

## **7S-McKinsey Based Organizational Performance Model on MSMEs**

**Choirul Anam**

Doctoral Program in Management Science, Faculty of Economics and Business,  
Universitas Negeri Malang

Faculty of Economics and Business, Universitas Widyagama Malang

*choirul.anam.2204139@students.um.ac.id*

*anam@widyagama.ac.id*

**Madziatul Churiyah**

Faculty of Economics and Business, Universitas Negeri Malang

*madziatul.churiyah.fe@um.ac.id*

### **Abstract**

In facing economic challenges and global competition, applying this organizational performance model can help Catering MSMEs increase business effectiveness. This examination discusses using the organizational performance model primarily based on the 7S-McKinsey framework for MSME organizations. This study aims to recognize the effectiveness of the 7S-McKinsey organizational performance model in improving the overall performance of MSMEs. These studies make use of qualitative techniques to descriptive techniques. The records series includes interviews, observations, and documentation. 7S-McKinsey mapping as data analysis to determine the strategy, structure, capabilities, styles, staff, systems, and shared values contained in MSMEs. The goal is to be able to find out the mapping 7S-McKinsey found in MSMEs. The results showed that applying an organizational performance model based on the 7S-McKinsey framework can improve the performance of MSMEs. In this case, the essential elements are strategy, structure, and capabilities, followed by elements of standard style, staff, system, and values. This research contributes practically to the importance of understanding the effectiveness of the 7S-McKinsey organizational performance model to improve MSME performance.

**Keywords:** 7S-McKinsey, Organizational Performance, MSMEs

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Email Co-Author : [anam@widyagama.ac.id](mailto:anam@widyagama.ac.id)

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## Introduction

Organizational overall performance measures how well an enterprise is controlled and the fee they provide to customers and other stakeholders (Antony & Bhattacharyya, 2010a, 2010b). An enterprise-level approach is an included and coordinated set of commitments and actions a business enterprise uses to advantage a competitive benefit by exploiting middle skills in a particular product marketplace. An enterprise-level approach seeks to create a distinction between the agency's position and its competitors (Hitt, Ireland, & Hoskisson, 2011).

McKinsey Model 7S Terms by Waterman, Peters, & Phillips (1980) as part of the concept of change management and corporate development strategy, considering the Model 7S McKinsey is considered a management model capable of describing individuals and organizations holistically. McKinsey's 7S model can explain the implementation of strategies effectively and can be explained through resource-based theory (Kumar, 2019).

In the enterprise-level approach, the use of the McKinsey Model 7S is very diverse. It can be found in both public and private sector companies that can have a tremendous impact on organizational performance (Suwanda & Nugroho, 2022). Furthermore, McKinsey Model 7S on strategy has a vital role in an organization to achieve goals. Second structure; an organisation in any sector must have a structural lineup in it from owners, managers, to employees. Third, system; an organisation has unique ways of working, especially in the work system they adopt. Fourth, skills; if the organization wants to achieve its goals, then each individual has more potential to improve organizational performance. Fifth, staff; individuals who have high dedication to their organization to achieve common goals. Sixth, style; the nature of the manager can be seen from the style of leading his employees. Seventh, shared value; each individual and organization can create cultural values.

The practical resource-based view (RBV) idea emphasizes an organization's competitive gain, particularly in using human sources. Furthermore, to achieve such competitive and sustainable superiority, RBV theory prioritizes exploring internal factors over external ones (Rapert, Lynch, & Suter, 1996). RBV principle stems from the truth that the supply of competitive benefit lies in inner resources (Kraaijenbrink, 2011). Thus, it can be said that the McKinsey Model 7S can provide another point of view to excel in change management, especially in the small business sector. Small businesses will be able to create a competitive advantage if internal factors can be optimized as well as possible to achieve the goals of these MSMEs.

Previous research revealed that McKinsey's Model 7S could be explored by organizations in order to create short-term, medium-term, and long-term competitiveness. Other factors, consisting of capabilities, a body of workers, structure, and systems, may be used to respond quickly to environmental changes. These modifications will result in aggressive viability and be used to construct an extended-time period competitive advantage that ensures a hit method implementation method (Kumar, 2019). McKinsey's Model 7S can collaborate with digital transformation (Kocaoglu & Demir, 2019). McKinsey's Model 7S is capable of being a corporate planning and policy (Baishya, 2015). McKinsey's 7S model becomes essential to apply to human capital strategy (Ramdhani, Beta Margala, Hamdi, Indradewa, & Abadi, 2022). On the other hand, the implementation of McKinsey's 7S can have a tremendous impact on business start-ups (Putra, Yanuar,

Syah, Pusaka, & Indradewa, 2019). Meanwhile, Raušer (2021) revealed that McKinsey's 7S model can be implemented in the development of sustainable business planning as a management audit. In addition, McKinsey's 7S model can be used as a milestone for designing strategies in family businesses (Iqbal & Mansoor, 2022).

The application of McKinsey's 7S model in the public sector is very diverse, such as Khoirunissa (2019) uses only 6S; Strategy, Structure, System, Skill, Staff, and Share Value, Adityasari (2016) uses only 4S; Structure, System, Skill, Staff, Larasti (2018) using only 2S; Skill and Style. On the other hand, in the private sector, such as Majid (2022) uses only 4S; Structure, System, Style, Share Value, Widianoro et al. (2021) uses only 2S; Skill and Style, Putri et al. (2021) uses only 3S; Skill, Staff, and Share Value, Kocaoglu & Demir (2019) uses only 1S; Strategy.

The description of previous research shows that few research findings still review McKinsey's 7S model in the MSME sector. This is because the MSME sector has 7S, which is very interesting to study. Contributions that can be developed theoretically are that McKinsey's 7S model in the MSME sector is essential, considering that previous research has been carried out more in the public and private sectors. Practically, this article can make a guideline for pioneering MSME players and develop a conceptual framework for McKinsey's 7S model in the MSME sector. This research tries to create a conceptual framework for McKinsey's 7S model in the MSME sector from the perspective of MSME organizational performance.

## **Methodology**

Qualitative research is dotted with the meaning of fact/data/information from the real world as a series of truths that can be compiled into theory or a framework (Leksono, 2021). The McKinsey 7S model can be implemented if it has carried out strategic planning, including the improvement of the imaginative and prescient undertaking, the identity of outside threats and possibilities, cognizance of inner strengths and weaknesses, long-term goal putting, the search for alternative strategies, and the selection of specific strategies to acquire the goals. McKinsey's Model 7S is a tool to understand the strategy implementation process, so several stages need to be considered, namely initiative synergy. The second section is financial synergy, and the overall performance section is a synergy of shape and efficient implementation of a method, workforce involvement within the implementation of the approach implemented, monitoring, and model. McKinsey's Model 7S can be evaluated in the following ways: Examine the foundation of the formula and strategy implementation. You are comparing the expected results with the results of activities. Take corrective action to ensure that performance is on track.

## **Result and Discussion**

### **Analysis Using 7S McKinsey Framework Strategy**

#### **Strategy Formulation**

Strategy formulation, sometimes called strategy planning, consists of growing a vision and challenge, figuring out external threats and opportunities, attention to internal strengths and weaknesses, long-term intention setting, looking for alternative strategies, and selecting precise strategies to acquire dreams. The difficulty of the method formula consists of determining what enterprise to go into, what enterprise will now not be run, how to allocate resources, whether growth or how operations are executed, whether the organization needs to enter the global marketplace, whether a merger or enterprise improvement is made, and how to avoid unfavorable takeovers (David & David, 2017).

#### **Strategy Implementation**

The formulation and application of strategies differ in the following matters the formulation of strategies positions forces before action. The application of techniques manages forces throughout the motion, and the method formula makes a specialty of effectiveness. Method software focuses on performance, and a strategy system is usually an intellectual technique. Method implementation is, in general, an operational technique. Method formulation requires good intuitive and analytical skills. Enforcing strategies requires unique motivational and management competencies, strategy system calls for coordination among numerous people. The strategy implementation calls for coordination between many individuals (David & David, 2017).

The central management issues for the implementation of the strategy include annual goal setting, policymaking, resource allocation, changes in the existing organizational structure, improvement of rewards and incentives programs, minimization of resistance to change, an adaptation of production/operation processes, development of practical human resource functions, the introduction of managers to strategies, development of a culture that supports the strategy. The sincere personal commitment of the strategist to the implementation is also essential and is a strong motivational force for managers and employees. It is not uncommon for strategists to be too busy, so they cannot actively support strategy implementation efforts, and their lack of involvement can hinder the organization's success (Hitt et al., 2011).

#### **Strategy Evaluation**

Strategy evaluation is an assessment of strategies formulated and implemented to measure their effectiveness and make improvements for subsequent planning and implementation (David & David, 2017). assessment can trouble management of problems or capability issues earlier than the scenario becomes essential, which incorporates three predominant sports, namely resolving the underlying foundation of the agency's approach, evaluating the expected results with actual results, taking corrective movements to make sure that performance is following the plan (David & David, 2017). Evaluation can be a complicated and sensitive motion. An excessive emphasis on evaluating strategies may be highly-priced and counter-efficient; no person likes to evaluate too strictly. Evaluation of strategies is essential to make sure that expressed desires may be executed. Method evaluation is also

crucial because corporations face dynamic surroundings where important outside and inner factors frequently trade unexpectedly and dramatically (David & David, 2017).

### **Structure**

MSMEs in Indonesia need an overview of the organizational structure to know the main tasks and functions in each post, such as a functional organizational structure. The practical shape groups tasks and sports based on business features which include operations, advertising and marketing, finance, and human sources (David & David, 2017)

### **Systems**

MSMEs in Indonesia have a unique work system, so an operational procedure (SOP) standard is needed following the characteristics of MSMEs in various sectors. The existence of standards in work can also be used as a measuring tool to measure employee performance.

### **Shared Values**

Individuals and organizations' values can be collaborated to create a harmonious atmosphere. This is related to the carrying capacity between strategies and structures. Several things need to be observed in collaborating on these values: identifying administrative areas, seeing how effective performance is; involvement between owners and their employees; and action planning (Kumar, 2019).

### **Style**

Style relates to leaders as founders, owners, and managers in running an organization, especially in MSMEs. At the level of business organizations, leaders have thoughts on achieving organizational goals following the vision and mission they have built. Moreover, to achieve these goals, a leader must have competence, connectivity between internal and external, communication, and appearance (Northouse, 2021).

### **Staff**

Staff is part of the organization, considering that the organization cannot run well without staff. Likewise, MSMEs can run well if there is personality. Personality is the character of an individual with intense mental and physical strength in carrying out activities. Staff personality is attached to traits, including how a person communicates with consumers, looks, thinks and acts (Alblas & Wijsman, 2014).

### **Skills**

In a company, knowledge and technology cannot be separated. This is because every business owner or MSME actor does not only think about production factors and functions but can see from the other side, namely individual abilities or employee abilities in running a business. Ability can be different from other businesses, especially in the MSME sector. Ability can be possessed if you have gone through training and self-development or attended the training held by certain institutions. Capabilities can be obtained from learning, routine work, or

experience, so capabilities in the MSME sector can be divided into ordinary and dynamic (Teece, 2019).

Ordinary capabilities can be said to be part of operations. At the same time, dynamic capabilities can be considered part of the strategy (Teece, 2019). Ordinary capabilities include 1) skilled personnel, including, under certain circumstances, independent contractors; (2) facilities and equipment; (3) processes and routines; and (4) the administrative coordination needed to get the job done. The dynamic capabilities include (1) identification and assessment of threats, opportunities, and customer needs (sensing); (2) mobilization of resources to address fresh opportunities while capturing value from doing so (seizing); and (3) ongoing organizational renewal (transforming) (Teece, 2019).

**Discussion**

Organizational performance is a description of the activities of an organization and to what extent it has carried out all the main activities to achieve its vision and mission (Anam, Thoyib, & Djawahir, 2018). So an excellent organizational performance design is needed to compete with other competitors. one such design is the McKinsey 7S. The McKinsey Model 7S was developed by McKinsey & Corporate in the 1970s as a conceptual framework for diagnosing the causes of organizational problems and can formulate work programs for improvement (Baishya, 2015; Waterman et al., 1980). The Mckinsey 7S model can be developed on MSMEs (Melinda & Wagianto, 2021) if it meets the criteria, namely:

**Table 1 McKinsey 7S Criteria**

<b>Dimension</b>	<b>Goal</b>
<i>Strategy</i>	Focus more on digitization by making sales submissions online and integrating directly with internal applications in the marketing unit.
<i>Structure</i>	Formalization regarding procedures and policies so that, when the structure turns into centralization, there is uniformity of work processes for all employees
<i>Systems</i>	Integration of existing apps so that no iterative processes occur
<i>Shared Values</i>	Communicate regularly related to the goals to be achieved and the values that all levels must carry out in the MSME
<i>Style</i>	Improve communication with subordinates so that employees have clarity about work
<i>Staff</i>	Create KPIs that are easy for employees to understand and run
<i>Skills</i>	Sharing knowledge periodically so that employee competencies do not experience inequality

Source: Melinda & Wagianto, (2021)

Based on Table 1, it shows that to be able to improve organizational performance in the Indonesian MSME sector, it must be able to implement Mckinsey's 7S. This can be implemented in MSMEs engaged in the souvenir center sector. In the current era, MSMEs must have strategies online and offline. One very important strategy is to focus more on digitization by making sales submissions

online and integrating directly with internal applications in the marketing unit. In addition, there needs to be a structure for formalization regarding procedures and policies so that, when the structure turns into centralization, there is uniformity of work processes for all employees, the function is to be able to know the main tasks and functions in each line of the organization as well as the policies that have been made by the MSMEs.

MSMEs in the souvenir center sector must be able to build a dynamic system. This can integrate existing applications so that there are no repetitive processes. On the other hand, the shared value that is built must be related to the goals to be achieved and the values that must be carried out by all levels in the MSME.

The style for MSMEs in the souvenir center sector requires that they always be adaptive, so the style carried in Improve communication with subordinates so that employees have clarity about work is an adaptive leadership style. Adaptive leadership is very relevant in dealing with crises, because adaptive leadership involves four important aspects, namely (1) Anticipation of future needs, trends, and choices (2) Articulation, future needs to build shared understanding and support for taking action. (3) Adaptation encourages continuous learning and adjustments to the required response (4) Accountability includes transparency in the decision-making process and openness to challenges and feedback (Fridayani, 2021; Ramalingam, et al., 2020). This can be aligned with the strategy being promoted and the system being developed. In addition, staff and skills are very important for the growth and development of MSMEs in the souvenir center sector because they can create KPIs that are easy to understand and run by employees and share knowledge regularly so that employee competence does not experience imbalances.

## **Conclusion**

Based on the research results, it can be concluded that the organizational performance model based on the 7S-McKinsey framework can improve the performance of micro, small, and medium enterprises (MSMEs) in Indonesia. The results showed that strategy, structure, and capability are the essential elements in the 7S-McKinsey framework to be applied to MSMEs in Indonesia. At the same time, elements of style, staff, system, and shared value are considered less critical.

Implementing an organizational performance model based on the 7S-McKinsey framework can help MSMEs in Indonesia to increase the effectiveness of their business and face global competition. Therefore, MSME owners or managers in Indonesia are advised to consider implementing an organizational performance model based on the 7S-McKinsey framework as one of the strategies to improve their business performance.

However, remember that implementing organizational changes, including the 7S-McKinsey organizational performance model, can be difficult and require considerable time and effort. Therefore, MSME owners or managers must carefully consider the implementation process and involve employees. Overall, this research contributes significantly to understanding the effectiveness of the 7S-McKinsey organizational performance model in improving the performance of MSMEs in Indonesia and can be used as a reference for MSME owners or managers to develop their business strategies.

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