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A LEADER'S GUIDE TO UNDERSTANDING COMPLEX ORGANIZATIONS: AN EXPANDED "7-S" PERSPECTIVE

Given the complexity of large organizations, how can one deepen one's understanding of how Netscape is different from Microsoft, how JP Morgan is different from Goldman-Sachs, or how Bain & Company is different from Andersen Consulting? These are important questions for MBAs who are attempting to evaluate career alternatives among organizations (or among divisions in one firm), for consultants who are attempting to help their clients diagnose complex organizational issues, for financial analysts who are evaluating investment alternatives, and for those who dream of starting their own business—and are interested in what they can learn from larger organizations. More importantly, developing a "helicopter view" of a whole organization is critical to all MBAs and practicing managers who are committed to developing a rigorous and broadened "leadership point of view."

One of the most useful frameworks ever developed for understanding an entire organization is the classic "7-S Framework."[1] In its earliest articulation, the architects, all consultants at McKinsey & Company, argued that an organization could be understood in terms of a dynamic relationship among seven key elements (see **Exhibit 1**):

- Strategy
- Structure
- Systems
- Superordinate goals
- Style
- Staff (people)
- Skills

[1] One of the earliest published accounts of the model appears in R. H. Waterman Jr., T. J. Peters, and J. R. Phillips, "Structure is Not Organization," *Business Horizons* (June 1980): 14–26.

This note was prepared by Jack Weber, Associate Professor of Business Administration. The author gratefully acknowledges the comments of his colleagues, Jim Clawson, Martin Davidson, Joe Harder, and Phil Pfeifer on an earlier draft.

Over the years the model evolved, and two business school professors (who had been involved in helping McKinsey develop the original model) substituted the concept of shared values for superordinate goals[2] (see **Exhibit 2**).

However, we believe that both of these concepts are important and quite distinct, and we have included both in an expanded model. Also, to acknowledge that organizational life exists in a broader context (and to keep the model alliterative!), we have added the notion of "situation and stakeholders." Because the original premise of the model was that these variables—and the relationship among them—were powerful determinants of organizational performance, we have added "success" as an outcome, which includes but is not limited to the notion of financial performance. Finally, we have put you, the leader (or leader-to-be), at the center of the model. Our "Expanded 7-S Model" is presented in **Exhibit 3**.

Whether you are a manager at Bank of America trying to understand the dynamics of post-merger integration with NationsBank, a consultant with Mercer Consulting trying to help an automobile industry client understand how it should reorganize, an M&A specialist at Morgan Stanley Dean Witter evaluating potential synergies in a proposed acquisition, or a summer intern in product management at Procter & Gamble, you have a responsibility to understand the larger organization in which you perform and/or client firms to whom you may offer professional advice.

Situation and Stakeholders

Although "situation analysis" is the subject of numerous books and articles and beyond the scope of this article, leaders at every level of an organization should have a broad understanding of what his or her firm is confronting in terms of macro-economic forces, marketplace and competitive dynamics, socio-political forces, and the expectations of external constituencies including, customers, suppliers, employee organizations, communities, shareholders, and other relevant stakeholders.

For example, anyone working for Citibank—or consulting for a major bank—must understand the transformation taking place in the financial services industry, the forces driving consolidation, restructuring, and acquisition of brokerage firms or insurance companies, as well as the rationale for strategic alliances with telecommunication companies, and the impact of entry by nonbanking financial competitors into the bank's traditional markets. Additionally, he or she must be conversant with relevant national and state laws and legislation impacting financial institutions, the threats and opportunities represented by new technologies and the Internet, and the possibility of entry of companies (such as Microsoft) from outside the financial services industry. Certainly they must be aware of current developments in global capital

[2] For example, see Richard T. Pascale and Anthony G. Athos, *the Art of Japanese Management*, (New York: Simon & Schuster, 1981) and Richard T. Pascale, *Managing on the Edge: How the Smartest Companies Use Conflict to Stay Ahead* (New York: Simon & Shuster, 1990).

markets and the implications of the latest speech by the chairman of the Federal Reserve. While this may seem daunting, it is incumbent on anyone who works in or consults for an organization to have, at the minimum, a high-level understanding of these and related forces *outside* the traditional boundaries of a particular firm.

Success

Although the various measures of the success of a firm are legitimately viewed as an outcome or byproduct of intelligent organizational design and leadership, we believe that a useful starting place for understanding the behavior of many people in a firm is often its current and historical financial performance, as reflected in share-price dynamics and its financial statements. At the very least, anyone with an interest in a company should be familiar with the latest annual report, have analyzed the company's balance sheet and income statement, and supplemented their review with readily available information from online financial reporting services and research reports from brokerages or industry analysts.

From the perspective of some external stakeholders (e.g., institutional or individual investors, banks, financial analysts, etc.), performance of the firm may be thought of in largely macro-financial terms (e.g., share-price trends, price-earnings ratios, earnings-per-share growth, return-on-equity, net profit after taxes, economic value added, market value added, etc.). Industry observers and experts will be particularly interested in the performance of the firm within its industry grouping and/or the performance of the industry.

Within the firm it is important to recognize that people (including your current or future boss) may attend to a variety of other metrics. Thus, a CEO committed to an aggressive acquisition campaign may be especially sensitive to changes in market capitalization, a sales executive may feel special pressure to grow revenues, a CFO with weighted average cost of capital, a plant manager with unit costs, and an HR manager with the latest employee opinion survey.

But anyone intending to be effective in a firm will benefit from an understanding of how different measures of success influence the world view of people that they are attempting to influence or lead. Thus, a sales manager needs to have empathy for the impact that her request for a custom production run might have on plant costs or quality, the plant manager needs to understand the impact of his capital request on the CFO's concern for meeting hurdle rates and return-on-asset commitments, and the CEO needs to balance pressure from the investment community to "take cost out of the business" in the current quarter with the potential impact of cost-cutting initiatives on revenue growth, customer retention, or being able to attract and retain the "best and the brightest."

As indicated in the Expanded 7-S Model (lower right corner in **Exhibit 3**), we measure success in terms of various metrics of strategic, financial, and operating performance—as well as the satisfaction and growth and learning of those who work in the organization. Obviously, these are all interrelated. A company that performs well is more likely to attract great people, and great people will help it continue to perform well. As Craig Barrett, president of Intel, said, "People perceive us as leading-edge, successful, and visible in the marketplace, and they want to be a part of that."[3]

Armed with an understanding of the situation and stakeholder and some perspectives on various measures of success, we turn to the notion that was at the center of the original McKinsey 7-S framework, namely, superordinate goals.

Superordinate Goals

In the earliest articulation, superordinate goals were defined as "guiding concepts—a set of values and aspirations, often unwritten, that goes beyond the conventional formal statement of corporate objectives … broad notions of future direction that the top management wants to infuse throughout the organization."[4]

In our view, however, this definition commingled two quite distinct notions, namely, an aspirational, envisioned future *and* the core values and purpose of the organization. Broadly speaking, we shall use superordinate goals for the former, and shared values for the latter.

With respect to superordinate goals, we particularly like the notion of BHAGs (pronounced "bee-hags," short for Big Hairy Audacious Goals), coined by Jim Collins and Jerry Porras in their widely acclaimed book, *Built to Last: Successful Habits of Visionary Companies*. In their careful study of "premier companies, the crown jewels in their industries,"[5] the authors point out that while all companies have goals:

> There is a difference between merely having a goal and becoming committed to a huge, daunting challenge—like a big mountain to climb.
>
> Like the moon mission, a true BHAG is clear and compelling and serves as a unifying focal point of effort—often creating immense team spirit.
>
> [a BHAG] engages people–it reaches out and grabs them in the gut. It is tangible, energizing, highly focused. People "get it" right away; it takes little or no explanation.[6]

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[3] Quoted in "The World's Most Admired Companies," *Fortune* (October 27, 1998): 52.
[4] Waterman, et al., 24–25.
[5] J. C. Collins and J. I. Porras, *Built to Last: Successful Habits of Visionary Companies* (New York: Harper Collins, 1994): 94.
[6] Collins and Porras.

In addition to the often-mentioned Apollo program, well-known examples of corporate BHAGs include:

- Henry Ford's intention to "build a car for the great multitude … (and that) everyone will be able to afford one, and everyone will have one." (1907)
- City Bank's (predecessor to Citicorp) commitment to "become the most serviceable, the most far-reaching, world financial institution that has ever been." (1915)
- Boeing's commitment to "bet the company" on developing the first commercial jet, the Boeing 707 (1950s)
- IBM's decision to "go for broke" in building the IBM 360. (1960s)
- Apple's vision to pioneer the first widely available personal computer. (1970s)
- Intel's decision to shift from being a memory chip company to being a microprocessor company. (1980s)[7]

In some organizations, these BHAGs are made very explicit. For example, shortly after Jack Welch took over as chairman and CEO of General Electric in 1981 he declared that "we will be number one or number two in every market we serve on a global basis." When he visited the Darden School of Business in 1985 he was still advocating this strategic repositioning, and further asserted that "we will transform this company from the 'Queen Mary' to being able to turn like a speedboat in a harbor! …And to do that, we need to be better than the best in the world, not merely a little better than last year."[8] By 1989, a business magazine reported that GE *was* number one or two in virtually all of its businesses.[9]

Similarly, the late Sam Walton, founder of Wal-Mart, announced in 1977 that the company would double its revenues in four years to become a $1 billion company. By 1990, Wal-Mart was a $30-billion company, and Walton established a new BHAG: to double the number of stores and increase the sales volume per square foot by 60% by the year 2000, which would make them a $125-billion company, or larger than General Motors.[10]

While many galvanizing BHAGs are quantitative, in a recent article in the *Harvard Business Review*,[11] Collins and Porras observe that BHAGs can be (a) qualitative as well as quantitative (e.g., "become the company most known for changing the worldwide poor-quality image of Japanese products" [Sony, early 1950s]), (b) involve David-versus-Goliath thinking (e.g., "Crush Adidas"—Nike, 1960s), (c) *use other organizations as role models* (e.g., "become

[7] For an interesting discussion of this decision, see Andy Grove, *Only the Paranoid Survive*.

[8] Speech by Jack Welch to the Darden Business Forum, 1985.

[9] Noel Tichy and Ram Charan, "Speed, Simplicity, Self Confidence: An Interview with Jack Welch," *Harvard Business Review* (September–October, 1989): 114.

[10] Collins & Porras, 99.

[11] James C. Collins and Jerry I. Porras, "Building Your Company's Vision," *Harvard Business Review* (September–October, 1996): 65–77.

the Nike of the cycling industry"—Giro Sport Design, 1986); "become the Harvard of the West"—Stanford University, 1940s, or (d) involve internal transformation goals (e.g., GE's BHAG per above).

In this note we will use the notion of "vision" as being essentially synonymous with superordinate goals. And although "the vision thing" has sometimes been trivialized and the expression overused, vision is recognized by many forward-looking business leaders as the central organizing principle for their firm. Thus, in a recent letter to stockholders, Scott McNealy, chairman, president, and CEO of Sun Microsystems asserted, "It's gratifying to see what the right vision and the right focus can do for a company … we owe much of our success to our adherence to a powerful vision."[12] And in its 1998 annual report,[13] Sun Microsystems declared:

> In an industry synonymous with change, Sun has had one constant vision. It's at the heart of every technology, system, software, and service we offer today—and the focus of everything we invest in for tomorrow. It's the one thing that never changes: The Network is The Computer™

In commenting on Jack Welch and other leaders of *Fortune*'s most admired companies, Warren Buffett asserted that "vision is too fancy, but they (all) have a dream and the dream isn't fleshed out, which is why they are never satisfied."[14]

On the eve of the new millenium, almost all organizations have a vision statement. But clearly there is a difference between having a vision statement and having a vision. Also, in the popular culture today, the word "vision" is loosely associated with almost any goal, including "maximizing shareholder value." As indicated above, however, a meaningful superordinate goal has to engage the hearts and minds of large numbers of people in the organization.

It should be pointed out that, while organizations with widely shared superordinate goals are often associated with visionary individuals:

> A visionary company is an *organization*—an institution. *All* individual leaders, no matter how charismatic or visionary, eventually die; and all visionary products and services—all "great ideas"—eventually become obsolete. Indeed, entire markets can become obsolete and disappear. Yet visionary *companies* prosper over long periods of time, through multiple product life cycles and multiple generations of active leaders.[15]

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[12] Sun Microsystems, Inc., *1998 Annual Report*.
[13] Sun Microsystems, Inc., *1998 Annual Report*.
[14] "America's Most Admired Companies," *Fortune* (March 2, 1998): 70–82.
[15] Collins and Porras, 1994, 1–2.

Nevertheless, it is the ongoing responsibility of every person in the organization to try to understand their organization's superordinate goals, and to find ways to express relevant aspects of that vision among those people within one's area of influence and/or to attempt to clarify or reshape aspects of the superordinate vision which are inconsistent with one's personal values or sense of what is really appropriate for the firm.

Shared Values

As indicated above, although the concept of "shared values" was absent from the original formulation of the 7-S framework, it was used as a substitute for superordinate goals by Professors Richard Pascale and Tony Athos in their book, *The Art of Japanese Management*.[16]

As a starting point in clarifying this distinction, we could use the conventional wisdom that shared values refer to those widely shared notions of what is "appropriate" for a member of an organization to do or not to do—or what Professor Ed Schein has called the *corporate culture*, those "taken for granted assumptions about the way things are."[17] In a more recent book, Pascale proposed a somewhat more elegant definition of shared values as "the significant meanings or guiding concepts that an organization imbues in its members."[18] Extending this, and building on the work of Collins and Porras, we define shared values as including both a firm's "core values" *and* its "core purpose."[19]

In their view, *core values* are those essential and enduring guiding principles and tenets that don't require external justification, and the company would keep these even if business circumstances changed. For example, Merck's "corporate social responsibility and science-based innovation"; Nordstrom's "service to the customer above all else, hard work, and individual productivity"; Philip Morris' "right to the freedom of choice … and winning–beating others in a good fight!"; and Walt Disney's "preservation and control of the Disney magic, fanatical attention to consistency and detail, and creativity, dreams, and imagination."[20] As Ralph Larsen, CEO of Johnson & Johnson, put it:

> The core values embodied in our credo might be a competitive advantage, but that is not *why* we have them. We have them because they define for us what we stand for, and we would hold them even if they became a competitive *dis*advantage in certain situations.[21]

[16] R. T. Pascale and Anthony Athos, *The Art of Japanese Management* (1981).
[17] A rigorous discussion of corporate culture is beyond the scope of this paper. See Ed Schein, *Corporate Culture*.
[18] R. T. Pascale, *Managing on the Edge*.
[19] This discussion builds on the works of Jim Collins and Jerry Porras cited earlier.
[20] Collins and Porras, *Harvard Business Review*, 68.
[21] Quoted in Collins and Porras, *Harvard Business Review*, 67.

In our formulation, shared values also includes *core purpose*, namely, an organization's reason for being that reflects idealistic motivations for doing the company's work. In some cases this may be synonymous with the company's "mission," but not necessarily. Some examples cited include:

- Mary Kay Cosmetics: to give unlimited opportunities to women.
- Walt Disney: to make people happy.
- Fannie Mae: to strengthen the social fabric by continually democratizing home ownership.
- McKinsey & Company: to help leading corporations and governments be more successful.
- Wal-Mart: to give ordinary folk the chance to buy the same things as rich people.[22]

According to Collins and Porras, a core purpose does *not* change, but inspires change. Unlike BHAGs, which *can* change periodically, they assert that:

> Purpose (which should last at least 100 years) should not be confused with specific goals or business strategies (which should change many times in 100 years). Whereas you might achieve a goal or complete a strategy, you cannot fulfill a purpose; it is like a guiding star on the horizon—forever pursued but never reached.[23]

In the face of such lofty possibilities, it is important to recognize that, even in organizations that *have* articulated and sustained such elevating values and purpose, there may be substantial disconnects between the espoused values or purpose and the behavior or decisions of key people in the organization. For example, if an organization states that "people are our most important resource," and then downsizes in a reactive, knee-jerk fashion, or fails to invest in the development of its people, it is failing to behave consistent with its espoused values. This behavior is likely to breed cynicism.

Nevertheless, as I have argued elsewhere, a critical challenge facing all leaders is to build organizations that "enable people at all levels of the enterprise to transcend the frustrations of organizational life and achieve a sense of purpose through their work, and to align people throughout the enterprise on a set of shared values."[24]

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[22] Collins and Porras, 69.
[23] Collins and Porras, 68–69.
[24] Jack Weber, "Leadership," in the *Blackwell Encyclopedic Dictionary of Business Ethics,"* Patricia H. Werhane and R. Edward Freeman (ed.), (1997), 365.

Strategy

In simple terms, strategy has to do with choosing among alternative paths for translating the superordinate goals into action in ways that create a competitive advantage. In light of the foregoing discussion, enlightened leadership will be committed to ensuring that the strategic thinking process will also help to reinforce the shared values.

In a company that produces a single product (or service), its *business strategy* may be thought of in terms of the products (or services) it produces and the markets it intends to serve. More importantly, the strategy must address the question of how the business intends to distinguish itself from other competitors; or how the business will develop a sustainable advantage vis-à-vis existing competitors or future entrants.[25]

A company that produces a diverse range of products or services must also have a *corporate strategy* that helps various stakeholders understand how it allocates resources among the various businesses in its portfolio, the synergies among the various businesses, and how the corporation intends to add value to the component businesses. These are critical questions in helping investors understand why the current or future market capitalization of this diversified corporation is likely to be greater than the breakup value that would derive from selling off individual business units, divesting "unrelated" businesses, or both.

Also, it is often said that "corporations don't compete—businesses do." For example, for a number of years PepsiCo owned several quick-service restaurants (QSRs), namely, Taco Bell, Pizza Hut, and KFC, as well as its core soft-drink business (Pepsi Cola), and a snack food division (Frito Lay). Thus, while Pepsi Cola soft drinks competed with Coca-Cola, its fast-food businesses competed with McDonald's, Burger King, and many other QSRs. Of course, PepsiCo finally sold its restaurants to focus on its "core" businesses. PepsiCo's action may also have made the remaining company more attractive to investors who were looking for a "pure play" in the soft drink/snack-food industry.

Within a company or division, there are also *functional strategies*. Thus, marketing will be concerned with pricing, segmentation, or distribution strategies; operations may be committed to being a low-cost producer or to total quality management; while the human resources function may have as a strategy being seen as an "employer of choice."

Finally, because organizations are made up of individuals, there are also *individual strategies* for fulfilling their personal objectives. Indeed, employees can and should ask themselves what competitive advantage they bring to their employer. If one cannot answer that question, one needs to begin thinking about how to develop such an advantage—or face being laid off, outplaced, or made redundant.

[25] See Michael Porter, "How Competitive Forces Shape Strategy," *Harvard Business Review*.

It is essential to note that *every* level of analysis—whether it is corporate, business unit, function, work group, or individual—involves responsibility and opportunity to exercise leadership within one's area of influence, which reflects a strategic perspective.

Structure

In his classic work, *The Wealth of Nations*, Adam Smith argued that "specialization of labor" led to higher productivity than collections of individual artisans and as the industrial revolution took hold, increases in organization size not only led to increasingly complex models for handling the division of labor but to formal hierarchies of authority to handle the challenges of coordination and to ensure standardization of products or service delivery.

Compared with superordinate goals or shared values, it is relatively easy (and also useful) to understand a firm's formal *structure*. If the firm is in a single business, it may be organized at the top by function (e.g., marketing, sales, manufacturing, finance, human resources, information systems, etc.), by product, or by geography. In a diversified company, the company might be organized as a corporate headquarters, group office or headquarters, with a number of divisions or business units. Within each business unit, the next level of organization may, again, be by function, product, geography, etc.

In divisionalized companies, some important design issues to consider include:

- the current and historical performance and importance of each function and/or business unit in the portfolio of businesses;
- the relationship among the functions or business units;
- the relationship between the business units and the corporate offices; and
- the degree of centralization or decentralization of various decisions and functions, etc.

Organizations are not static, but must obviously evolve and change as they grow and as the *situation* changes. According to one view, organizations go through various predictable evolutionary stages and "revolutions."[26] The following discussion is strongly influenced by this perspective.

During the startup phase of an organization, there is typically very little structure. Indeed, the founder(s) often do everything, from designing and marketing the products, to raising capital, hiring people, etc. There is little specialization of labor or hierarchy of authority, and few procedures, rules, or policies. The implicit "structure" could be thought of as a kind of *network* of relationships in which everyone communicates with everyone.

[26] See Larry Greiner, "Evolution and Revolution As Organizations Grow," *Harvard Business Review*, 1972.

As the organization grows, however, the needs for clearer accountabilities and specialized expertise often results in the emergence of a *functional* organization, with increasing professionalization of finance, IT, HR, purchasing, etc., and with greater clarity and formality of roles and responsibilities. Sometimes this is accompanied by the separation between the responsibilities of a president or chief operating officer, who deals with running the business, while the chairman or CEO deals with various strategic issues and external stakeholders.

Further development of products and services and/or expansion of markets will often lead to a *divisional* organization designed around relatively autonomous product divisions, geographies, or business units. Under this model, as each unit is typically responsible for its own P&L, this type of organization often unleashes a great deal of entrepreneurial energy. But it can also produce unnecessary competition among divisions, lack of synergy among divisions, or dysfunctional autonomy vis-à-vis the corporate strategies. Also, there may be costly or confusing duplication of functions, with each division developing its own information system, HR policies, etc.

As a result of this "crisis of coordination,"[27] organizations typically "centralize" various functions to try to increase "control," which can lead to a proliferation of "corporate" or "head office" functions. This centralization typically increases costs and creates frustration and lack of autonomy at lower levels, which in turn produces another "crisis." The centralization may then lead to attempts of breakdown in the "bureaucracy" (as in GE's famous "Workout" process) and the recent trends to reducing organizational levels, or "delayering." In recent years, there has been an important movement, precipitated in part by the popularity (and notoriety) of "business process re-engineering,"[28] to create "processes" that cut across the organization and to realize opportunities for synergies across lines of business.[29] This movement has also generated much of the impetus for "team-based" organizations that cut across traditional organizational "silos." Finally, there are numerous other organizational structures beyond the scope of this note including hybrid, matrix, M form, and "starburst" organizations,[30] and others being facilitated by revolutions in information technology.

While the informal organization may be much more important than the formal organization chart in terms of how things actually get done, and while processes that cut across formal structures are becoming critical sources of competitive advantage, an understanding of how an organization is formally structured is essential. In many larger organizations, a person doesn't really join the *organization*, but rather a particular division, business unit, or function. And, as we shall see, these various units often play very different roles in the corporate strategy, and/or may have very different shared values.

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[27] Greiner.
[28] See *Business Process Reengineering.*
[29] See Jeanne Liedtka, "Collaborating Across Lines of Business for Competitive Advantage," *Sloan Management Review*, 1997.
[30] James Brian Quinn, *Intelligent Enterprise,* (The Free Press), 1992.

As indicated above, major organizational changes are often precipitated by a crisis. But from a proactive perspective, it is incumbent upon business leaders to proactively generate structural change that will help facilitate strategic change and/or changes in structure that more clearly help the organization realize its superordinate goals and shared values.

Systems

In organizational life, the word "systems" is often thought of as synonymous with *information* systems. In this model, however, "systems" is meant to refer to all of the procedures and processes, both formal and informal, that reflect things that managers must attend to (e.g., annual strategic plans) or sources of competitive advantage (e.g., a widely used system of sharing best practices through *Lotus Notes*). Thus, while the 7-S notion of systems includes information systems, it also refers to numerous other systems such as strategic planning, capital budgeting, financial planning and reporting, recruiting and selection, sales quotas, training and development processes, performance appraisal, compensation systems, executive succession, and so on.

Systems can be both a critical enabler of new strategies and a major barrier to bringing about a strategic redirection. Thus, a bank that acquires a brokerage firm and hopes to use its relationships in the retail-bank network to "cross sell" brokerage products to high net worth banking clients may find that the compensation system fails to reward the retail bankers for sharing their clients. And while there *are* new "balanced scorecard"[31] measurement and reward systems that hope to have managers develop a multi-stakeholder perspective, these may also be insufficient. For example, even if the two organizations are committed to collaborating and are rewarded for doing so, they may find that communication across boundaries is extremely difficult because they don't have computer systems that enable them to communicate with one another.

More importantly, even when an organization's structure is changed to help implement a new strategy, *and* the systems are redesigned to complement the strategy and the structure, managers often find the challenge of aligning the remaining Ss even more vexing.

The "Hard Triangle" versus the "Soft Square"

Tony Athos, one of the architects of the 7-S model, made a distinction between the "hard triangle," that is, structure, strategy, and systems, and the "soft square," namely, superordinate goals and style, staff and skills, and shared values (see **Exhibit 4**). His realization was that the so-called hard Ss are typically conceptual, quantifiable, and are often derived and justified using a presumably rational analytic process. By contrast, the so-called "soft" Ss are much more

[31] Robert S. Kaplan and David P. Norton, "The Balanced Scorecard—Measures that Drive Performance," *Harvard Business Review* (January–February, 1992).

qualitative and difficult to quantify or measure, but, in his view, much more important determinants of organizational performance. Indeed, to paraphrase the CEO of one of the largest *Fortune* 50 companies, "figuring out the hard Ss is easy—it's the soft Ss that are hard!"[32]—a view shared by many managers who have contrasted their experience of strategy formulation with attempting to change the shared values or culture of an organization or business unit.

Skills

In this model, the notion of "skills" refers to the distinctive capabilities or dominating attributes that distinguish a company from its competitors. While most large companies have a large reservoir of individual skills, the 7-S notion refers to a set of skills that the *organization* has been able to synthesize into something that sets the firm apart; something the company is known to do well.

Examples might include a bank that is known for its ability to rapidly convert the IT systems of acquired organizations onto a common platform, a consumer products company that is able to transfer its learnings from a product launch in one country to other regions and countries with unprecedented speed, or a diversified company that is able to transfer "best practices" rapidly across disparate businesses.

Although it is beyond the scope of this note, one of our colleagues makes a useful distinction between a *capability* (e.g., research prowess or financial controls), and a *meta-capability* (e.g., the ability of one firm to learn faster or collaborate more effectively across lines of business than another).[33]

Staff

According to a friend of ours who helped McKinsey develop the original model, this variable was originally labeled "people." But because of the presumed power of an alliterative model, "people" was changed to the closest synonym that started with *s*, hence "staff." Therefore, it is important to note that "staff" does not refer to support functions that don't work in "line" positions, as in line/staff. Rather, staff simply refers to people.

At the most superficial level, it is obvious that some companies tend to have an aging, largely white male managerial population, while other organizations might reflect much greater diversity in age, gender, and other visible differences in managerial ranks.

Less obvious, but very important differences have to do with the attitude, motivations, socialization processes, and commitment of people at various levels of an organization.

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[32] Attributed to Jack Welch, CEO of General Electric, by one of his managers.
[33] Liedtka.

Style

Every organization has a distinctive style. Thus in one organization may be very collegial and team-oriented, while the people in another firm may be quite individually competitive.

In this note, we will take it in the sense that was originally proposed, namely, "patterns of actions among organizational participants, especially managers, about how people choose to spend their time."[34] Clearly, the style of an organization is strongly influenced by its shared values, the staff, and other Ss.

Aligning the Ss

A major premise of the 7-S model is that many performance issues are rooted in a lack of alignment among the various Ss (see **Exhibit 5**). And more importantly, in high-performing organizations, the various Ss tend to be "aligned" (see **Exhibit 6**).

Intuitively, the alignment hypothesis makes a lot of sense. For example, if an organization is committed to developing "innovation and entrepreneurship" as a shared value, and it has performance measurement systems that reward predictable, incremental performance improvements *and* a multi-layered, hierarchical structure, it is unlikely to be able to create or sustain the intended values.

Indeed, a systematic analysis of an organization using the Expanded 7-S perspective can help organizational designers anticipate ways in which changes in one dimension of the organization will require changes in other parts, and provide leaders with clear opportunities to bring errant Ss into alignment.

Self

For the individual committed to the leadership point of view, it is important to recognize that there are aspects of the organizational Ss that are within one's area of control, other aspects that are within one's area of influence, and certain aspects that are outside one's area of control.

We believe that leadership has more to do with exercising influence in the direction of positive change, and less with formal authority or position on the organization chart. In that view, we strongly believe that is incumbent on the self-as-leader:

- To continually update one's understanding of the external situation facing the firm and the shifting demands, constraints, and opportunities posed by various external stakeholders;

[34] Waterman, et al.

- To analyze and understand each of the Ss of their organization and ways in which they might be misaligned;
- To be sensitive to changes in relevant measures of success, including shifts in financial and operating performance, as well as the satisfaction, and growth and learning of his or her team.

With this perspective, the person committed to the leadership point of view will find ample opportunities to proactively bring about change within his or her area of control and influence, so as to better align the Ss in the interest of improving financial and operating performance, as well as enhancing the satisfaction, growth, and learning of those who look to him or her for leadership.

For example, while strategic moves may conventionally be thought of as the sole province of senior management or the strategic planning group, we believe that it is the responsibility of every employee-as-leader to understand his or her company's strategy, to constructively challenge it if it is wrong, and/or to find ways to align one's own actions to help forward the firm's strategic agenda. Similarly, if the skills of people are inadequate to advance this agenda, it is incumbent on the leader to help people, including oneself, to develop those skills. As Jack Welch has said, "What determines your destiny is not the hand you're dealt; it's how you play the hand. And the best way to play your hand is to face reality—see the world the way it is—and act accordingly."[35]

Conclusion

There are many approaches to diagnosing an organization. But the 7-S Model presented here has proven to be a powerful one that organizational leaders and consultants have been able to use to determine how well their organizations are performing and why.

Like most useful and practical frameworks, the 7-S Model continues to evolve and adapt as insightful leaders apply it to living organizations and find ways to improve the model's ability to describe accurately and comprehensively.

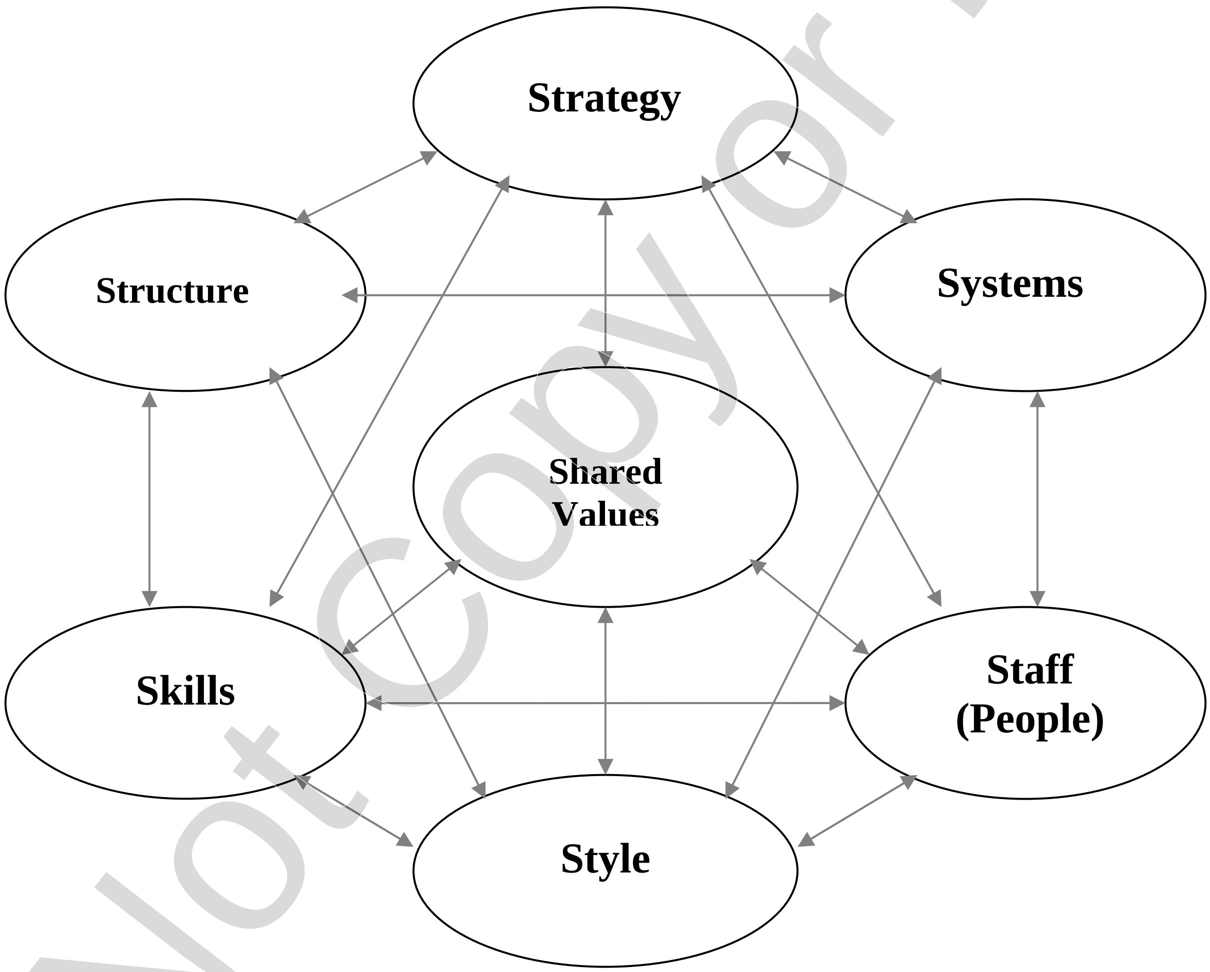
We invite you to learn the Expanded 7-S Model, to understand its components, and to apply it to situations or cases that beg for an organizational description as a means of analyzing performance issues—or for benchmarking "best practices." In so doing, you may well be able to add to the continuing evolution and development of this classic perspective on organizations—from the leader's point of view!

[35] Tichy and Charan, 113–114.

Exhibit 1

A LEADER'S GUIDE TO UNDERSTANDING COMPLEX ORGANIZATIONS: AN EXPANDED "7-S" PERSPECTIVE

The Original McKinsey 7-S Model

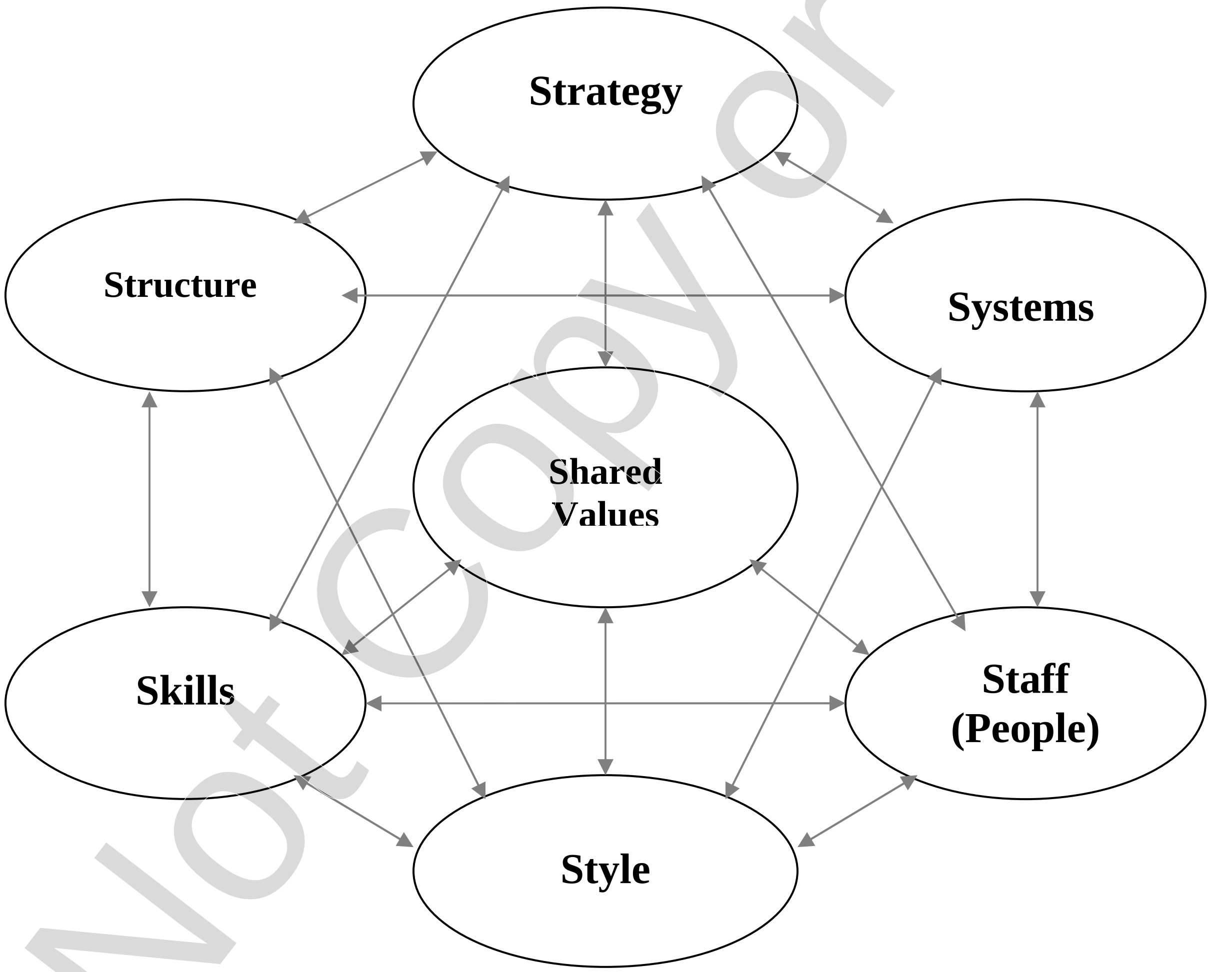


From Waterman, Peters, and Phillips, "Structure is Not Organization," *Business Horizons*, June 1980, 14–26.

Exhibit 2

A LEADER'S GUIDE TO UNDERSTANDING COMPLEX ORGANIZATIONS: AN EXPANDED "7-S" PERSPECTIVE

The Modified McKinsey 7-S Model



From Pascale and Althos, *The Art of Japanese Management*, (New York: Simon & Schuster, 1981).

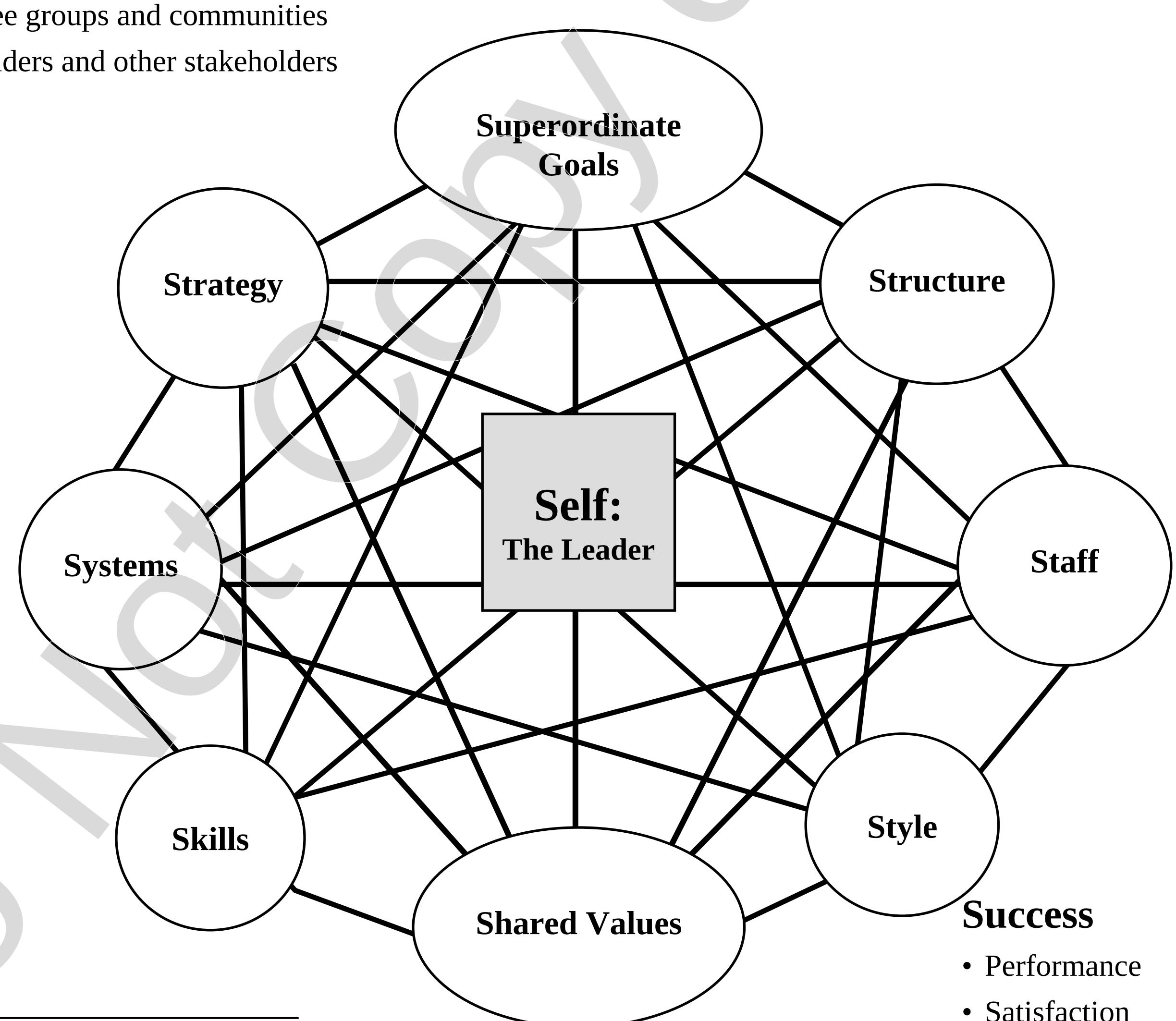
Exhibit 3

A LEADER'S GUIDE TO UNDERSTANDING COMPLEX ORGANIZATIONS: AN EXPANDED "7-S" PERSPECTIVE

Expanded 7-S Model

Situation and Stakeholders

- Economic and socio-political environment
- Customers and suppliers
- Industry structure
- Competitive dynamics
- Employee groups and communities
- Shareholders and other stakeholders



Success

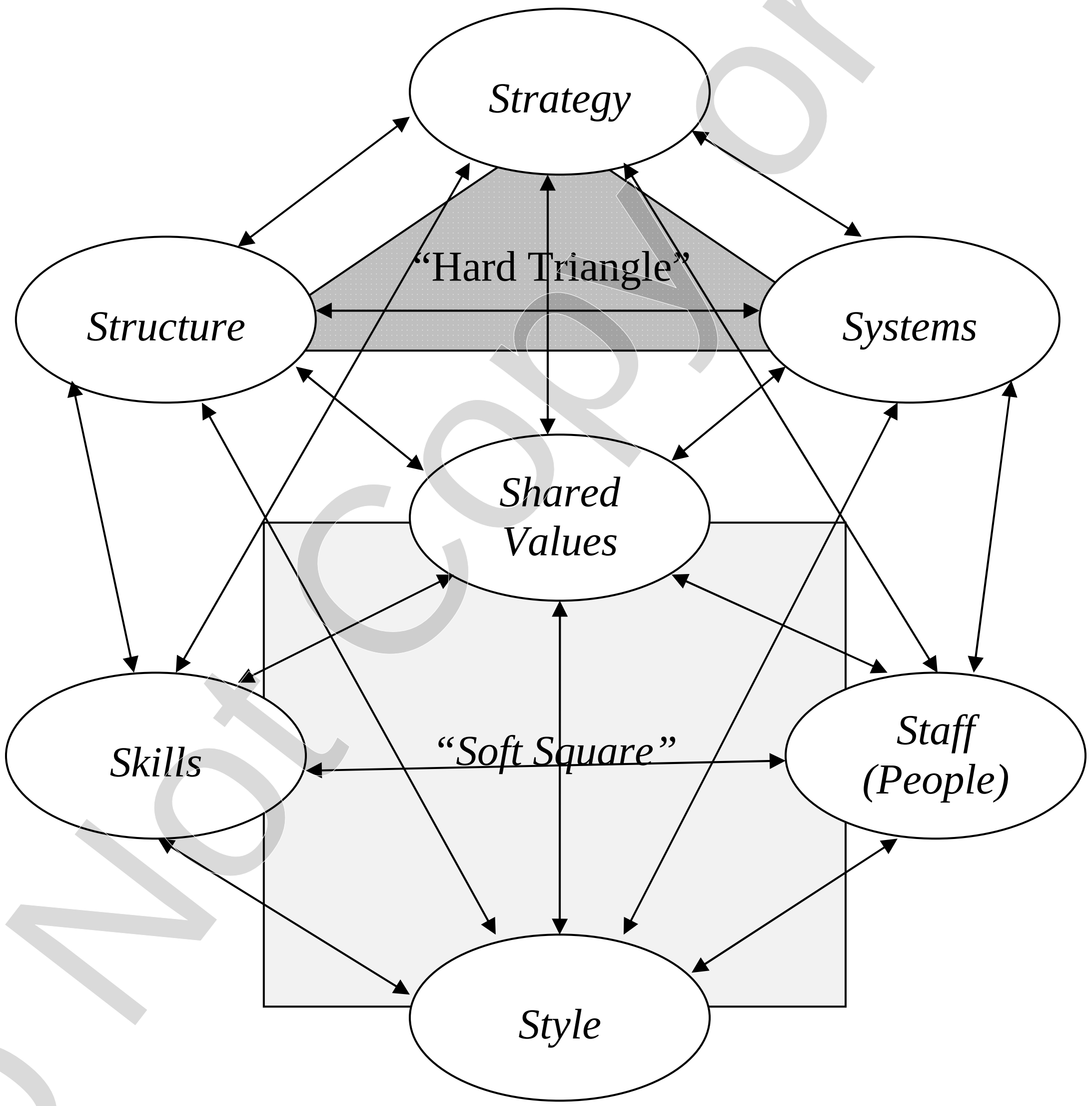
- Performance
- Satisfaction
- Growth and learning

From Pascale and Athos
Adapted from McKinsey & Co. and other sources.

Exhibit 4

A LEADER'S GUIDE TO UNDERSTANDING COMPLEX ORGANIZATIONS: AN EXPANDED "7-S" PERSPECTIVE

The Modified McKinsey 7-S Model: The Hard Triangle and Soft Square



Suggested by Pascale and Athos, *The Art of Japanese Management*.

Exhibit 5

A LEADER'S GUIDE TO UNDERSTANDING COMPLEX ORGANIZATIONS: AN EXPANDED "7-S" PERSPECTIVE

A Misaligned Organization

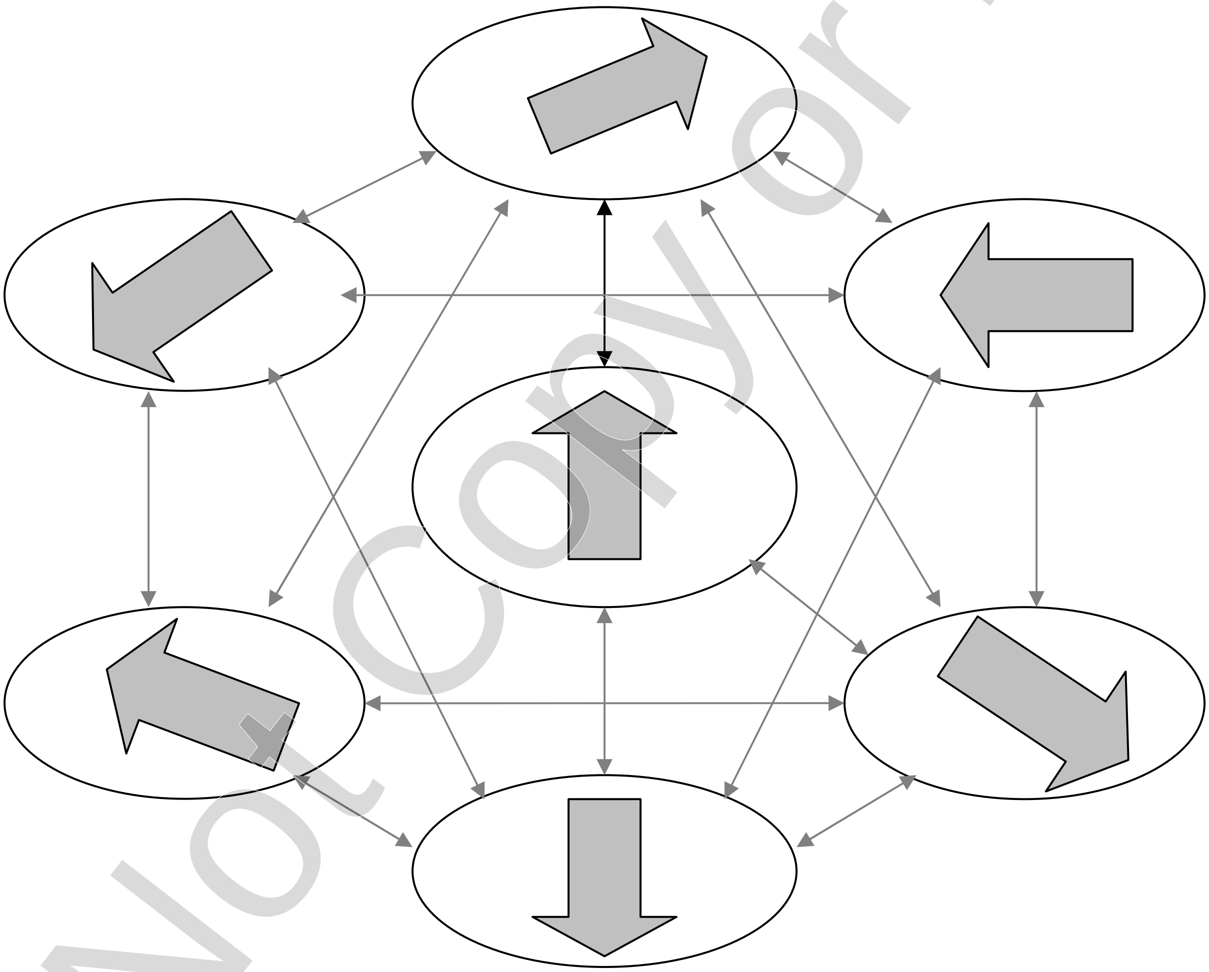


Exhibit 6

A LEADER'S GUIDE TO UNDERSTANDING COMPLEX ORGANIZATIONS: AN EXPANDED "7-S" PERSPECTIVE

An Aligned Organization