Organizational Alignment: The 7-S Model

Introduction

Leaders are organizational architects. Just as architects need a blueprint for building a house, leaders need blueprints for designing organizations, fitting the pieces of the organization together to guide the behavior of people—often large numbers of people—toward the accomplishment of the organization’s objectives.

This is not a simple task. Take the case of a management consulting firm. Imagine you are the leader of this firm and you want its source of competitive advantage to be exemplary service to clients. How do you get people to provide such service? Do you pay them based on client satisfaction? Do you invest in the development of customer service training programs? Do you only recruit people with a service-orientation? Where should you place your emphasis?

Now, consider that this firm has two offices. How do you manage them? How do you coordinate them? Suppose you want managers in each office to be entrepreneurial in building their local businesses and at the same time to be willing to work with the other office to serve global clients. What kind of reporting structures and management information systems will motivate people to do that? What shared values might enable people to integrate the local and global perspectives? And how do you encourage people to internalize those values?

These are just a few of the myriad questions typically facing a leader who is trying to design an organization or a consultant hired to improve an organization’s effectiveness. But where do you begin? The first step is to think about the organization as a whole, and that requires understanding the elements that contribute to its effectiveness. This note offers one framework—the 7-S model—that leaders and consultants have found extremely useful in their efforts to design organizations and diagnose problems that arise in them.1

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The 7-S Model

The 7-S framework is a tool for analysis and action. It emerged from a stream of research that sought to identify the best way to manage and organize firms, which culminated with a team of McKinsey & Company consultants and Harvard Business School and Stanford Business School professors developing the 7-S framework.² A series of studies over three decades led to the following conclusions:

(1) There is no single best way to organize.

(2) The ideal organization is one that is aligned with or “fits” its environment.³

(3) An organization is a complex system with inter-related elements, each of which contributes to an organization’s effectiveness.

(4) There are seven key elements of an organization that are critical in understanding an organization’s effectiveness: strategy, structure, systems, staffing, skills, style and shared values.⁴

(5) To be effective, an organization must have a high degree of “fit,” or internal alignment, among these seven elements; that is, each S is consistent with and reinforces the other S’s.

Exhibit 1 displays the 7-S framework. This framework is used widely by leaders and consultants. As one observer of management trends put it, “[the 7-S framework] has shaped the thinking of an entire generation of management.”⁵

First, each of the seven S’s is discussed in turn below. Then we conclude with an illustration of how the framework may be used.

Strategy

The ways in which competitive advantage will be achieved.

By “strategy” we mean the actions that an organization takes to gain a sustainable advantage over the competition. It may, for instance, adopt a low-cost strategy through economical production or delivery systems that delivers greater value to customers than the competition. Another firm’s strategy may involve sharply differentiating its products or services through distinctive product features or innovative sales and service approaches. As Waterman, Peters, and Phillips put it,

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³ In the 1960s, several researchers found that effective organizations developed structures that fit their competitive environments (Tom Burns and G.M. Stalker, The Management of Innovation, 1961; Paul Lawrence and Jay Lorsch, Organization and Environment, 1967; Joan Woodward, Industrial Organization: Theory and Practice, 1965.) This stream of research came to be known as “contingency theory,” highlighting the fact that different organizational arrangements were required to be effective in different circumstances.
⁴ Consultants and researchers have proposed several variations to this model, with some having fewer or slightly different categories.
⁵ Nitin Nohria, “Executing Change: Seven Key Considerations,” HBS case No. 494-038.
“Strategy is, or ought to be, an organization’s way of saying: ‘Here is how we will create unique value.’”

Some Key Questions:

- What are the company’s sources of sustainable competitive advantage? (e.g., cost, quality, service, technical leadership)
- What are the company's key strategic priorities? (e.g., penetrating new markets, new product development, speed-to-market, improving customer service)

Structure

The way in which tasks and people are specialized and divided, and authority is distributed. The basic grouping of activities and reporting relationships into organizational sub-units. The mechanisms by which the activities of the members of the organization are coordinated.

A key function of structure is to focus people’s attention on what needs to get done. It does so by defining what work they do and whom they work with. One significant challenge leaders face is balancing the need for specialization with the need for integration. For example, a common problem in the product development process is too little coordination between people working in manufacturing, design, and marketing. While separate departments help to develop deep knowledge in each functional area, they also may make it difficult to coordinate activities across department boundaries. Organizations often establish cross-functional teams to deal with this dilemma.

There are four basic structural forms—functional, divisional, matrix, and network (see Exhibit 2). The most common organizational arrangement has been the functional form, in which an individual is placed in charge of each function or major activity that must be accomplished for the organization to carry out its business. Typically, therefore, someone heads up manufacturing, and someone else is responsible for sales – and both people report to the president. This form works well when an organization is small and facing a relatively stable environment that does not demand a lot of coordination across functions. In the first half of the 20th century, most firms were organized this way.

In the divisional structure, diverse functions are grouped into divisions, which may be organized by product, geography, or market segment. In the structure’s pure form, each division contains all needed functions, e.g., manufacturing, marketing, research and development. Corporate headquarters is responsible for allocating resources to each division, coordinating activities across the units, and setting the long-term strategy of the firm. On the one hand, this structure enables a division to react quickly and effectively to threats and opportunities related to its focus (e.g., a product market or a geographic region) since it has all the necessary resources at its disposal. On the other hand, the structure implies two disadvantages. It loses economies of scale since each division possesses its own resources. And, coordination across divisions can be difficult and costly. One consequence might be that salespeople from different divisions may call upon the same customer, creating potential confusion and dissatisfaction.

The matrix attempts to harness the best of both worlds. In a matrix, both structures are implemented simultaneously; divisional and functional managers have equal authority within the

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7 This section is adapted from “Note on Organization Structure,” Nitin Nohria, HBS case No. 491-083.
organization and employees report to both of them. The potential strength of this structure is that it enables the organization to receive the benefits of both structures: the advantages of functional expertise and divisional autonomy. However, matrix structures often generate high levels of conflict and ambiguity; it may not be clear who is in control and accountable. For a matrix to work, managers must develop mutual trust, expectations, and influence.

Finally, “network” forms of organization have gained prominence in the last decade. They come in various shapes but share a few characteristics. First, the network is comprised of relatively small, semi-autonomous groups that join temporarily or permanently with other groups to achieve common objectives (e.g., project teams). Second, the boundaries are porous between the organization and its environment. Partnerships with vendors and customers, alliances with competitors, and other such relationships blur what is inside and outside the organization. Third, authority tends to be based much more on one’s expertise and resources than on one’s formal position. The main advantage of this structure is that it can fluidly adapt and reconfigure itself in times of rapid change. Hirschhorn and Gilmore point out, however, that the absence of clear boundaries can also lead to confusion and conflict about who is in charge, as well as leave people feeling high levels of stress as they try to get work done and build a career in a “boundaryless” context.8

Organizations often adopt variations of these basic structural forms. The key issue for leaders to understand is that structure can lead people to focus attention on certain issues and ignore others. In addition, reporting relationships in an organization often indicate which sub-units have the most power and influence.

Some Key Questions:

- What is the basic structural form?
- How centralized versus decentralized is the organization?
- What is the relative status and power of the organizational sub-units?

Systems

The formal processes and procedures used to manage the organization, including the management control systems, performance measurement and reward systems, planning, budgeting, and resource allocation systems, information systems, and distribution systems.

By systems we mean all the processes and procedures, formal and informal, that an organization uses to manage itself on a daily basis. Systems have a profound impact on organizational effectiveness because they focus the attention of managers. The information that people receive and what they are measured on and rewarded for have a strong influence on what they pay attention to and what they act on.

Consider the fact that many organizations today are introducing cross-functional teams. Yet one of the biggest impediments to the success of such teams is a compensation system that rewards people on individual, not team, performance. Or consider efforts to re-engineer companies. They typically involve creating processes that cut across conventional organizational boundaries. A successful reengineering effort almost always involves an overhaul of the existing systems to support

the new flow of work – new compensations systems, new management information systems, and new capital allocation systems.

Some key questions:

- Does the organization have the systems it needs to run its business? (e.g., does it have a system for monitoring customer satisfaction?)
- What are the management systems that top management uses to run the company? Which ones do they pay the closest attention to?

Staffing

The people, their backgrounds, and competencies. The organization’s approaches to recruitment, selection, and socialization. How people are developed; how recruits are trained, socialized, and integrated; and how their careers are managed.

One of the most common sayings in business today is, “People are our most important asset.” If this is true, organizational effectiveness is largely determined by who the people are and how the organization develops them. High performing companies pay extraordinary attention to recruiting the right people into the organization and providing them with the training and job opportunities needed to develop their potential.9

Some Key Questions:

- How does the organization recruit and develop its people? (e.g., formal training, mentoring programs, stretch assignments)
- What are the demographic characteristics of the management team? (e.g., background, education, age, gender, nationality, professional identity, experience outside company)
- Where are the strongest leaders found in the organization (e.g., in which functions)? The weakest?

Skills

The distinctive competencies that reside in the organization. Can be distinctive competencies of people, management practices, systems, and/or technology.

Observers of companies often characterize them by what they do best. We talk of Singapore Airline’s customer service, 3-M’s innovation, and Hewlett-Packard’s management processes. These attributes represent the distinctive competencies—the skills—possessed by these firms. These capabilities are possessed by the organization, not by any one individual, and they typically have been developed over the course of years. Many management theorists argue that a key factor influencing the fate of organizations is their ability to cultivate distinctive areas of skill, or core competence.10

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Skills represent both opportunities and constraints. To the extent that the skills can be applied to new markets, they represent an opportunity. For example, 3-M has applied its ability to innovate with adhesives to a variety of markets. However, skills may act as a constraint when a new and different set of skills are required to compete—either because the market has shifted its priorities (e.g., from quality to cost) or the firm seeks to enter new markets. In this case, the firm may need to learn new skills and unlearn old skills.\textsuperscript{11}

Some Key Questions:

- What business activities is the company distinctively good at performing?
- What new capabilities does the organization need to develop, and which ones does it need to “unlearn,” to compete in the future?

Style

The leadership style of top management and the overall operating style of the organization. Style impacts the norms people follow and how they work and interact with each other and with customers.

Style captures how work actually gets done in the organization. Although a style may be set largely by one or two leaders of the organization, it is used here to refer to the overall patterns of behavior of the members of the management team. For example, how do managers spend their time (in meetings versus walking around)? Where do they focus their attention (inside the firm versus outside)? And, how do they make decisions (participatory versus top-down, analytic versus arm-chair)?

Small, symbolic acts are another critical component of style. For example, job titles (employees versus “associates”), the presence of an executive dining room, and the number of customer calls executives make oftentimes reflect and/or shape the style of the organization. At the outset of change initiatives, leaders will often make a few symbolic acts to signal the beginning of a new operating style.

Some Key Questions:

- How does top management make decisions? (e.g., participatory versus top-down, analytic versus “arm-chair”)
- How do managers spend their time? (e.g., in formal meetings, informal conversations, in the field, with customers, in the lab)

Shared Values

The core or fundamental set of values that are widely shared in the organization and serve as guiding principles of what is important. Usually these values are communicated in simple ways, and may even seem trivial from the outside. But to the organization’s members, they have great meaning because they help focus attention and provide a broader sense of purpose.

\textsuperscript{11}For a discussion of how learning new skills and unlearning old ones affect a firm’s ability to innovate, see Dorothy Leonard-Barton, “Core Capabilities and Core Rigidities: A Paradox in Managing New Product Development,” \textit{Strategic Management Journal}, 1992.
Shared values refer to the small set of ideas, often unwritten, that give purpose and meaning to the organization’s work. These values go beyond the conventional formal statement of corporate objectives found in the company’s policy book or the inside cover of the annual report. Shared values highlight what is truly important to people in the organization and serve as guiding concepts for management action. Shared values provide stability amid what is often a shifting set of internal and external dynamics.

Some Key Questions:

- Do people have a shared understanding of why the company exists?
- Do people have a shared understanding of the vision for the company?
- What types of issues receive the most and least top-management attention? (e.g., short run versus long run, internal versus external)
- How do people describe the ways in which the company is distinctive? (e.g., focus on quality, emphasis on people)

Using the 7-S Model

Identifying Opportunities for Improvement

Leaders and consultants often use the 7-S framework to help them get their arms around the complex problem of capturing the multiplicity of factors that shape an organization’s behavior and performance. The underlying theory of the model is simple: an organization is effective to the extent it is well-aligned; that is, each S is consistent with and reinforces the other S’s. When the different parts of an organization are poorly aligned, the organization will often exhibit problems and perform below its potential.

Using the model to diagnose problems in an organization involves analyzing the degree of “fit” between each of the 7-S’s. For example, does the staffing process support the distinctive skills the organization is trying to develop? Does the structure fit the strategy the firm is pursuing? The greater the alignment between all the elements of the model, the more effective the organization.

Below are two examples of misalignment that help to illustrate the idea of alignment.

- A retail firm’s strategy is to compete on the basis of delivering superior service to customers. However, its managers are rewarded entirely for meeting their budget targets, and the style of the company is top-down, which inhibits the local decision-making needed for delivering exceptional service.

- An investment bank seeks to build broad and deep relationships with clients, offering them a full line of products (cash management, fixed income, trading, etc.) However, the bank’s reward system is based entirely on the performance of individual departments, not the overall firm. Further, the bank is staffed with

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people with vast technical expertise but few skills at managing relationships inside and outside the firm that cut across technical boundaries.

In both of these cases, a 7-S analysis highlights areas that might limit each company’s effectiveness.

Along with internal alignment, organizations must also stay aligned with their external environment (e.g., product and labor markets, the socio-political environment). The most common external misalignment is organizations that pursue strategies – and align the other S’s accordingly – that are no longer viable in the competitive environment. An organization perfectly aligned to compete with a strategy based on product differentiation, for example, will need to adapt its strategy and the other S’s if the purchase criteria of its customers shifts to price.

When faced with a problem in the performance of an organization, a leader or consultant needs to identify the possible areas of misalignment, analyze why they have occurred, and begin to explore ideas for correcting the problems.

Managing Change

The 7-S model also has important implications for proposing and evaluating plans for changing an organization.

- A multiplicity of factors influence an organization’s effectiveness and its ability to change. Managers tend to focus on just one or two elements—for example, compensation systems or recruiting the right people—and ignore the others. A leader is wise to recognize the full range of elements that may need to be changed and focus on the ones that will have the greatest effect.

- All seven variables are interconnected. It is often difficult to make progress on one without making adjustments in the others as well. A failed organizational change effort is often the result of not recognizing the role played by all the Ss.

- Third, the model does not imply any natural starting point for a change effort. There is no assumption that one S has more impact on effectiveness than any other S. In some cases, the critical variable might be staffing. In others, it could be that the systems or structure are impeding the implementation of the strategy. Only by going through a diagnosis of the alignment of the organization can you determine where you need to focus your attention.

While a thorough diagnosis may point to the need to change any one of the Ss, each one differs in how easily and directly it can be changed. Most analysts agree that strategy, structure, and systems—what are referred to as the “hard S’s”—are easier to change than their counterparts. Indeed, leaders often begin change efforts by altering one or more of these hard S’s. The “softer S’s” – staffing, skills, style and shared values – are harder to change directly, and typically take longer to do so, but research suggests that effective companies tend to pay as much attention to these factors as to the hard-S’s.13

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Conclusion

The framework is the starting point, not an end-point, of an analysis of organizational effectiveness. It points the way toward issues that may need further study. Like all models, caution and judgment must be used when drawing inferences from the analysis. Nonetheless, the 7-S framework—when used as a tool by leaders and consultants to understand the strengths and weaknesses of organizations—can offer powerful insights to guide management action.
Exhibit 1  The 7-S Framework
Exhibit 2  Organizational Structures

**Functional Structure**

- General Management
  - R&D
  - Manufacturing
  - Sales
  - Marketing
  - Finance

**Divisional Structure**

- General Management
  - Division A
  - Division B
  - Division C
  - Division D

**Matrix Structure**

- General Management
  - Product Div. A
  - Product Div. B
  - Product Div. C
  - Manufacturing
  - Sales
  - M
  - S
  - M
  - S
  - M
  - S

**Network Structure**

- General Management
- R&D
- Manufacturing
- Sales
- Marketing
- Finance
- Division A
- Division B
- Division C
- Division D
- General Management
- Product Div. A
- Product Div. B
- Product Div. C
- Manufacturing
- Sales
- M
- S
- M
- S
- M
- S