



Organizational capacities to value generation: Analysis of industrial sector

Capacidades organizacionales generadoras de valor: análisis del sector industrial

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Abstract

The purpose of this research is to determine the organizational capacities that have been developed by the companies of the industrial sector of the city of Loja, based on the McKinsey 7s model proposed by Tom Peters and Robert Waterman. The questionnaire was applied as an instrument for the collection of data to the population of the study that are the companies that belong to the Cámara de Industrias de Loja; the results obtained were compared with the variability in profitability and the income tax caused in the period 2013-2014. The study allowed to determine that companies presented positive variability during the mentioned period applied a style of autocratic leadership, downward flow of information, defined organizational structure as well as mission and vision, the most common type of innovation was in products and did not apply instruments that allow to determine the working environment. On the other hand, companies that did not present positive variability were characterized by a style of liberal and democratic leadership, multidirectional information flow, reactive innovation and to determine the work climate used surveys.

Resumen

El propósito de esta investigación es determinar las capacidades organizacionales que han sido desarrolladas por las empresas del sector industrial de la ciudad de Loja, a partir del modelo de las 7s de McKinsey propuesto por Tom Peters y Robert Waterman. Se aplicó el cuestionario como instrumento para la recolección de datos a la población objeto del estudio que son las empresas que pertenecen a la Cámara de Industrias de Loja, los resultados obtenidos fueron comparados con la variación de la rentabilidad y el impuesto a la renta causado en el periodo 2013-2014. El estudio permitió determinar que las empresas presentaron variabilidad positiva durante el periodo mencionado, aplicaron un estilo de liderazgo autocrático, flujo de información descendente, estructura organizacional definida así como misión y visión. El tipo de innovación más común fue en productos y no aplicaron instrumentos que permitan determinar el clima laboral. Por otro lado, las empresas que no presentaron variabilidad positiva se caracterizaron por un estilo de liderazgo liberal y democrático, flujo de información multidireccional e innovación reactiva.

Keywords | Palabras clave

Organizational capacities, 7s McKinsey, leadership style, strategy, structure, information flow

Capacidades organizacionales, 7s McKinsey, estilo de liderazgo, estrategia, estructura, flujo de información.

Introduction

Organizations are exposed to an exchange of energy and information with their environment since they are in constant interaction with it, however the greater the change in the environment of a company, the more it must seek to base its strategy on the Internal resources and capacities, rather than on the market. It is for this reason that one of the great challenges facing managers corresponds to the ability to align to the business strategy, the efforts that are made in the organizations, in order to achieve greater effectiveness in their operations.

O'Reilly and Thusman (2013) have made a compilation of definitions for this ability, determining it as "the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments or "the capacity of an organization to purposefully create, extend, or modify its resource base" (O'Reilly & Tushman, 2013).

Resources and capabilities have become the basis for the company's long-term strategy, these elements provide the basic direction and are the main source of profitability for the company. Based on this principle, the McKinsey 7s model argues that changes in a company's effectiveness are a direct consequence of the interaction of multiple factors, many of which are not obvious or have not been considered in traditional models. This research considers that in addition to internal factors, it is important to know what are the capabilities of the organization that impact on the creation of business value? As well as what is the combination of elements of the Mackinsey model that allows organizations to generate value?

This model shows that the organization goes beyond its objectives, refers to an organization whose efficiency focuses on the interaction of these elements, considering that the effective company is not represented precisely by a unique model, closed and stable over time, but rather it is an open, permeable system conditioned to the permanent influence of a series of contingency factors and the vision of its managers or administrators about how it should be directed and organized. For this reason, the strategic approach that responds to the need to formulate a corporate vision that allows the organization to give an adequate response (the strategy) relative to the most convenient decisions about the activities to be carried out or about the businesses that it performs or could perform (Hernández & Miron, 2013).

In this sense, the article is organized in two sections, the first section develops the concept of organizational capacity and the model of the 7s, as

well as the description of the elements that comprise it, specifying the effective management of the factors, which allow understanding The nature and characteristics of the conceptual part, a second section establishes the Mckinsey model within the firms subject to study, this process is supported by the seven elements: strategy, structure, system, style, personal skills and shared values.

This model of Mckinsey's 7s under the premise "an organization is not just structure", bases its proposal on seven elements: "structure, systems, style, staff, skills, strategy, shared values"; (Peters & Waterman, 1980), the creators of this model propose a classification of the elements: hard (strategy, structure and system) and soft (style, staff, skills and shared values).

The seven elements:

- Strategy: this refers to plans anticipated or in response to changes in the environment. It refers to the route that the organization has chosen to follow. The strategy of the organization is reflected in the mission and vision that refers to the path to which the company is headed in the long term. The organization's strategy, mission, vision and values are considered part of the organization's identity. They are also the distinctive element and expression of the personality of the organization (Martínez, Pérez, & Rodríguez del Bosque, 2014).
- Once the goals and strategies that allow achieving the objectives of the organization have been defined the manager must ensure that the structure fits the strategy (Ivanko, 2013), it is thus that the design and assignment of tasks to the members of the organization corresponds to the next element of this model.
- Structure: refers to the specialization and coordination of activities, influenced mainly by the strategy and size of the organization and its diversity. Organizational structure is defined as the extent to which an organization's activities are standardized and where standards and procedures guide employee behavior (Robbins & Coulter, 2005), organizations in addition to the stated organizational structure require a Level of formalization that implies the establishment of rules, procedures, and written documentation such as policy manuals and job descriptions that establish the duties and rights of employees (Daft, 2012).
- System: which refers to the formal and informal procedures that are carried out in organizations, the systems for their operation require these aspects: adaptation (must cover external situations, adapt to

their environment and adapt the environment to their needs), Ability to achieve goals (must define and achieve its fundamental goals), integration (regulate the interrelation between its components), maintenance of patterns (provide, maintain and renew the motivation of individuals and the cultural patterns that comprise it) (Parsons, 1937).

- Organizational culture, also part of the systems and refer to the values, beliefs and norms developed throughout the life of the organization, these elements influence the behavior of employees (Reis & Azebedo, 2015).
- Management style: there is a close relationship between the way of thinking and how to act in organizations, many of the problems that arise in the organization have their roots in this way of thinking, however, these can lead to new and improved forms of organization (Ivanko, 2013).
- Leadership is “the art or process of influencing people to strive willingly and enthusiastically in meeting group goals” (Koontz & Weihrich, 2004); In this sense the style of administration, is influenced by the style of leadership that is applied in the organization. Leadership presents different styles that can be adopted and applied in organizations, these styles are considered as theories that study leadership in terms of behavior styles of the leader in relation to their subordinates, that is, the ways in which the leader directs his behavior (Koontz & Weihrich, 2004) leadership styles are classified in: Autocratic (who imposes and expects compliance, is dogmatic and secure and leads by means of the ability to deny or award prizes or punishments) democratic (Consults with subordinates about likely actions and decisions, and encourages their participation) And liberal (it makes very little use of its power, if it is used, since it grants its subordinates a high degree of independence in their actions).
- Staff: which refers to the human resource of the organization and how it is developed, delivered, socialized, integrated and motivated and the way in which its careers are administered. (Ivanko, 2013). Regarding this issue, its importance lies in the way in which the personnel of the organization is communicated, being understood by organizational communication to the communication formally defined in the organization for specific internal processes and in relation to the environment. The staff requires to be informed of the aspects that happen

in the organization, with customers, suppliers, distributors, strategic partners.

- Skills: Refers to distinctive competencies, which the organization performs best and contributes to the achievement of the mission and vision proposed by the organization.
- Shared values: this refer to the elements that influence the working group in order to achieve the common objectives, are considered as the concepts and guiding principles of the organization, are aspects that go beyond the declarations of the organizational objectives

Methodology

The present study is descriptive with a qualitative approach. The study population is the companies that belong to the Chamber of Industries of Loja, the questionnaire being the instrument used to collect data, which was applied to the 18 companies that compose the population, during the period between the year 2014 and 2015.

Among the variables to be used, it is considered as an independent variable the variation in the income obtained from the income tax caused by the company (generated value) and as a dependent variable to the seven elements of the 7S model proposed by McKinsey (capabilities of the organizations).

a) Data recollection

A questionnaire that includes 14 variables that are the ones that allow the identification of the elements of the model as a tool for data collection was used, which was applied to the managers of the companies of the Chamber of Industries of Loja. This questionnaire is based on the 7S model proposed by McKinsey, which establishes seven elements: strategy, structure, system, management style, staff, skills, shared values and uses 14 variables that, according to the reviewed literature, allow identifying the qualitative factors with respect to the model.

In order to determine the variation of the utility of the company, the data base of the Internal Revenue Service and the Superintendence of Companies was used as a source of information and data on the profitability and the income tax recorded in the period 2013-2014 by each of the companies, as a mechanism to determine their variation.

This variable was used because in practice it demonstrates the variation of profits as a financial performance indicator. In the study period, those that have reported an increase or decrease in their income tax have been selected, which indicates a tendency toward a better or lower yield, those that do not show variance were not considered in the analysis of Chart 4 : Characteristics of the elements of the Mckinsey model of firms according to their performance.

b. Data analysis

The qualitative factor for each company was identified, with respect to the 14 variables presented in the questionnaire and grouped according to each of the seven elements.

It identifies the organizational capacities that allow determining a positive or negative variation with respect to the utility generated by the company in a year. The variation between the two immediately preceding periods was calculated based on the declared tax.

The existence of two types of companies is considered:

- Companies that possess organizational capacities that represent a positive variation in the profit generated in the year of study, the procedure to be used is the selection of four companies that have generated a greater increase in their variation of economic utility in relation to the previous year.
- Companies that possess organizational capacities that represent a negative variation in the profit generated in the year of study, the procedure to be used is the selection of four companies that have generated a decrease in their variation of economic utility in relation to the previous year.

Based on this categorization the profile of the two types of companies is determined according to the information registered in the 14 variables and 7 elements of the Mckinsey model. Characteristics have been identified based on the prevalence of this factor within the companies in the analyzed segment.

Results

The observation of the internal capacities of the industrial organizations of the city of Loja, through the model of the 7s of McKinsey, allowed

to identify the distinctive characteristics of the companies that generated utility during the periods of study.

According to the classification defined by the Andean Community of Nations, Decision 702, Article 3; The size of the companies is defined according to the gross value of their annual sales. According to this background, companies are classified as shown in Chart1, the activities they carry out as indicated by the International Unified Industrial Classification -CIIU- of the companies subject to study, are shown in Chart 2.

Chart 1. Classification by type of company

	Number of companies	Percentage
Micro-enterprise	2	11%
Sales less than 100 000	2	11%
Small	7	39%
Sales between 100 000 and 1 000.000	7	39%
Medium	18	
Sales between 1 000 000 and 5 000 000	7	39%
Large		
Sales higher than 5 000 000	2	11%
	18	

Source: Andean Community of Nations, Decision 702, Article 3

Chart 2. Classification activity and sector to which they belong

Activity	CIIU	Number of industries	Sector to which they belong
Food	C101/C107/C105	7	39%
Ceramics	C239	3	17%
Distributor of agricultural products	G471	1	6%
Generation of electricity	D351	1	6%
Glass industries	C231	1	6%
Liquors and beverages	C110	2	11%
Fuel manufacturer	C192	1	6%
Editorials	C181	2	11%
TOTAL	18	100%	100%

Source: Own research

The characteristics that describe these elements of the McKinsey model are shown in Chart 3.

Table 3. Characteristics of the elements of the Mckinsey Model

Type of element	Elements	Descriptive elements
Hard ele-ments	Strategy	External communication: media
		Mission
		Vision
	Structure	Type of organizational structure
	System	Innovation
		Logistics
		Quality
Soft ele-ments	Management Style	Leadership style
	Staff	Internal communication: formal and informal
		Training of the staff: ambit
		Measurement of organizational environment
	Skills	Motivation
	Shared values	Establishment of elements of organizational culture
		Team work

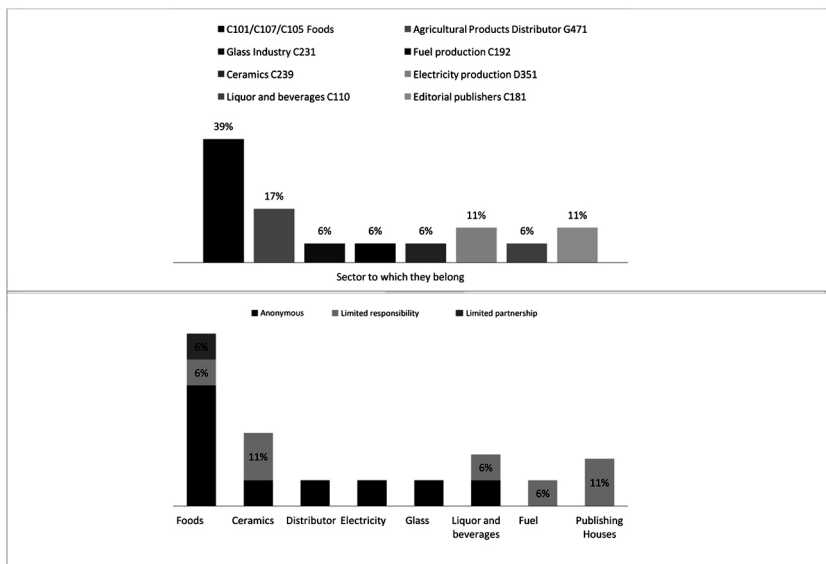
Source: Own research

Loja, capital of the province of the same name, counts according to data of the Superintendence of Companies (2015) with an approximated 681 active companies, of which 7% correspond to the industrial sector, being highlighted the production of food and beverages as main products.

When classified by size, the industrial sector has a 76% participation between micro and small companies (between 3 and 24 workers per company) and whose products are consumed locally and regionally; The medium-sized enterprises account for 21% (between 2 and 86 workers per company) their products are consumed locally, regionally and nationally. Loja also has a single company classified as large (approximately 236 workers) covering the national and international markets for the sale of its products.

The companies studied according to the activities they perform according to the International Unified Industrial Classification - ISIC and to their constitution are classified as indicated in Figure 1.

Figure 1. Constitution and activity

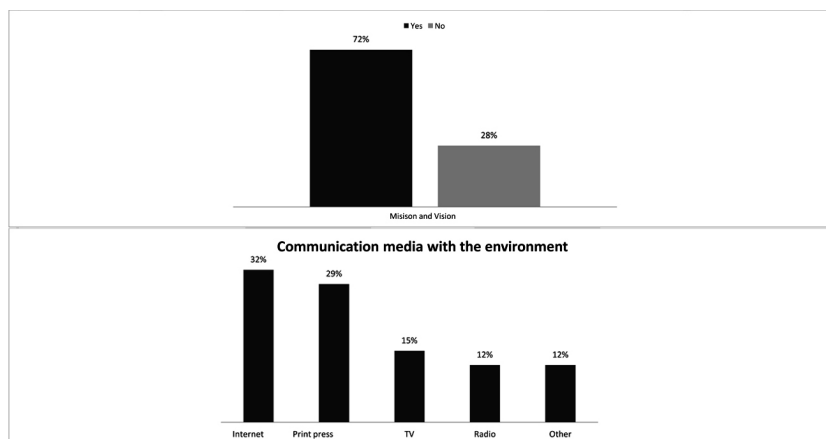


Source: Own research

The characteristics of the elements of the Mckinsey 7s model found in industrial firms are presented below:

Element: strategy

Graph 2. Characteristics of the strategy element

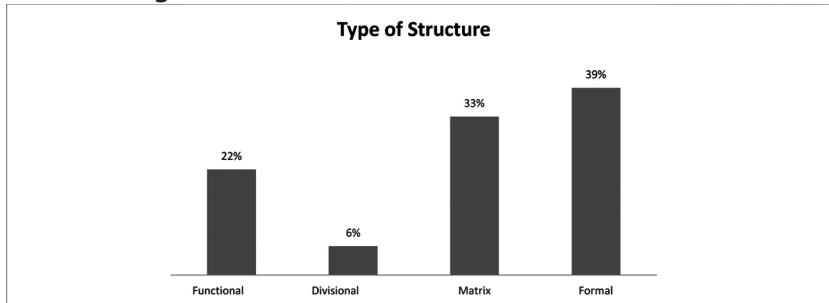


Source: Own research

As far as this element is concerned, it can be summarized as follows: 72% of companies have defined mission and vision, 28% of companies have not defined it. As far as communication with the environment is concerned, all companies indicate that it is carried out through different means; the most used are the internet and the written press.

Element: structure

Figure 3. Characteristics of the structure element

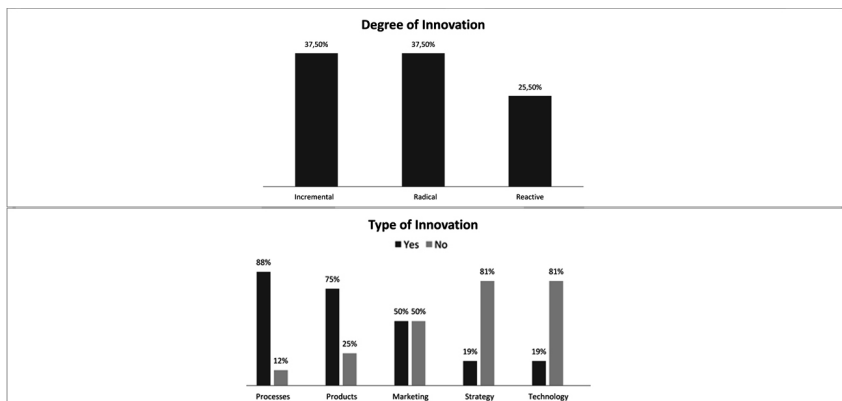


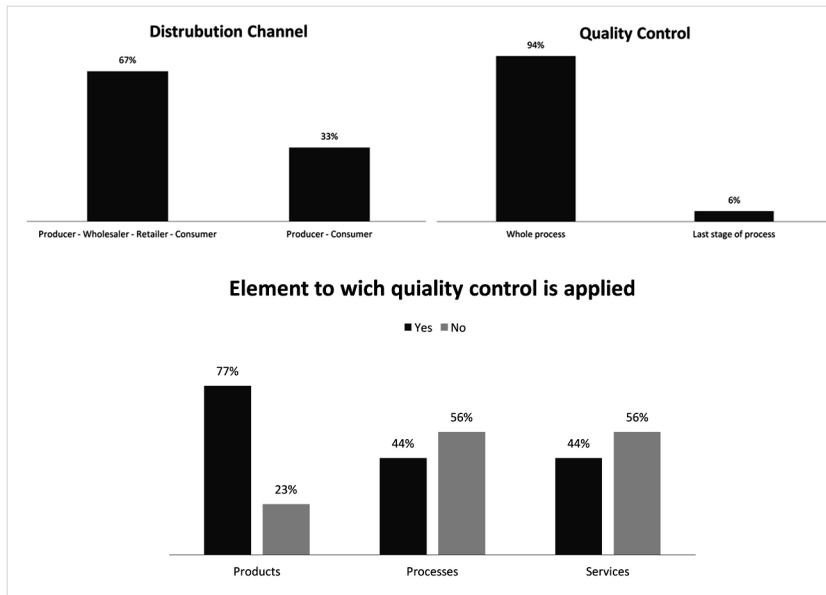
Source: Own research

Regarding the type of organizational structure, all the organizations recognize a defined formal structure, however only 61% of the companies have managed to identify the type of existing structure, 33% as a matrix, 22% as functional and 6 % Divisional.

Element: system

Figure 4. Characteristics of the system element



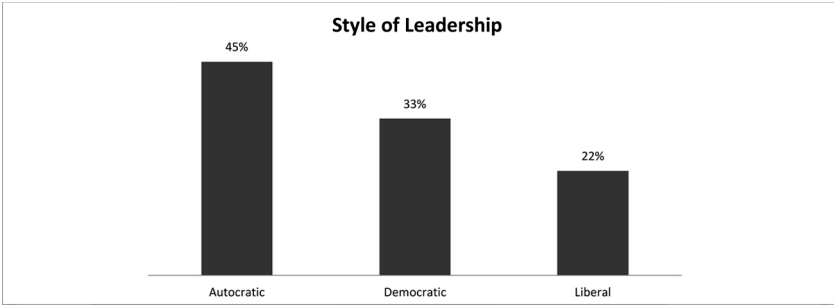


Source: Own research

The characteristics investigated within this element correspond to:

- Innovation: 89% of companies realize innovation; for these companies, the most common innovation degree is the incremental and the radical 37.8% each and the reactive innovation 25%. 88% of the companies that do innovation apply it to processes, 75% to products, 50% to marketing elements, in much better percentages innovation is applied to strategy 19% and technology 19%.
- Regarding the distribution of products, 67% of companies use the channel: producer, wholesaler, retailer and consumer; The direct channel (producer - consumer) is only applied by 33%.
- Quality: all organizations perform quality control, 94% do it throughout the entire process and 6% in the last stage of the production process.
- Also it was consulted the element in which the quality control is carried out, 77% do it to the finished product.
- Element: Management style

Figure 5. Characteristics of the management style element

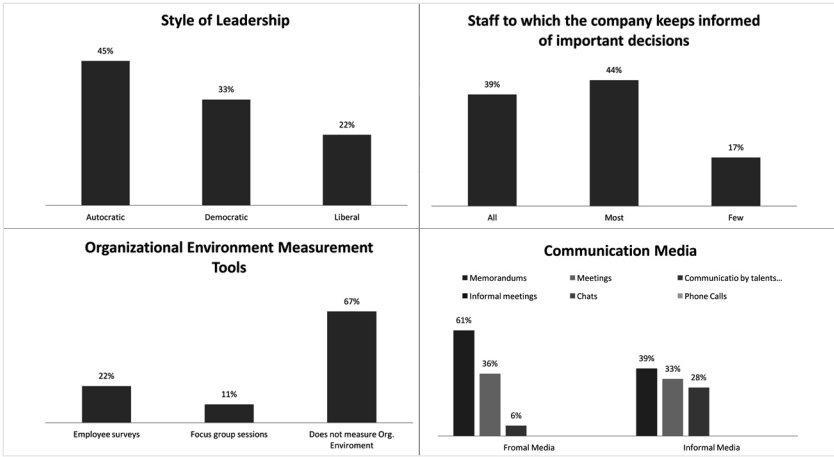


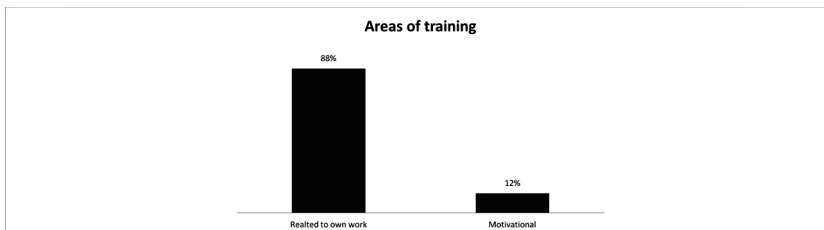
Source: Own research

The three styles of leadership are practiced by companies in this sector, 45% have an autocratic style, characterized by imposition of commands and the ability to grant or deny prizes or punishments; 33% is of a democratic style, which is characterized by consulting subordinates and 22% liberal refers to those who make reduced use of their power, granting their subordinates a high degree of independence, according to the characteristics pointed out by Kootz & Weihrich (2004).

Element: Staff

Figure 6. Characteristics of the staff element





Source: Own research

Regarding this element, the companies were consulted regarding:

- Information flow: 56% is characterized by being performed in a descending manner and 44% in a multidirectional manner. On transcendental issues, the companies in a 44% report to the majority of its collaborators, 39% to all and 17% to very few.
- Companies do not measure organizational environment in 67% of cases, 22% rely on surveys to measure it and 11% do it through a focus group. The most used formal internal communication media are formal memos (61%) and formal meetings (33%), on the other hand informal communication is done through meetings (39%), chats (33%) and telephone calls (28%).
- Training: all companies train their employees, 88% do it in areas specific to their activity and 12% in motivational topics that relate mainly to topics that strengthen the human aspect and achievement of objectives of employees.

Element: Skills

Figure 7. Characteristics of the skills element

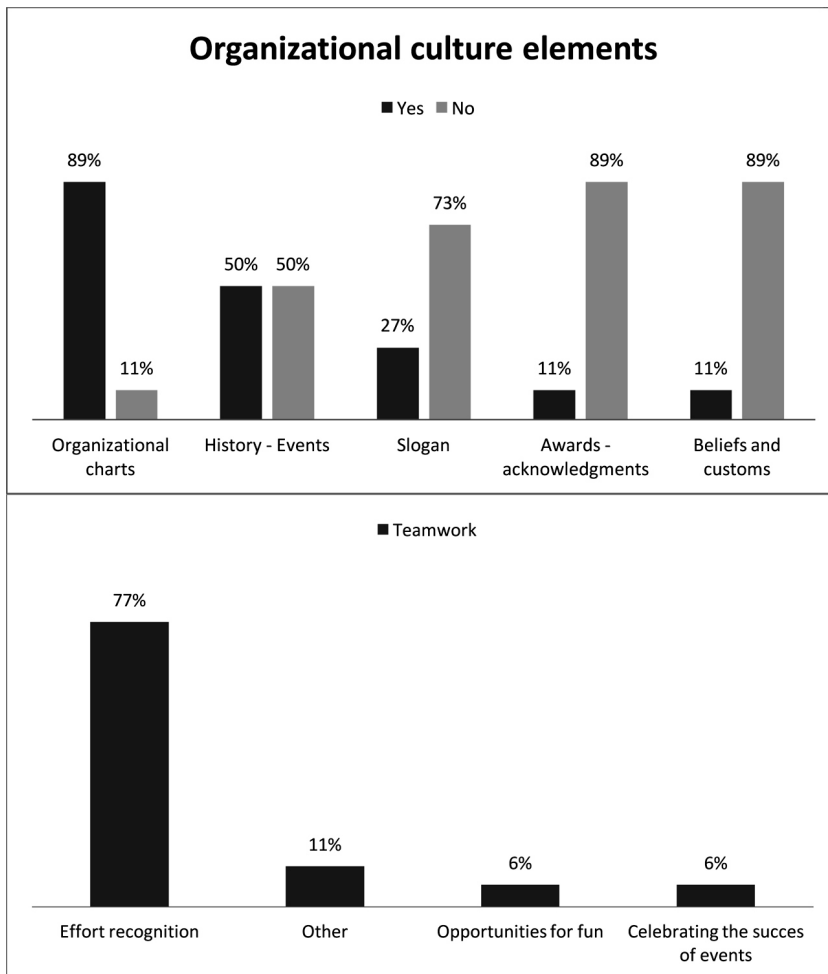


Source: Own research

Characterized by motivational stimuli as a practice of organizations, companies turn to courses and trainings 37% as motivation to their employees, 26% to economic incentives, 21% to aspects related to development opportunity, 11% To recognitions and 5% give days off.

Element: Shared values

Figure 8. Characteristics of the shared values element



Source: Own research

Regarding this element, we have consulted about the different elements of organizational culture, so 89% of companies have organizational charts as a way of structuring and formalizing the tasks that are performed, 50% is based on stories and corporate events, 27% in the slogan that identifies it, 11% in aspects related to awards and recognitions and beliefs and customs.

Teamwork was the value which all companies practice, 77% as a form of recognition of effort, 6% as a form of opportunity for fun and celebrate success.

Discussion and conclusions

The chart below shows the combination of capabilities and characteristics of the studied companies that generated positive variability in profit and tax during the period 2013- 2014, as well as the combination of capabilities of those with negative variability.

Chart 4. Characteristics of the elements of the Mckinsey model of companies according to their

Elements according to the McKinsey model		Investigated Characteristics	Characteristics of companies with higher performance	Prevalence of factor	Characteristics of companies with lower performance	Prevalence of factor
Hard elements	Strategy	External communication: media	Internet	100%	Internet	75%
		Mission	Defined	100%	Defined	100%
		Vision	Defined	100%	Defined	100%
	Structure	Type of organizational structure	Matrix	50%	Formal	75%
	System	Innovation	Products	100%	Products	100%
			Processes	50%	Processes	75%
			Type of innovation: incremental	50%	Type of innovation: reactive	50%
		Logistics	Producer - wholesaler - Retailer - Costumer	100%	- Producer - wholesaler - retailer - Costumer	100%
		Quality	Products	100%	Products	75%
				50%	Procesos	75%

Elements according to the McKinsey model		Investigated Characteristics	Characteristics of companies with higher performance	Prevalence of factor	Characteristics of companies with lower performance	Prevalence of factor
Soft elements	Management style	Leaderships style	Autocratic	75%	Democratic	50%
					Liberal	50%
	Personal	Internal communication: formal and informal	Memoranda - informal meetings	75%	Memoranda - informal meetings	50%
			Information flow: descending	100%	Information flow: multidirectional	100%
		Training of personnel: area	Related to own activities	75%	Related to own activities	75%
		Organizational Environment Measurement	Do not measure	75%	Employee Surveys	50%
	Skills	Motivation	Economic incentives, free days	no existe	Economic incentives	50%
	Shared values	Establishment of elements of organizational culture	Defined flow-charts	75%	Organization chart, mission vision, history and events	100%
		Teamwork	Recognition of efforts	75%	Recognition of efforts	50%

Source: Own research

Studies have pointed out that there is a positive relationship between “the implementation of prospective and analyzing strategies, the development of market-oriented resources and capabilities and the linkage of these with organizational growth” (Ynzunza & Izar, 2013), which aligns to the findings of the present study in relation to incremental innovation in higher performance companies in contrast to the reactive innovation that exists in lower performing companies.

On the other hand, studies reveal that “the level of labor productivity is explained by the qualification of the workers, the dynamics of employment is positively associated with the existence and formality of the R & D team” (Barletta, Pereira, Robert, Yoguel, 2013), these results are related to the success of high staff training and the existence of innovation in both processes and products.

Regarding management style, it is indicated that “leadership and its associated good practices are a fundamental pillar in the construction of the innovation capacity and this can change depending on the sector in which the research is carried out” (Bravo & Herrera, 2009). The autocratic leadership style for the case of the industrial sector investigated, turns out to be part of the good practices that support the development of capacities, however, the style that generates these good practices will be able to vary in the case of other sectors.

Some conclusions could be summarized in:

- The organization by being an open system is permanently influenced by a series of interrelated contingency factors and the view of its managers or administrators on how it should be directed and organized. Such aspects as strategy, structure, system, management style, staff, skills and shared values should be considered when implementing strategies that allow the achievement of objectives and performance.
- The 7s McKinsey model integrates elements that the organization needs to manage in order to configure a corporate strategy and be successful, which are: strategy, systems and procedures, structure, strategy, management style, skills and shared values.
- The majority of companies have a mission and vision as part of their business philosophy, they have a formal structure that is reflected in the structuring of the work through organizational charts, and also perform quality control throughout the production process.
- The style of leadership that is generally applied is autocratic and, as a consequence, the flow of information is descendant, the different elements studied reveal different actions than expected that differ due to the systemic influence of the environment.
- The companies with the highest economic performance show the following characteristic features:
 - * Generate strategies and anticipated plans, maintain a matrix organizational structure, that is, a system of multiple controls that requires flexibility, in relation to systems and procedures, the organizations innovate in products.
 - * Logistics occur through the channel: product, wholesaler, retailer, and consumer, permanently manage the quality in products.
 - * The leadership style that directs organizations is autocratic so the internal communication flow is descendant.

- * The staff is trained in areas specific to the activity they develop; they do not measure the work environment.

Future research could focus on studying what other capabilities are presented by organizations that are generating value. As well as identifying if the generation of value is a direct consequence of the capacities that the organizations have developed. Studies in these areas would contribute to enrich the administrative theory and would give to the managers greater elements in the moment of making decisions.

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