The seven elements of strategic fit
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The Seven Elements of Strategic Fit / *Robert H. Waterman, Jr.*

In a recent article on strategy in *Fortune*, Walter Kiechel estimated that the vast majority of American companies have so far proved incapable of developing and executing meaningful corporate strategies. In fact, he estimated 90 percent.

While that figure is probably an exaggeration—I like to think our clients do a lot better than that—I have to agree with the gist of Walter's comments. One reason for the problem, I expect, is that the managers who would be strategists forget one of the most important lessons to be learned from the military generals, from whose Greek predecessors, Webster tells me, the word "strategy" is derived. The lesson is simple: The value of a strategy depends not only on the elegance of its conception but fully as much on whether the company proposing the strategy can really execute it. Given a particular company—and what I submit are a set of capabilities and weaknesses uniquely its own—what are the odds of a strategy getting done right?

The Proof Is in the Execution

This problem of execution, which in my judgment is quite common, is the civilian equivalent of an otherwise brilliant invasion plan that happens to overlook the fact that the logistics chain cannot supply the troops.

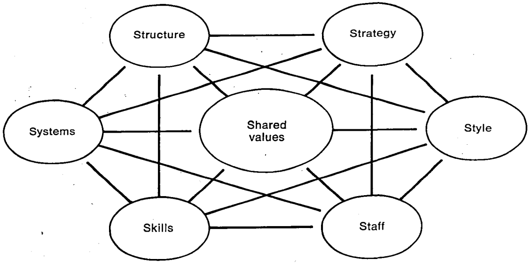
But many strategies proposed in the business world seem to me to be much like the Iranian sneak invasion. In the abstract they sound great, but they are simply too hard to execute. What works for IBM in computers has proved nigh impossible for its would-be competitors. A good strategy is not synonymous with a doable one. Nor is a doable strategy synonymous with a good one. The challenge is to find a good doable strategy.

Is there an easy way to tell which strategies are likely to run amok because a company does not have the wherewithal to make them work? My claim is that there is, and my aim is to propose an answer to that question. The answer lies in the use of the McKinsey 7-S Framework.[1] Originally developed as a way of thinking more broadly about the problems of organizing effectively, the framework also proves to be an excellent tool for judging the doability of strategies.

What the framework (Exhibit 1) says is this: It is not enough to think about strategy implementation as a matter only of strategy and structure. The conventional wisdom used to be that if you first get the strategy right, the right organization follows. And when most people in Western cultures think about organization, they think structure. We find in practice, however, that these notions are too limiting. To think comprehensively about a new strategy and the problems with carrying it out, a manager must think of his company as a unique culture and must think about the ability of the company to get

[1] Robert H. Waterman, Jr., Thomas J. Peters, Julien R. Phillips, "Structure Is Not Organization," *Business Horizons*, June 1980, pp. 14-26.

EXHIBIT 1
McKinsey 7-S Framework



anything really fundamental (i.e., not tactical) accomplished as a matter of moving the whole culture. It has not been just strategy that led to the big Japanese wins in the American auto market. It is a culture that enspirits workers to excel at fits and finishes, to produce moldings that match, and doors that don't sag. It is a culture in which Toyota can use that most sophisticated of management tools, the suggestion box, and in two years increase the number of worker suggestions from under 10,000 to over 1 million with resultant savings of $250 million.

In this context, the 7-S Framework is saying that culture is at least a function of seven variables (alliteration intended to aid memory): strategy, structure, systems, style, staff, skills, and shared values (see Exhibit 2 for summary definitions). Now think of the 7-S diagram as a set of seven compasses (Exhibit 3). When the needles are aligned, the company is organized; when they are not, the company has yet to be really organized even if its structure looks right.

A classic example is AT&T. No telephone company in the world was as well organized around its past chairman Theodore Vail's notion of "universal service." However, as management knew when it undertook it, it may prove very difficult for this company to implement its new concept of marketing in a deregulated environment. Not that there is anything wrong with the strategy; indeed, due to deregulation, AT&T probably has no choice. But it is extremely difficult to move all those compass needles in so large a company where the old culture runs so deep.

Another example: One of my most successful clients had decided that—as a strategic matter—all its major new products must come from acquisition rather than de novo start-up, a strategy that management had tried with scant success on several previous occasions. The strategy is right. Carrying it out means moving from a functional to a divisional structure, which is easy to draw on paper, but difficult to execute. The top management is so used to running a functional organization that—as a stylistic matter—it has taken more than three years to come to grips with even starting to make the change.

Another client's strategy is to be as customer-service-driven as IBM. However, unlike IBM, a majority of its sales force does not make quota,

EXHIBIT 2
A Summary of the S's

(1) *Strategy.* A coherent set of actions aimed at gaining a sustainable advantage over competition, improving position vis-à-vis customers, or allocating resources.
(2) *Structure.* The organization chart and accompanying baggage that show who reports to whom and how tasks are both divided up and integrated.
(3) *Systems.* The processes and flows that show how an organization gets things done from day to day (information systems, capital budgeting systems, manufacturing processes, quality control systems, and performance measurement systems all would be good examples).
(4) *Style.* Tangible evidence of what management considers important by the way it collectively spends time and attention and uses symbolic behavior. It is not what management says is important; it is the way management behaves.
(5) *Staff.* The people in an organization. Here it is very useful to think not about individual personalities but about corporate demographics.
(6) *Shared values* (or *superordinate goals*). The values that go beyond, but might well include, simple goal statements in determining corporate destiny. To fit the concept, these values must be shared by most people in an organization.
(7) *Skills.* A derivative of the rest. Skills are those capabilities that are possessed by an organization as a whole as opposed to the people in it. (The concept of corporate skill as something different from the summation of the people in it seems difficult for many to grasp; however, some organizations that hire only the best and the brightest cannot get seemingly simple things done while others perform extraordinary feats with ordinary people.)

whereas most of IBM's sales force does, or so I am told. But the message that is constantly being sent out by the client's compensation system is that every year over half of the salesmen will be losers. The system, it seems to me, is defeating the strategy.

Checking Strategic Fit

What we are starting to see in the examples is a wonderful way to check strategic fit.[2] Given a proposed strategy, do the other S's in the 7-S Framework support that strategy, or (more likely) will each have to be changed to fit? How difficult is it to change each of the other S's? Does management have the will and the patience to make these changes? These questions must be asked because it is the "fittedness" among the S's that turns a good strategic idea into a lean, mean program for corporate success.

[2] I am indebted to Tony Athos of Harvard University for his concept of "fittedness." Tony was not only helpful as we struggled with the concepts underlying the 7-S Framework, but he was also the first to insist that fittedness among the S's is what counts most.

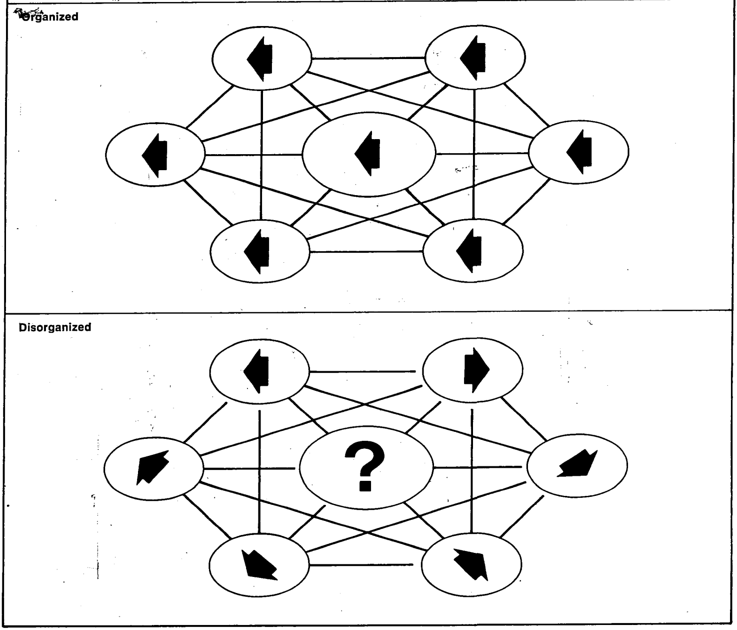
How It Works: A Banking Example

To elaborate on how one might use the 7-S Framework to test strategic fit, let's take a bank. A strategic problem in banking has always been how to organize to serve the very different needs of all the different markets a bank serves. Few industries I know of serve such a broad spectrum of markets, all the way from the teen-ager with a savings account to the largest of corporations. Now, the problem has new urgency. As the industry is being deregulated, new nonbank competitors are attacking bank markets differentially. Money-market funds cream the affluent segments of the consumer market. Foreign banks and commercial paper offerings erode the loan market for large corporations. A bank must have a market-based strategy to survive. Citibank anticipated this, and in 1970 mounted a major reorganization around market segments, but almost no other bank followed suit. In an industry that typically follows suit with dispatch, the question is: Why have others been so slow to move? I think the answer lies in the lack of fit that the 7-S Framework would have predicted.

Suppose a bank does decide on a close-to-the-market strategy. If it has a big, diverse branch system, its immediate problem will be how to structure. The natural way has been to organize around branches as profit centers. The problem with structuring around markets is that most branches do not fall neatly into one market or another. Matrix organizations, in my view, don't work very well, so the dilemma is how to maintain the simplicity of the branch-as-building-block structure and at the same time differentiate by markets.

The style problem is no less difficult to solve. To pick just one dimension of the problem, the historic culture of banking has been that of the lending officer. People who have advanced in the mainstream of banking in the last twenty years have typically advanced through lending. As a result, top-management time and attention in most banks are biased toward lending activity. But a close look at some markets shows this function is less important to the customer and competitive situation than it used to be. In the large-business market, for example, lending has become a commodity, and the banks with unique services are those with unique cash and transaction services. The skills required to support these services are typically operations and EDP

EXHIBIT 3
The 7-S Compass



skills, which as a stylistic matter most bank managements have paid little attention to in the past.

Let's look at bank staff (not in the line/staff sense, but staff as a way of making human dimension of organizations start with "S" so 7-S alliteration will work). Here it proves extremely useful to think of staff in terms of the demographics of the population of an organization.[3] One problem for the would-be market-oriented bank is that to be competitive direct selling of many services is required. But as a demographic matter, there are too few people in banking with real sales experience.

Bank managers will also stumble over systems. Unlike, say, a large mining company, where a new strategy can be implemented by investing in a major new mining venture, bank strategies are not implemented until bank officers start to negotiate individual deals differently. For example, bank managements can and have talked at length about the

[3] I am indebted to Richard Pascale of Stanford University for the staff demographics idea.

importance of profit versus asset volume alone. But unless the account officers are negotiating to make every customer profitable, the situation that typically exists today will not only allow but invite competition (i.e., inordinate variance in any given market segment between the most and the least profitable customers). One reason underlying this phenomenon is that performance measurement and compensation systems reward volume, not profitability. Until systems are put in place that accurately measure profitability (no mean trick in banking) and reward people on this basis, the strategy of market orientation remains a dream.

And so it goes through the remaining elements of the framework. No matter how sensible a concept sounds, unless there are good answers to the issues raised in the realm of each of the other S's, the concept is far from a real strategy.

In practice, we have used the framework to assess strategy in several different ways. One way is to fill out a matrix that, in the top rows, lists the areas in which a company now has congruence among the S's and, in the bottom row, summarizes what will have to change in each S category to make a proposed strategy work. It is the degree of difference between what a company now does well and the proposed strategy that determines the degree of difficulty of that strategy. While that by itself is no great discovery, the rigor and explicitness added by the framework give realism to strategic choice in a way I have not seen before.

Being more realistic, management can then be more intelligent about its choices. If the 7-S analysis says the strategy will be difficult, management can either search for other options or go ahead, realizing that if its company can pull it off, it will truly have a competitive edge and concentrate its attention where it counts—on all the manifold problems of execution suggested by the framework.

Conclusion

In conclusion, I want to return to what I think is at the heart of Kiechel's "dirty little secret," using a concept I first saw articulated in a marvelous book by Graham Allison called *Essence of Decision*.[4] In it, Allison postulates several models of the world of decisions and shows that not one but all are useful in explaining how the world really works. But most of what I see done and written about on corporate strategy is based on the assumption that only one of his paradigms, the strategic model, is really in force. The strategic model is one of rational choice: Organizations have reasonably clear goals and the problems of strategic choice are resolved by analytically determining which options are the most effective in relation to the set of goals. The concept of the business portfolio as a strategic framework and a tool for guiding action swims in the mainstream of Allison's strategic paradigm.

But Allison poses another, and equally useful, paradigm: the organization model. In this view of the world, organizations are creatures of habit just like people. They are cultures, heavily influenced by the past. If one knows enough about how an organization has made past decisions, one can fairly well predict how an organization will respond to future problems of strategic choice. Many of the electronics companies may have had enormous difficulty in digital watches because their habit was to drive costs and prices down the learning curve, whereas making money in consumer markets requires different habits.

This then is the essence of strategic fit: It is to determine strategy with both models of the world at work. The 7-S Framework is a very useful way to ensure this happens.

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[4] Graham T. Allison, *Essence of Decision* (Boston: Little, Brown and Company, 1971).