# Diamonds & Stars

The strategy diamond is how we will think and talk about strategy formulation; the star is how we will think and talk about strategy implementation.  Let's look at each tool in turn.

## What is the Strategy Diamond?

The strategy diamond portrayed in Figure 1 provides executives and consultants a concise, coherent way to analyze, integrate, summarize, and communicate product, business, and corporate level strategies. The model covers strategy formulation -- that is, it helps answer questions about what the strategy is and what it will be in the future.  If strategy is conceptualized as being about choice -- managerial choices about what the organization does and does not do -- then the strategy diamond highlights the choices and choice-gaps in the current and proposed strategy.
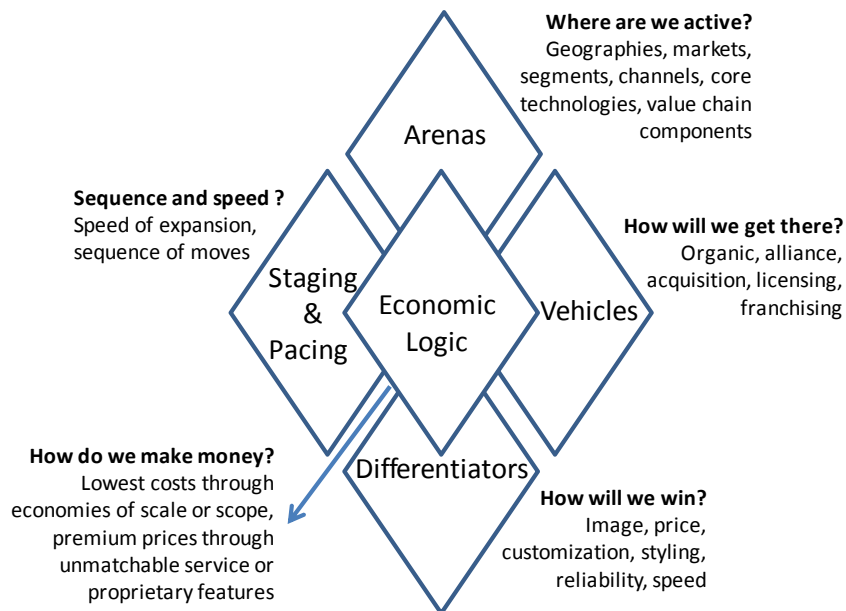


**Where are we active?**
Geographies, markets, segments, channels, core technologies, value chain components

**Sequence and speed ?**
Speed of expansion, sequence of moves

**How will we get there?**
Organic, alliance, acquisition, licensing, franchising

**How do we make money?**
Lowest costs through economies of scale or scope, premium prices through unmatchable service or proprietary features

**How will we win?**
Image, price, customization, styling, reliability, speed

Arenas

Staging & Pacing

Economic Logic

Vehicles

Differentiators

**Figure 1 – The Strategy Diamond**

Ideally, application of the strategy diamond begins by answering questions about arenas and differentiators (or vice-versa). The vehicles dimension (i.e., organic activity versus alliances or acquisitions) is considered an essential element because historically it was treated somewhat as an afterthought. Such treatment has been shown to be particularly problematic for successful strategy implementation. Staging and pacing build strategic change into the strategy. Economic logic, as the last step in the strategy formulation process, summarizes how the four other elements work together to maximize profits (or otherwise benefit its stakeholders). It tells us why all the pieces add up in a way that yields near-term and long term positive performance.

### Arenas

Arenas encompass choices made about where to compete: the external environment such as product or service markets, geographic markets or channels. Arenas also identify value chain activities or value creation stages that are insourced or outsourced.

### Differentiators

Differentiators are those factors that are believed to allow the firm to "win" in its targeted arenas, particularly external arenas. Differentiators can include image, price, reliability, and other key inputs.

### Vehicles

Vehicles identify the degree to which the strategy relies on internal development efforts relative to partnering with or acquisition of external parties.

### Staging & Pacing

Staging and pacing refer to the sequence and speed of strategic moves. This element helps identify decision points since strategic moves don't have a single possible pathway. For instance, a pharmaceutical firm might grow its global footprint by first broadening its product arenas then using this foundation to broaden its geographic market arenas.

### Economic Logic

The economic logic element reflects how all the pieces tie together in a way that satisfies key stakeholders. Economic logic for profit-oriented firms can take the form of scale economies, scope economies, premium pricing or some combination of these. For non-profit organizations, economic logic reflects how well the organization is achieving its mission and vision and serving its focal stakeholders.

## What is the Star Model?

The Star Model framework for organization design is the foundation on which a company bases its design choices. Its development and popularization is associated with strategy researcher Jay Galbraith. The framework consists of a series of design policies that are controllable by management and can influence employee behavior. The policies are the tools with which management must become skilled in order to shape the decisions and behaviors of their organizations effectively.
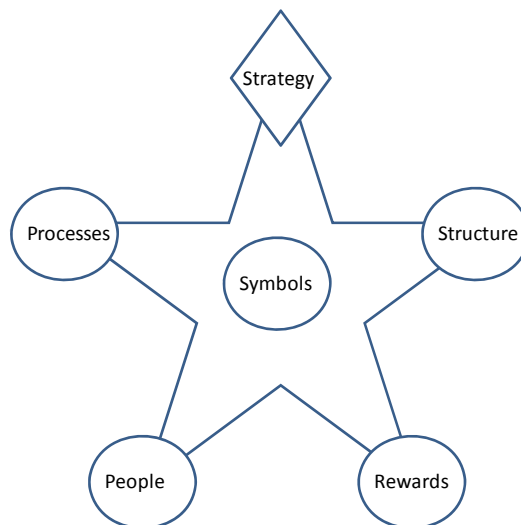


Figure 2 – The Modified Star Model

The organization design framework portrayed in Figure 2 is called the modified "Star Model." In the Star Model, design policies fall into six categories (the modification refers to the addition of the "symbols" dimension). The first is *strategy*, which determines direction. The second is *structure,* which determines the location of decision-making power. The third is *processes,* which have to do with the flow of information; they are the means of responding to information technologies. The fourth is *rewards* and reward systems, which influence the motivation of people to perform and address organizational goals. The fifth category of the model is made up of policies relating to *people* (human resource policies), which influence and frequently define the employees' mind-sets and skills.  The sixth category of the model is related to internal and external *symbols* – that is, highly visible, important, and emotion-laden icons to which the firm's activities and aspirations can be linked.

## Strategy

Strategy is the company's formula for winning. For us, the strategy is defined by the five facets of the strategy diamond. In this model, though, it takes the form of a tagline version of the strategy distilled out of the diamond. The company's strategy specifies the goals and objectives to be achieved as well as the values and missions to be pursued; it sets out the basic direction of the company. The strategy specifically delineates the products or services to be provided, the markets to be served, and the value to be offered to the customer. It also specifies sources of competitive advantage.

Traditionally, strategy is the first component of the Star Model to be addressed. It is important in the organization design process because it establishes the criteria for choosing among alternative organizational forms. Each organizational form enables some activities to be performed well, often at the expense of other activities. Choosing organizational alternatives inevitably involves making trade-offs. Strategy dictates which activities are most necessary, thereby providing the basis for making the best trade-offs in the organization design. Matrix organizations result when two or more activities must be accomplished without hindering the other. Rather than choosing the "or," matrix requires an embracing of the "and." Companies want to be global and local.

## Structure

The structure of the organization determines the placement of power and authority in the organization. Structure policies fall into four areas:

- Specialization
- Shape
- Distribution of power
- Departmentalization

*Specialization* refers to the type and numbers of job specialties used in performing the work. *Shape* refers to the number of people constituting the departments (that is, the span of control) at each level of the structure. Large numbers of people in each department create flat organization structures with few levels. *Distribution of power*, in its vertical dimension, refers to the classic issues of centralization or decentralization. In its lateral dimension, it refers to the movement of power to the department dealing directly with the issues critical to its mission. *Departmentalization* is the basis for forming departments at each level of the structure. The standard dimensions on which departments are formed are functions, products, workflow processes, markets, customers, and geography. Matrix or network structures are ones where two or more dimensions report to the same leader at the same level.

## Processes

Information and decision processes cut across the organization's structure; if structure is thought of as the anatomy of the organization, processes are its physiology or functioning. Management processes are both vertical and horizontal.

Vertical processes, as shown in Figure 3 allocate the scarce resources of funds and talent. Vertical processes are usually business planning and budgeting processes. The needs of different departments are centrally collected, and priorities are decided for the budgeting and allocation of the resources to capital, research and development, training, and so on. These management processes are central to the effective functioning of matrix organizations. They need to be supported by dual or multidimensional information systems.
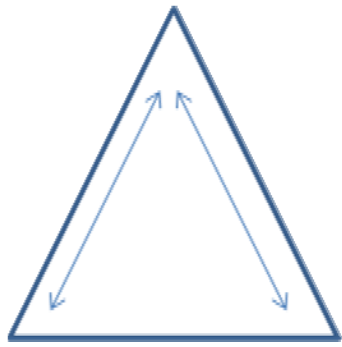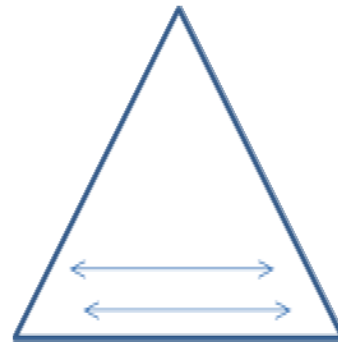
Figure 3—Vertical processes          Figure 4—Lateral Processes

Horizontal–also known as lateral–processes, as shown in Figure 4, are designed around the workflow, such as new product development or the entry and fulfillment of a customer order. These management processes are becoming the primary vehicle for managing in today's organizations. Lateral processes can be carried out in a range of ways, from voluntary contacts between members to complex and formally supervised teams.

## Rewards

The purpose of the reward system is to align the goals of the employee with the goals of the organization. It provides motivation and incentive for the completion of the strategic direction. The organization's reward system defines policies regulating salaries, promotions, bonuses, profit sharing, stock options, and so forth. A great deal of change is taking place in this area, particularly as it supports the lateral processes. Companies are now implementing pay-for-skill salary practices, along with team bonuses or gain sharing systems. There is also the burgeoning practice of offering nonmonetary rewards such as recognition or challenging assignments.

The Star Model suggests that the reward system must be congruent with the structure and processes to influence the strategic direction. Reward systems are effective only when they form a consistent package in combination with the other design choices.

## People

This area governs the human resource policies of recruiting, selection, rotation, training, and development. Human resource policies – in the appropriate combinations – produce the talent required by the strategy and structure of the organization, generating the skills and mind-sets necessary to implement the chosen direction. Like the policy choices in the other areas, these policies work best when they are consistent with the other connecting design areas.

Human resource policies also build the organizational capabilities to execute the strategic directions. Flexible organizations require flexible people. Cross-functional teams require people who are generalists and who can cooperate with each other. Matrix organizations need people who can manage conflict and influence without authority. Human resource policies simultaneously develop people and organizational capabilities.

## Symbols

Symbols are visible, physical manifestations of organizations and indicators of organizational life. Symbols take on important meanings in organizations; meanings that are defined by cultural and social conventions and interactions. In our definition, symbols are things that can be experienced with the senses and used by organization members to make meaning. Symbols are noticed through sight, sound, touch, and smell. Symbols are experienced as real, and their impact has significant organizational consequences. Things such as locations, organizational layout, organizational landscape, key products, brands, trademarks,

spokespeople, or organizational dress are examples. While some symbols are easily manipulated, others can be powerful indicators of organizational dynamics and deep culture that are not necessarily easily changed. Thus symbols discussed here comprise both the physical setting of an organization and the objects within that physical setting, and stands for the meanings, experiences, and ideas that people have in and about the symbol in the context of the organization.

## Implications of the Modified Star Model

As the layout of the Star Model illustrates, structure is only one facet of an organization's design. This is important. Most design efforts invest far too much time drawing the organization chart and far too little on processes and rewards. Structure is usually overemphasized because it affects status and power, and a change to it is most likely to be reported in the business press and announced throughout the company. However, in a fast-changing business environment, and in matrix organizations, structure is becoming less important, while processes, rewards, people, and symbols are becoming more important.

Another insight to be gained from the Star Model is that different strategies lead to different organizations. Although this seems obvious, it has ramifications that are often overlooked. There is no one-size-fits-all organization design that all companies–regardless of their particular strategy needs–should subscribe to. There will always be a current design that has become "all the rage." But no matter what the fashionable design is–whether it is the matrix design or the virtual corporation–trendiness is not sufficient reason to adopt an organization design. All designs have merit but not for all companies in all circumstances. The design, or combination of designs, that should be chosen is the one that best meets the criteria derived from the strategy.

A third implication of the Star Model is in the interweaving nature of the lines that form the star shape. For an organization to be effective, all the policies must be aligned and interacting harmoniously with one another. An alignment of all the policies will communicate a clear, consistent message to the company's employees.

The Star Model consists of policies that leaders can control and that can affect employee behavior, as suggested in Figure 5. It shows that managers can influence performance and culture (i.e., skills and mindsets – *the software of the mind*), but only by acting through the design policies that affect behavior.
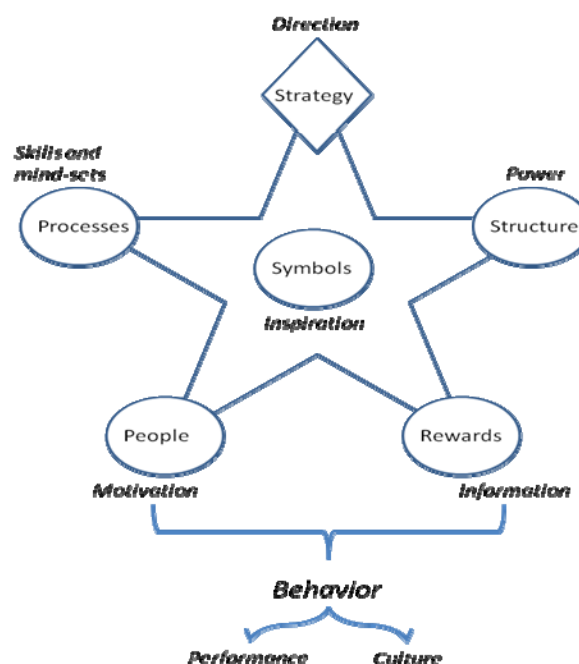


Figure 5 – How organization design affects behavior