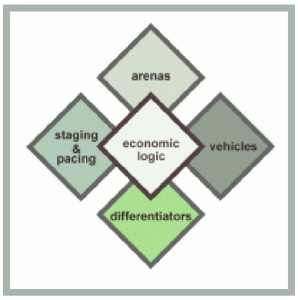
strategy diamond



characteristics

author:	Hambrick, Donald C. and Fredrickson, James W.
country:	United States
period:	2001
type:	model
role:	consultant, change agent and manager
activity:	analyse, design and plan
topic:	strategic management
abstr. level:	environment
perspective:	rational
status:	for review
module:	strategic management
comments:	0

description:

The strategy diamond provides executives and consultants a concise, coherent way to analyse, integrate, summarise, 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 organisation does and does not do -- then the strategy diamond highlights the choices and choice-gaps in the current and proposed strategy.

Based on decades of teaching and consulting in the strategy area, professors Don Hambrick and Jim Fredrickson introduced the strategy diamond in 2001. Their aim was to introduce a model that allowed executives to accumulate and consider all the pieces of a strategy in combination instead of in isolation (i.e., pricing decisions vs. R&D decisions vs. capacity decisions and so on). The strategy diamond is more a checklist than a model. It suggests that good strategies include answers to a series of related questions spanning target markets, growth vehicles, speed and path of strategic change, and financial deliverables.

Empirical support for the value provided by the strategy diamond is anecdotal. In their original article, the authors include examples of the strategy diamond applied to Ikea and Brake Products International as well as examples of individual diamond elements drawn from Gillette, Goldman Sachs, Southwest Airlines, ARAMARK, General Electric, GKN Sinter Metals, and unidentified players in the biotech, printing equipment, and insurance industries. The model was refined through qualitative feedback from students, consultants, and executives.

1. 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. For instance, a pharmaceutical firm may outsource new drug development to smaller biotech firms.

2. 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, reliablity, and other key inputs.

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

4. 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.

5. 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 organisations, economic logic reflects how well the organization is achieving its mission and vision and serving its focal stakeholders.

Ideally, application of the strategy diamond begins by answering questions about arenas and differentiators. The vehicles dimension 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.

Broadly, inputs into analysis using the strategy diamond would include the organisation's mission and vision, goals and objectives the strategy must deliver, and internal and external analysis.

When correctly specified, these five elements are theorized to operate together in a systemic and complementary fashion. The diamond is then used in conjuction with any number of strategy implementation frameworks.

assets:

- strategy diamond
  ProvenModels • Carpenter, Mason • version 1.7 • 95 KB
- strategy diamond work pack
  ProvenModels • Carpenter, Mason • version 1.7 • 269 KB

pros:

- A decision making bias lies behind the strategy diamond. Its authors are rather critical of strategic planning. Hambrick and Fredrickson's (2001: 48) article on the strategy diamond summarises this view: "Strategy is not primarily about planning. It is about intentional, informed, and integrated choices. The staging and pacing element of the strategy diamond builds strategic change into the strategy; the vehicles element identifies strategic dependencies on internal development, alliances, or acquisitions. These aspects are often overlooked in strategy planning exercises.

- The strategy diamond allows managers to compile a concise, comprehensive summary of the strategy that can be communicated with ease to organisation members and other stakeholders. The better a strategy can be communicated, the higher the chance the implementation will happen succesfully.
- As with all planning activities, creating and discussing a strategy diamond for a product, service, business, or diversified organization fosters creates a shared understanding of the strategy and strategy gaps.
- The diamond can be used for any industry. It can also be used for competitor analysis where you map out competitors individual strategy diamonds.

cons:

- The relationships and fit between the variables in the strategy diamond are not based on emperical evidence, but on anecdotal support. The diamond has the same drawbacks as other checklist-type models such as McKinsey's 7S and Galbraith's star model. When one piece of the model is changed, it is possible that all the other pieces of the model must be changed as well.
- The effectiveness of the model relies on internal and external analytics (including the models and frameworks that generate such analytics) plus good managerial judgement and influence to define the elements of strategy and bring them together in a coherent strategy diamond. However, the strategy diamond does not tell managers if the strategy is good, it only tells them if it is complete.
- The model assumes rational decision making -- where choices about the strategy diamond facets and resource allocation are not politicized. Moreover, the model emphasizes strategy formulation and key soft issues would need to be accounted for in the context of strategy implementation.
- The model itself is inwardly focused and does not automatically take system dynamics or competitive interaction into account. These dynamic aspects of strategy based on external analysis, must be included in the staging and pacing element for the strategy to also be dynamic.
- The Strategy Diamond treats strategy formulation and integration as independent, albeit interdependent, activities. The tool is valuable because it helps managers focus on the important strategic choices they are making (or not making). However, if you assume that two firms have essentially the same strategy diamond, then execution will differentiate them, not the strategy.

references:

- Are you sure you have a strategy?
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