



## ANALYSIS OF COMPANY CAPABILITY USING 7S MCKINSEY FRAMEWORK TO SUPPORT CORPORATE SUCCESSION (CASE STUDY: PT X INDONESIA)

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### ABSTRACT

*PT X Indonesia is a telecommunications company with a geographically focused division which operating in the province of West Java. PT. X Indonesia is currently undergoing a digital transformation to achieve its goal of "becoming a leader in the digital region". However, this transition has accompanied with a large number of employees retiring between 2020 and 2021. This has resulted in increased workloads and a lack of competency. Therefore, PT X Indonesia will analyze its current capabilities, future capabilities, and existing gaps to meet future demand. This analysis uses a mixed method research model, where the current capabilities of PT X Indonesia are analyzed using a survey method. In addition, the researcher interviewed key informants at PT X Indonesia to find out the capabilities needed in the future. The 7s McKinsey's framework (1980) was used to analyze this research. This framework identifies seven dimensions that a company must possess to maintain its success. This 7s dimension consists of Strategy, System, Structure, Style, Skill, Staff, and Superordinate Goals. According to a survey conducted to assess the current capabilities of PT X Indonesia, there are three dimensions that are in the bottom three. Thus, to bridge the gap, there are several recommendations that must be immediately carried out by PT X Indonesia, namely strengthening the team work, recruiting new employees to fill vacancies, socializing the talent management system, conducting coaching sessions from seniors, and conducting knowledge sharing.*

**Keywords:** *Capability, Human Resource, Retirement, 7S McKinsey, Mixed Method Research Model*

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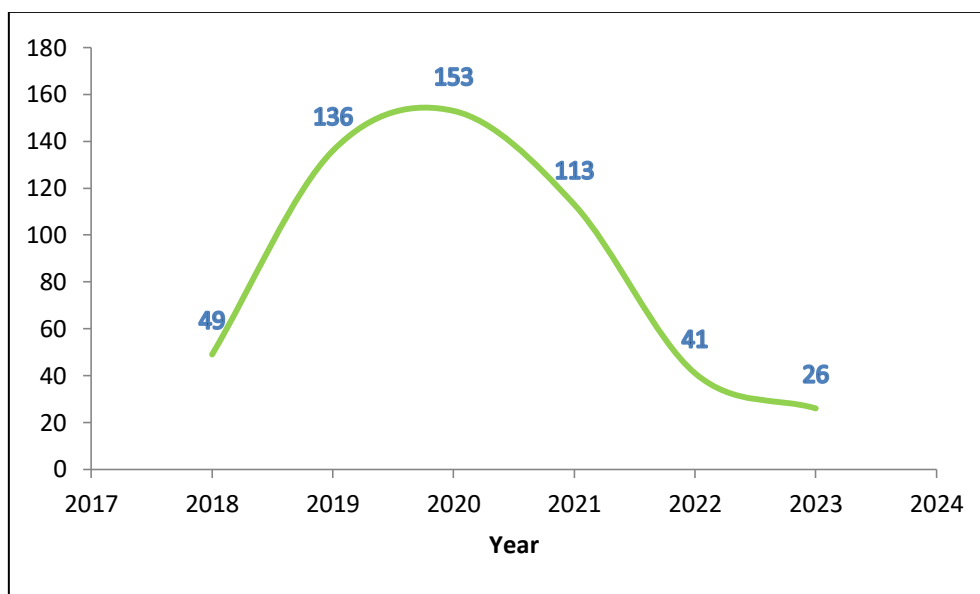
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## INTRODUCTION

This research starts from the development of telecommunications patterns in society. Today, people known as digital citizens are defined as “Those who use the Internet regularly and effectively”. To deal with these developments, the telecommunications industry must embark on a journey to become a fully digital telecommunications industry. One of the telecommunications companies that need to develop is PT X Indonesia. The company has a strategic position in building and accelerating digital-based economic growth in Indonesia. To overcome this situation, PT X Indonesia has transformed its business into a digital telecommunications company, they have implemented a customer-oriented business strategy and company operations. This transformation aims to reduce the company's organization to become more lean and agile in adapting to the rapidly changing of the telecommunications industry. This transformation is also reinforced by the company's vision and mission, its vision is to be a leader in the digital and its mission is to lead telecommunications innovation in Indonesia.

In running this company, PT X Indonesia focuses on three segments of business consisting of Consumers, Government, and Wholesalers. The number of employees at PT X Indonesia recorded in 2018 was 749 employees. This number consists of employees aged between 23 and 56 years. In transforming into a digital telecommunications company, PT X Indonesia needs to prepare the entire organization including strategies, systems and employees who have the ability in quality or quantity in the field of digitization to support the company in achieving its vision. However, currently PT X Indonesia is facing a large retirement period until the end of 2021 as shown in **Figure 1**



**Figure 1 Future Amount of Retirement in PT. X Indonesia**

Retirement that occurs in large numbers has become an obstacle for PT X Indonesia because the current capabilities of the company are not ready yet. First, the current and future pensions at PT X Indonesia are mostly in managerial positions consisting of level III and IV positions (as shown in **Table 1**).

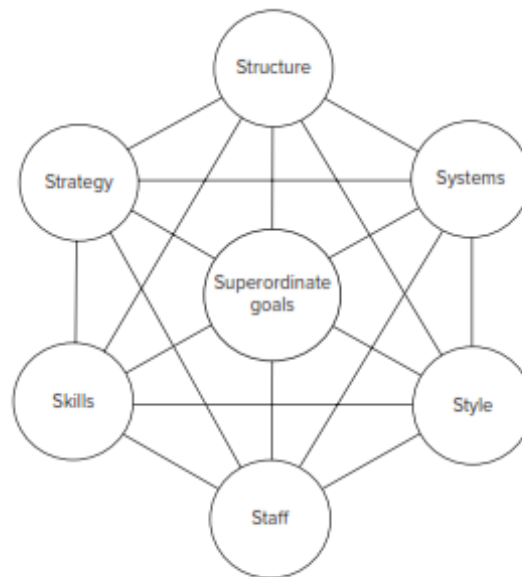
**Table 1 Future Employee Composition based on Level Position**

Level Position	Current	Leave/Retire (before 2023)	Stay	Percentage of Vacant
Level I	3	3	0	100%
Level II	22	11	11	50%
Level III	155	100	55	65%
Level IV	365	291	74	80%
Level V	147	83	64	56%
Level VI	56	3	53	5%
Level VII	1	1	0	100%
Total	749	492	257	66%

Based on **Table 1**, it can be seen that Level IV is a position that will experience retirement with the highest number compared to other level position. There will be 80% retirees from the current number of employees at level 4. Furthermore, the level position with the second highest number of retirees is level 3 at 65%. The impact of this reduction is first, there is a gap in quantity, a total of 492 out of 749 employees will leave PT X Indonesia before 2023, but recruitment to meet the remaining number of employees will not exactly match the number of people who leave. Currently, the reduction in the number of employees being recruited is already running because employees will be replaced by systems and technology. The second impact is the loss of capabilities possessed by retired employees such as competency. Third, the remaining employees at this time is not ready yet to replace the positions that will be left by retirees. This is because the large age differences between the current employees to retirees. Based on the company's awareness that it will lose the number of employees and capabilities of the retirees, PT X Indonesia needs to focus on preparing future capabilities to meet the company's needs. Therefore, a capability gap analysis must be carried out by PT X Indonesia and after they know the current capabilities, they need a plan to enhance their capabilities to meet the company's needs in the future.

## LITERATURE REVIEW

Employee retirement is a problem that occurs in the current condition of PT X Indonesia, half of the employees have retired and will continue to do so in the next few years. This condition is a concern for PT X Indonesia because the retirement period is not followed by the readiness of the company's current capabilities. To find out how far the current capability readiness is, the researcher uses a capability gap analysis with McKinsey's 7S framework as shown in **Figure 2**.



**Figure 2 Conceptual Frameworks**

*Source: (Waterman et al, 1980)*

According to **Figure 2**, The 7s McKinsey's is one of the strategic planning tools used to determine the current state of the organization and compare it with future needs, which is also called gap analysis. The purpose of this model is to show how the 7 elements of the company: Structure, Strategy, Skills, Staff, Style, System, and Superordinate Goals, can be aligned to achieve effectiveness in a company. Ultimately, the aim of this research is to find out how to fill the capability gap.

The 7-S framework was developed by Robert Waterman, Tom Peters, and Julien Phillips (1980) while they were working as management consultants at McKinsey & Company. They argue that organizational effectiveness is influenced by many factors, and the success of change depends on the relationship between these factors. The framework is used when they want to know about interconnectedness.

## RESEARCH METHOD

In this study, the research method that researchers use is a mixed method where researchers combine or associate quantitative forms and qualitative forms. According to Creswell (2013) there are many designs in mixed methods, this study uses the Explanatory Sequential Mixed Methods. The researcher chooses this method strategy where the researcher tries to combine or expand the findings obtained from one method with the findings from other methods. This strategy can be carried out using a quantitative survey method with a number of samples to obtain general results from a population, followed by conducting interviews in advance to obtain an adequate explanation.

The research instruments that the researcher use are survey and interview. In this study, both quantitative and qualitative methods used were derived from seven dimensions by 7-S Mc-Kinsey (1980). Initially, this research was started by analyzing the current capabilities of PT X Indonesia through a survey method. Furthermore, the

authors conducted interviews with key informants that is the Manager of HR Planning & Development and Officer Capability Development to analyze the future capabilities needed by PT. X Indonesia. Finally, the authors conducted in-depth interviews to collect information that had been obtained through the results of the survey.

## **RESULT AND DISCUSSION**

Based on the data obtained by researchers regarding the capability analysis of PT. X Indonesia is currently obtained through a questionnaire. The results show that there are three bottom dimensions, they are Staff, System and Style. Furthermore, the analysis is analyzed more deeply based on indicators. From the 45 indicators distributed in the questionnaire, there are 30 indicators with green color which can be interpreted as a good indicator, 14 yellow indicators which means moderate but need to be considered and improved, and there are indicators with red color which means poor and the lowest score compared to other scores. The lowest indicator is in the system dimension, namely the existence of a re-recruitment system (Rehire). In the indicators that are included in the moderate and poor criteria, this should be given more attention by PT. X Indonesia without ignoring indicators that are already in the good category.

Furthermore, the analysis of future capabilities required by PT. X Indonesia has been identified through interviews with key informants. In the future, the capabilities needed by PT. X Indonesia consists of strategy of PT. X Indonesia in the form of digital customer experience, a system to improve career development, "The PT. "X Indonesia Way" as a superordinate goal, a consultative leadership style, the number of employees who meet the company's needs, workers who have received proper training, and employees can achieve a minimum of 8 competencies out of 14 competencies required by the company.

In the last process of data analysis, the researcher conducted in-depth interviews. The process aims to determine the reasons behind the results of the questionnaire. The results of this interview are also used to explain the root cause analysis. The author uses a Current Reality Tree to make a root cause analysis. Current Reality Tree (CRT) is a logical structure designed to describe the state of reality as it currently exists in a particular system. CRT looks for cause-and-effect relationships between visible indications of the system and the underlying cause that produced it. According to Dettmer, 2017, the goal of a CRT is to help figure out what needs to change in any given situation. This is done by helping to identify what are clearly indicators of system deficiencies and by tracing them back to one or more underlying causes.

Based on Current Tree Analysis Result, it is known that they are five root problems from this research. The root problems are 1) Low Technological Awareness from Gen X, 2) Recruitment is only 20% of the number of employees who leave, 3) CEO is more directing to the employee rather than participating, 4) Employee does not get clear information about talent management system, and 5) Mentoring and Coaching is only purposed to guide new employee.

The next step needed to fill the capability gap at PT X Indonesia is to create a strategy to achieve the future capabilities that PT X Indonesia needs to have. First, the company needs to prepare its employees to have adequate technological knowledge, especially for the remaining employees of Gen X who still stay at PT X Indonesia. Second, the company needs to meet the shortage of employees before 2023. Next,

provide a plan to improve employee development programs. Here are alternative solutions that can be done by PT X Indonesia to solve the five root problems: (1) Team-Based Work (2) External Recruitment to find Professionals Talented (3) Preparing the Work Environment for Transferring Training Results (4) Socialization of Talent Management System (5) Competency Knowledge Sharing (6) Mentoring and Coaching System for Generation X.

## CONCLUSION

Based on the five root causes that cause the gap between the capabilities of PT X Indonesia to achieve future capabilities. So the researcher provides a solution that can solve the five root problems.

First, researchers provide solutions to change the way employees work from previously individual-based to team-based. This is necessary to address the issue of technological awareness inequality among employees. Team Based Work aims to solve the technology gap in Gen X (1965-1980). In this solution, employees who are Generation Z and Millennials must fill the technology gap in Gen X who are their superiors and colleagues. They must collaborate on the job, so that superiors and co-workers can gain technological knowledge from employees who are capable in the field and are expected to take place in both directions.

Second, the researcher recommends conducting external recruitment to recruit the professional talent needed to solve the root cause problem of recruitment that only 20% of the number of employees who leave. PT X Indonesia can recruit people who are able to be placed in vacant positions. Most of the vacant positions at PT X Indonesia are in level 3, 4, and 5. These positions are in the middle level management, so they need experienced people. In addition, this can also replace the Rehire system which is considered ineffective. PT X Indonesia is better at recruiting new employees who are younger because they are still in their productive age compared to re-recruiting employees who have retired (Rehire System).

Third, the alternative solution provided is to prepare a supportive work environment to transfer knowledge from the training results that have been obtained by employees. First, it will motivate employees who have attended training as well as those who have received training on digitalization. After they have attended the training, they can use the facilities at PT X Indonesia to explore their capabilities. Training participants can also transfer the results of their training to other employees who have not attended the training. The second advantage that will be obtained from this solution is that it can solve the root of the problem of technological awareness that is still not well distributed to every employee at PT X Indonesia, especially for Gen X.

Fourth, PT X Indonesia needs to conduct socialization to communicate the information about the employee development system in the form of the Talent Management Program. So far, employees only know about general employee development programs such as leadership training and others where every employee must receive the development program. After that, employees only get a value added component on the Key Performance Index and wait for promotion after receiving the

training. Supposedly, if employees want to be the company's priority in promotion, they can register themselves as top talents through the Talent Management Program. However, the number of employees registered as top talent is still low because they do not know the information about the Talent Management Program.

Furthermore, the mentoring and coaching system at PT X Indonesia was only implemented in early 2019, but this system only applies to new employees. For old employees, this is only for employees with problems in the company. So there is no implementation of mentoring and coaching for employees who have no problems and do not feel the need for mentoring and coaching. However, the problem of the capability gap in the company requires a mentoring and coaching program to develop employees at PT X Indonesia, especially for Gen X employees as one of the resource of development.

PT X Indonesia can also conduct coaching by looking for senior leaders who are willing to become coaches for subordinates and divisional units. Senior leaders can train employees in terms of leadership and others. Leaders who were originally more directive to employees rather than asking for employee participation need to adjust their leadership style. Empowerment leadership is recommended to the CEO where empowerment leadership is a leader behavior that focuses on task delegation, initiative, goal focus, efficacy support, inspiration, coordination, modeling, and guidance (Amundsen & Martinsen, 2014) in (Ahluwalia Puji, 2020). Regarding mentoring, PT X Indonesia must change the current type of mentoring which was originally only intended to mentor old employees if there were only problems. Now mentoring must be directed to facilitate employees such as mentors from the millennial generation to share knowledge about their technology with their superiors.

Finally, sharing knowledge about competency is a solution needed by PT X Indonesia. PT X Indonesia will lose the number of employees due to retirement, but PT X Indonesia will not only lose the number of employees, but will also lose senior employees who have the knowledge and skills acquired during their work. To overcome this, PT X Indonesia must prepare its next generation to be able to support the achievement of the company's strategy. One way to prepare the next generation is to transfer knowledge from employees who will retire to employees who have not yet entered retirement age. So, this program is expected to be a media to facilitate the transfer of knowledge possessed by seniors and in the end the knowledge will not be lost from the company. Currently one of the knowledge that can be transferred by seniors who are about to enter retirement age is competency. The company already has a competency dictionary that contains 14 competencies that must be possessed by its employees. However, not all employees can have these fourteen competencies, so the transfer knowledge of competency will be useful for future generation.

In implementing these alternative solutions, the authors prioritize their implementation starting from external recruitment for professional talent, practicing team-based work, socializing talent management programs, preparing a work

environment for transfer of training results, implementing coaching programs from senior leaders, and conducting Knowledge Sharing regarding Employee Competency.

Based on the alternative solutions that the author gave to PT X Indonesia, all solutions are recommended to be implemented. External recruitment for professionals needs to be carried out as a priority because the company needs to replace retired employees, especially at the middle managerial level with the right people who are experienced. They need to plan the proportion of workforce needs in the next few years and analyze the potential for existing outsourced workers who can be used as prospective workers. However, in alternative solutions, mentoring and coaching for gen X will be separated. Mentoring can be incorporated in other solutions such as team-based work and setting up an environment for transfer of training results.

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