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Developing Strategy for the Emerging Venture Using the 7-S Model

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ENT624

Entrepreneurial Strategy

Lecture 2



Learning Objectives

1. Learn how a well-established model of strategy (7S model) can be used to develop strategy for emerging organizations.

McKeinsey 7S Model

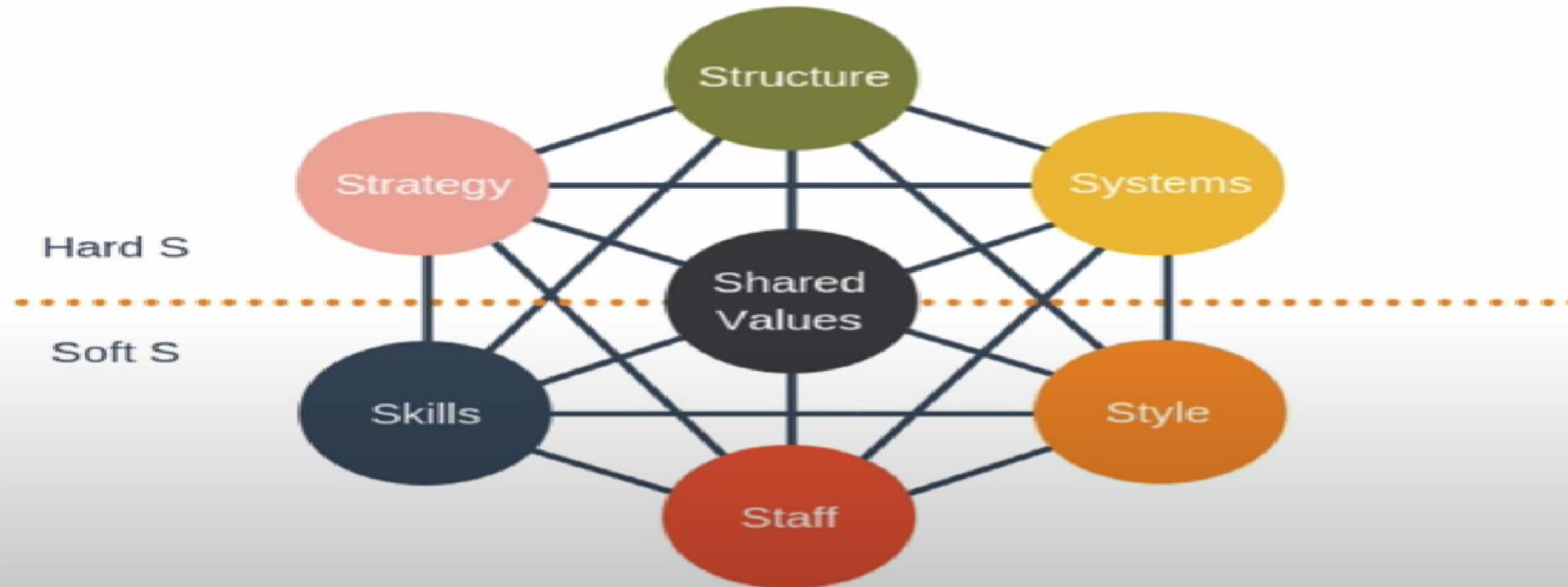
- Strategic Business Analysis Technique.
- Strategic Planning Tool.

Because it helps organization to understand if it is set-up in a way that allows it to reach its objectives.

- It is used with:

1. Organizational Change.
2. Mergers and Acquisitions.
3. Implementing New Strategies.
4. Understanding the Weakness & blind spots of organization.

McKinsey 7S Framework



General Notes:

1. All the elements are interconnected (any change in one element will affect other elements).
2. There is no hierarchy and all elements are the same size.
(all elements are considered to be equally important)
3. They are divided into Hard and Soft elements.
4. Shared Values are positioned at the **center** of the diagram.
(It means organization values are at central to all other elements)

Before using the 7 s model, Be aware :

- It takes long time and much efforts, because you need to perform research and benchmark your current situation and future competitors.
- Model spans the entire organization, So you need Top management support.

5 - Steps Process :

1. Understand current situations (Strengths & Weakness).
2. Determine the desired situation/goals.
3. Create Action Plan to reach the goals.
4. Execute Action Plan.
5. Perform Periodic Review. (because the 7 elements are not Static, but they are Dynamic and Changing)

Advantages:

1. It **shows the wider impact of any change.**
2. It helps organization to workout what it needs to reach its goals.
3. It **helps** to align (support) departments, processes, and **softer issues.**

Disadvantages:

1. It can be complicated to use. (require lots of time and efforts)
2. It needs support of Senior Management.
3. It is internally focused tool. (does not look at the external environment (ex., Competitors)

An Introduction to Strategy for the Emerging Venture Using the 7-S Model (McKinsey 7-S Model)

- One of the initial steps in firm creation is the development of a strategic framework in which new opportunities and innovations can be quickly positioned within your venture.
- One such framework is the **McKinsey 7-S Model** (developed by Tom Peters and Robert Waterman, former consultants at McKinsey & Co).

They described the 7-S Model in their article “Structure Is Not Organization” (Waterman, Peters, & Phillips, 1980) and *In Search of Excellence* (Peters & Waterman, 1982).

The model is still relevant to venture development today.

The **7-S Model**

- is a valuable tool to initiate entrepreneurial change processes and to give them direction.
- A helpful application to determine the current state of each element and to compare this with the ideal state.
- Based on your findings, you can develop action plans to achieve the intended state.

One of the many ways that you can make use of many of these elements to your advantage is to consider the following tool, which

- allows you to view how each element may relate to and intersect with others in building your own entrepreneurial organization.

- The model builds on the premise that **an organization consists of seven elements, divided into :**
- **Hard S's** :Strategy, Structure, and Systems.
- **Soft S's**:Style, Staff, Skills, and Shared Values/Superordinate Goals.

<i>The Hard S's</i>	<i>Description</i>
Strategy	Actions a company plans to launch its venture and enter the marketplace, in response to or anticipation of changes in its external environment: the competitive advantage offered by the firm.
Structure	Basis for specialization and coordination influenced primarily by strategy, firm size, and diversity. The configuration of tasks and individuals/teams required to achieve desired performance.
Systems	Formal and informal processes and procedures that support the strategy and structure of the firm through launch and growth, enabling the firm to operate as a well-oiled machine.
<i>The Soft S's</i>	
Style / Culture	The culture of the organization, consisting of two components: • Organizational Culture: the dominant values, beliefs, and norms that evolve over time and become relatively enduring features of organizational life. The founder and start-up team establish these values and reward desired performance, leading to shared expectations. • Management Style: The behavior of managers: what they expect and reinforce. What does the founder and management team focus on? What matters to them and how do they carry out the mission and values of the company?
Staff	The people in the company and the processes used to develop managers and employees. How are newcomers introduced to the company's way of doing things (socialization)? Career development opportunities in the company.
Skills	The distinctive competences—what the company does best, ways of expanding or shifting competences as the firm moves from start-up to early growth, maturation, and reinvention.
Shared Values/ Superordinate Goals	Guiding concepts: what is important to the founders. The principles guiding the business to meet its stated goals. As the firm grows, values and goals are shared and understood.

Strategy

Actions a company plans to launch its venture and enter the marketplace, in response to or anticipation of changes in its external environment: **the competitive advantage** offered by the firm.

Structure

- **Basis for specialization** and coordination influenced primarily by strategy, firm size, and diversity.
- The configuration of tasks and individuals/teams required to achieve desired performance.

Systems

- Formal and informal processes and procedures that support the strategy and structure of the firm through launch and growth, enabling the firm to operate as a well-oiled machine.

Style / Culture

The culture of the organization, consisting of **two** components:

1. Organizational Culture:

- The **dominant values, beliefs, and norms** that evolve over time and become relatively enduring features of organizational life.
- The **founder and start-up team** establish these values and reward desired performance, **leading to shared expectations.**

2. Management Style:

- The behavior of managers: what they expect and reinforce.
- What does the founder and management team focus on?
- What matters to them ? and
- How do they carry out the mission and values of the company?

Staff

- The people in the company and the processes used to develop managers and employees.
- Career development opportunities in the company.
- How are newcomers introduced to the company's way of doing things (**Socialization**)?

Skills

- The **distinctive competences**—
- what the company does best, ways of expanding or shifting competences **as the firm moves from start-up to early growth, maturation, and reinvention.**

Shared Values/Superordinate Goals

Guiding concepts:

- What is important to the founders.
- The principles guiding the business to meet its stated goals.
- As the firm grows, values and goals are shared and understood.

1. The hard S's (Strategy, Structure, and Systems):

- are fairly easy to identify.
- They can be found in:
 - a) companies' strategy statements,
 - b) corporate plans,
 - c) organizational charts, and
 - d) other documentations.

2. The soft S's (Style, Staff, Skills, and Shared Values/Superordinate Goals):

They are :

- **more embedded in the organization**
- **more challenging to locate.**
- **difficult to describe (because capabilities, values, and dimensions of the company culture are continuously developing and changing).**

The soft S's (cont.)

- highly determined by the people who work in the organization.
- Therefore, it is much more difficult to plan the soft elements.
- It is more difficult to influence the characteristics of the soft elements.
-

- Although the soft factors are below the surface, they **strongly influence the Structures, Strategies, and Systems of the organization.**

- Effective entrepreneurial organizations achieve a fit between these seven elements.
- If one element changes, it affects all the others.

- **For example:**
- Integrating new technology into the business **influences** Staff and Skills, in that employees must learn new ways of doing things.
- In turn, their performance expectations are likely to change.
- The interaction with customers may also be different than it was at start-up.

- As **small firms** grow and change in response to markets and other demands of their environment,
- Many entrepreneurs focus their efforts on the hard S's— Strategy, Structure and Systems—**because these are much easier to observe and change.**

- However, it is just as vital to the survival of the business that entrepreneurs pay attention to the **soft S's**:
Skills, Staff, Style, and Shared Values.
- We know from the landmark book, *In Search of Excellence* (Peters & Waterman, 1982), that most successful businesses work hard at and excel at these soft S's.

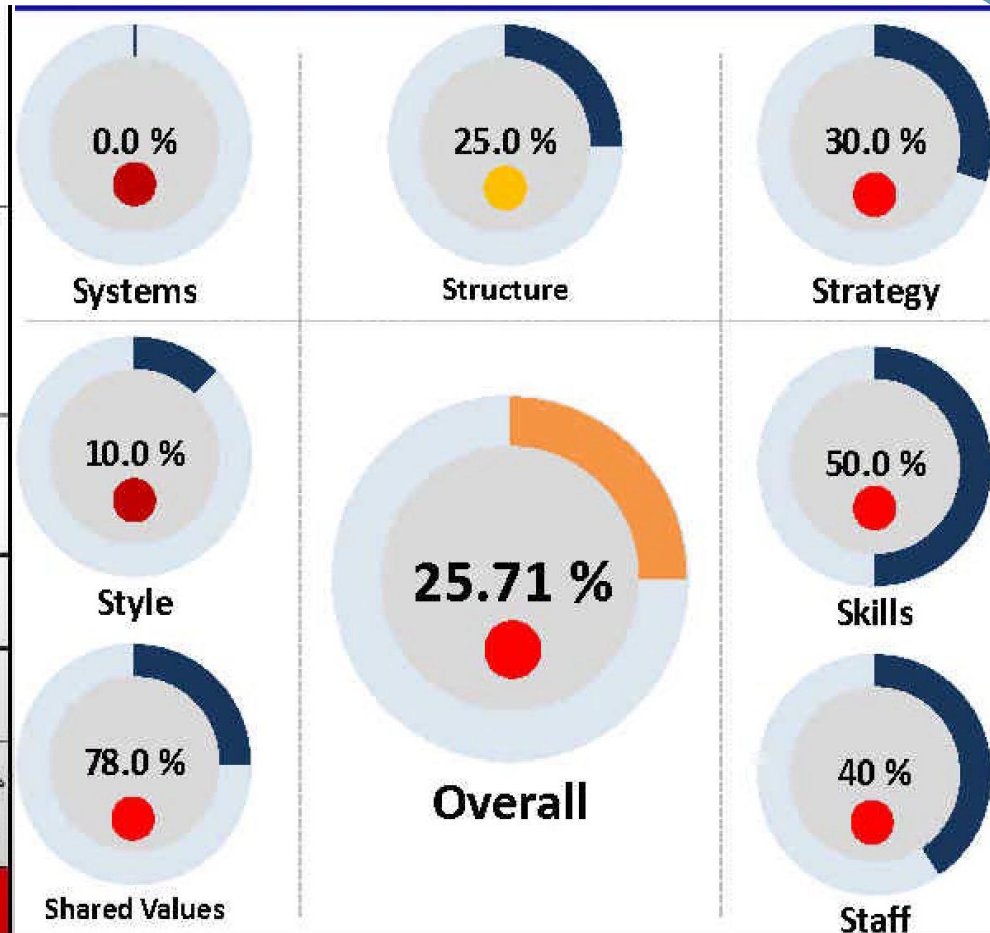
- In fact, the **soft factors** can **make** or **break** a company because new structures and strategies are difficult to build if they rely on entrepreneurial styles and values that are a poor fit with the needs of a changing company.
- These problems often are **visible** in the dissatisfying results of huge **mega-mergers**.

- The lack of success and synergies in such mergers often results from a clash of completely **different cultures, values, and styles**, which makes it difficult to establish effective common systems and structures.
- Although many **entrepreneurial firms** are never involved in mega-mergers, it is never too early in the firm's life cycle **to pay close attention to the soft S's and build the new organization in a mindful way.**

McKinsey 7S Example: Current Situation		
7S	Comment	Aligned?
Strategy:	Market penetration with tentative expansion.	YES
Structure:	No real structure.	YES
Systems:	No real systems.	YES
Skills:	No missing skills.	YES
Staff:	Staff are highly motivated and well incentivized, but there isn't enough of them to cope with even current demand.	NO
Style:	CEO directs everything. They use a transformational leadership style.	YES
Shared values:	The team is close-knit and trust each other.	YES

McKinsey 7S Example: Readiness for Future		
7S	Comment	Aligned?
Strategy:	No change in strategy required.	YES
Structure:	More structure will be needed as the organization gets larger and requires multiple sites.	NO
Systems:	Systems don't yet exist to cope with a larger organization. There will need to be HR systems, project management methodologies etc.	NO
Skills:	Right now there is a gap in that we don't know what we require in terms of certain skills. For example, HR skills, finance skills, and customer support skills.	NO
Staff:	With so many staff being recruited in such a short space of time we don't have good reward structures for all levels. We also have no onboarding process.	NO
Style:	The current style is good but how do we bring maturity? Do we need help?	NO
Shared values:	These are good but they need to be made more formal and instilled into everyone.	NO

	Is there a clear defined organizational structure? Does the organizational structure cover all the disciplines involved in current business? Is there a clear communication between the different departments? Is there coordination and integration between members and/or departments? How do we want the structure-making process?	25%			There is no department taking the lead for such activities. However, the organizational structure plans for existing departments (e.g., Human Resources & HR) that are usually working closely together in order to fulfill different duties within the existing, with the lack of clear mission, purpose, and/or impossible to fulfill the department in multiple and/or simultaneous tasks and/or mission of projects. Additionally, internal communication and integration process within SDG department which is not established for project results. MOCE multi-functional center developed for SDG leaders and all staff for SDG staffs to be able to work with high management approval.
Systems	The daily activities and procedures that staff members engage in to get the job done. Is there a unified system of HR for managing all departments and integrating with each other? (Consider financial human resources in addition to communications and documentation) Are there unified general procedures with the processes related to the unified HR? Are there internal HR and processes in all departments related to unified system?	0%			The HR is not unified across all departments.
Skills	The actual skills and competencies of the employees working for the company. Are there essential skills for the employees? Are there gaps in current knowledge/skills? Is there a system for assessing current skills and developing future plans for them?	50%			SDG have much working staff with some serious experience/qualification gaps between the necessary experience needed in the project management, where most of the working staff have little knowledge of project management tasks and process. There are currently no system plan for assessing skills.
Staff	The employees and their general capabilities. What is the level of employee knowledge? What is the level of employee experience? How are employees trained, motivated and rewarded?	40%			SDG have much working staff with some serious experience for technical knowledge related to the project management tasks and process. There is no clear training program for employees, where the employees are being motivated and rewarded.
Style	The style of leadership adopted. Is there management/leadership style that is more familiar with? How is the HR related leadership? Does the HR related leadership encourage employees to complete the mission?	10%			There is no clear leadership approach.
Shared Values	The core values of the entity that are evidenced in the corporate culture and the general work ethic. Are there core values? Is there a unified and common culture amongst the company's team members? Does the core value lead to the right values?	25%			There are no core values for SDG employees to be able to achieve the mission and deliver its objectives. However, there is a goal setting for the project under current situation under a culture within the ethics. For example, there is no complete HR process for SDG employees to follow.
Score		25.71%	Below Target		



Case Study: McKinsey 7S Framework applied to Tesla (Car company Tesla)

1. Strategy:

- Clearly defined.
- Goal orientation (communicated to all employees and stakeholders).
- Competitive (Tesla wants to be the leading company in Electric powered vehicles).
- Flexible.
- Adaptive.

Case Study: Tesla (cont.)

2. Structure:

- **Hierarchy**

- Tesla is a very flat organizational structure that is supported by learning.
- There are not a lot of manager levels in between and easy to access to the senior management.
- This is the way employees feel more secure & confident.

Case Study: Tesla (cont.)

2. Structure (cont.)

- **Coordination** (Tesla has a high coordination between different departments and can communicate with everyone easily).
- **Teamwork & Team-oriented tasks** (Everyone can work in teams).
- **Decision making** (Tesla does not want only managers and higher precision to speak up, but everyone has the same right to bring up good ideas and make decisions).

Case Study: Tesla (cont.)

3. Systems:

- **Organizational systems** (Systems at Tesla are organizational departmental in nature, including of HRM, Finance, Marketing, Operations, Supply chain Management, Public Relations, Strategic Management).
- **Monitoring Tools.**
- **Evaluation Process.**

Case Study: Tesla (cont.)

4. Shared Values: are the core values & reflect its general work ethics.

In Tesla case, the core values:

- Always do your best.
- We strive to apply the brightest minds & the best available technologies to every new challenge.
- No forecast is perfect but try anyway.
- Respect & encourage people.
- Always be learning.
- Respect the environment.

Case Study: Tesla (cont.)

5. Culture/ Style:

- **Culture:**
 - Tesla celebrates diversity.
 - Tesla has internal policies to reduce the number of discriminations.
 - Its culture also promotes innovation & creativity.
- **Style:**
 - Tesla is aimed to provide the most innovative products to its customers, for which it uses the transformational leadership style.

Case Study: Tesla (cont.)

- Transformational leadership style is about motivating employees & providing values to them increasing their loyalty to the company.

Case Study: Tesla (cont.)

6. Staff:

- **Employees Skill level:**
 - Tesla has a lot of employees around the world.
 - Employees for different roles & positions are hired internally as well as externally.
- **HRM systems & processes:**
 - Based on the nature of need, The HR department arranges for recruitments which may be permanent or contractual.
 - They organize training sessions if needed for their employees.

Case Study: Tesla (cont.)

7. Skills:

- **Employee Skills** (In Tesla, It is more important to have extraordinary skills than a title from a very good university).
- **Employee Skills development** (Tesla provide a lot of training & workshops, So individual employees can improve their skills).
- **Training.**
- **Advantage** (Tesla has advantages against its competitors that it attracts a lot of smart engineers. It is one of those companies you really want to work for them).

Recap

- McKinsey 7S Model definition
- Model general notes
- 7 elements
- 5 steps process
- Advantages & Disadvantages
- Difference between Hard S and Soft S
- Understanding the tool (case studies)
- Assessment the results
- Implications to new ventures

- **Recap**
- **Strategy:** the plan to win in the marketplace (Competitive Advantage).
- **Structure:** how organization can structure its people, its money, its resources, its machinery.
- **Systems:** Processed and daily activities.
- **Style:** the way things are done (Culture / informal rules).
- **Staff:** employees.
- **Skills:** Skills of employees and Core competencies of organization.
- **Shared Values:** Core values of organization. They permeate all aspects of organization.



Summary

1. Learn how a well-established model of strategy (7-S Model) can be used to develop strategy for emerging organizations.

- These seven elements are distinguished in so-called hard S's and soft S's. The hard elements are simpler to identify. They are the Structures, Strategies, and Systems of the firm. They can be found in strategy statements, corporate plans, organizational charts, and other documentations.
- The four soft S's, however, are difficult to describe because capabilities, values, and elements of corporate culture are continuously developing and changing. These elements are the Skills, Staff, Style, and Shared Values found in the organization. They are highly determined by the people who work in the organization. Therefore, it is much more difficult to plan or to influence the characteristics of the soft elements. Although the soft factors are below the surface, they can have a great impact of the hard Structures, Strategies, and Systems of the organization.



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Thank You

