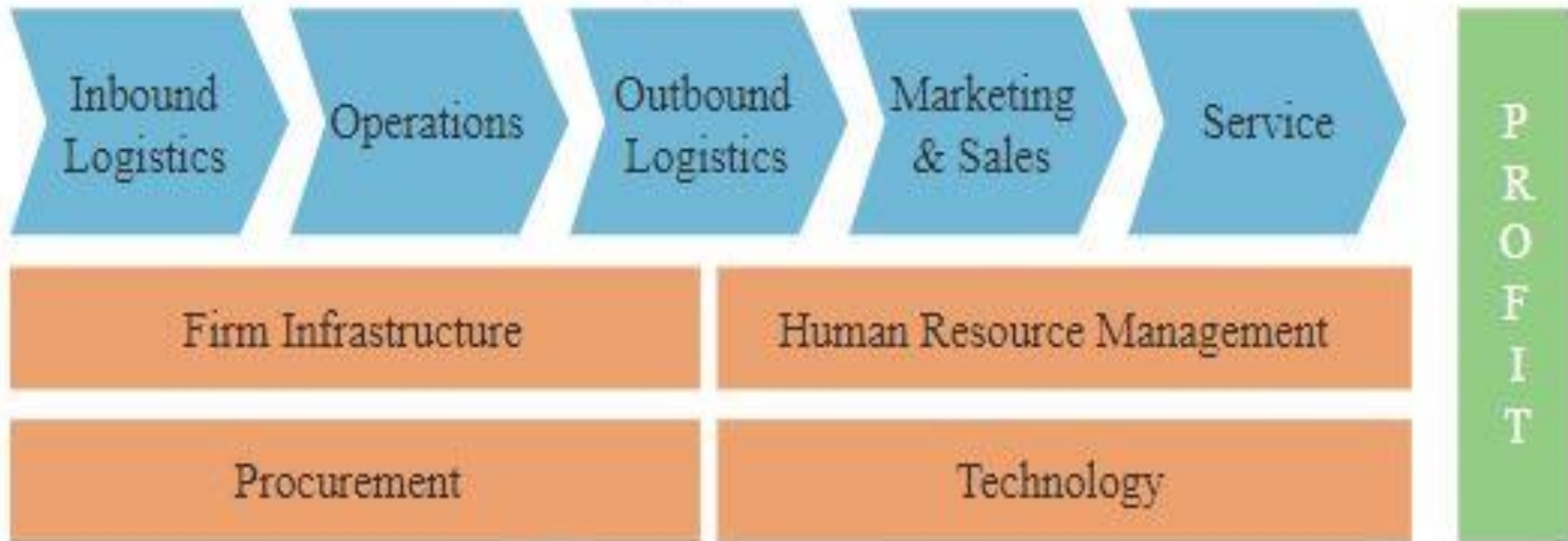
THIS IS A STRATEGY TOOL USED TO ANALYZE INTERNAL FIRM ACTIVITIES. ITS GOAL IS TO RECOGNIZE, WHICH ACTIVITIES ARE THE MOST VALUABLE (I.E. ARE THE SOURCE OF COST OR DIFFERENTIATION ADVANTAGE) TO THE FIRM AND WHICH ONES COULD BE IMPROVED TO PROVIDE COMPETITIVE ADVANTAGE.

VALUE CHAIN REPRESENTS ALL THE INTERNAL ACTIVITIES A FIRM ENGAGES IN TO PRODUCE GOODS AND SERVICES. VC IS FORMED OF PRIMARY ACTIVITIES THAT ADD VALUE TO THE FINAL PRODUCT DIRECTLY AND SUPPORT ACTIVITIES THAT ADD VALUE INDIRECTLY.

(JUREVICIUS, 2013)

# Porter's Value Chain Model

## Primary Activities



## Support Activities



# VALUE CHAIN ANALYSIS

A FIRM'S VC IS A PART OF A LARGER INDUSTRY'S VC. THE MORE ACTIVITIES A COMPANY UNDERTAKES COMPARED TO INDUSTRY'S VC, THE MORE VERTICALLY INTEGRATED IT IS.

(JUREVICIUS, 2013)



## Industry's Value Chain



## Company's Value Chain in Manufacturing



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