

THE STAR MODEL™

JAY R. GALBRAITH

The Star Model™ framework for organization design is the foundation on which a company bases its design choices. 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.

What is the Star Model™?

The organization design framework portrayed in Figure 1 is called the “Star Model™.” In the Star Model™, design policies fall into five categories. 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.

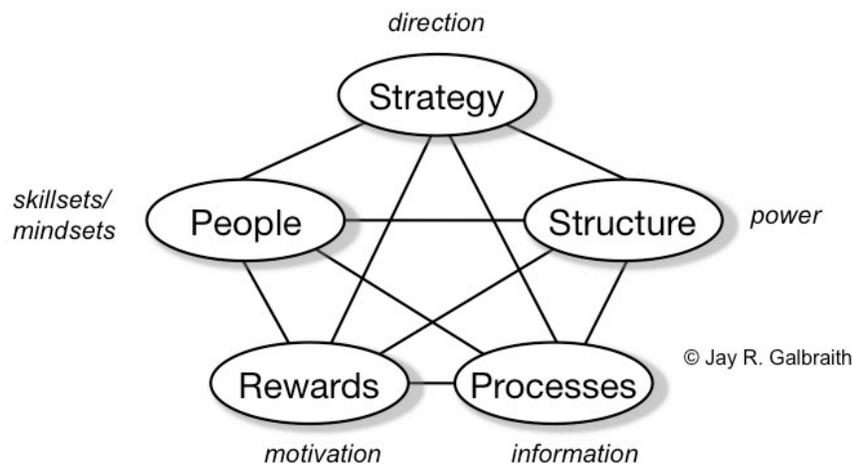


Figure 1—The Star Model™

Strategy

Strategy is the company's formula for winning. 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. (See the book, *Designing Dynamic Organizations* by Galbraith, Downey and Kates, published by Jossey-Bass in 2002, for tools to help translate strategy into criteria.) 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 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.

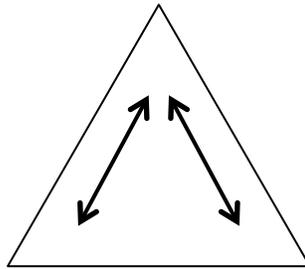


Figure 2—Vertical processes

Vertical processes, as shown in Figure 2 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.

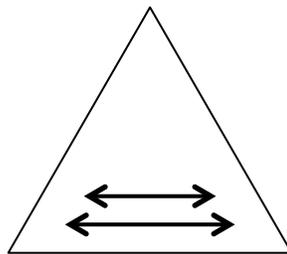


Figure 3—Lateral Processes

Horizontal—also known as lateral—processes, as shown in Figure 3, 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 non-monetary 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.

Implications of the 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, and people 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 4. It shows that managers can influence performance and culture, but only by acting through the design policies that affect behavior.

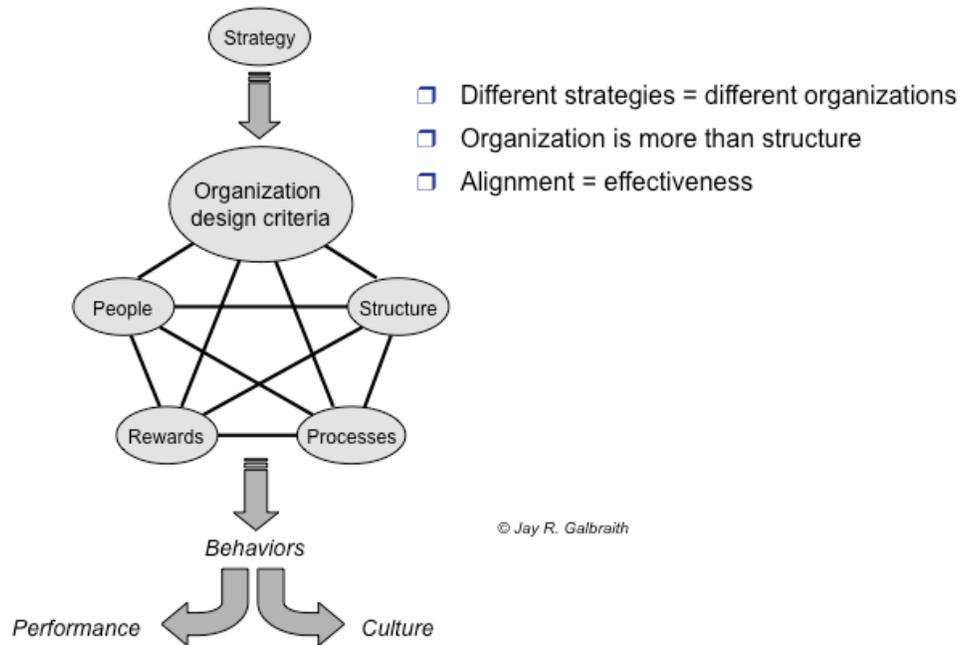


Figure 4 – How Organization Design Affects Behavior and Culture

Overcoming Negatives Through Design

One of the uses of the Star Model™ is to use it to overcome the negatives of any structural design. That is, every organizational structure option has positives and negatives associated with it. If management can identify the negatives of its preferred option, the other policies around the Star Model™ can be designed to counter the negatives while achieving the positives.

Centralization can be used as an example. When the internet became popular, many units in some organizations began their own initiatives to respond to it. These organizations experienced the positives of decentralization. They achieved speed of action, involvement of people closest to the work and tailoring of the application to the work of the unit. They also experienced the negatives of decentralization. The many initiatives duplicated efforts and fragmented the company's response. There were multiple interfaces for customers and suppliers. They ran into difficulty in attracting talent and sometimes had to settle for less than top people.

Most companies have responded by centralizing the activities surrounding the internet into a single unit. In so doing, they have reduced duplication, achieved scale economies and presented one face to the customer. They have combined many small internet units into one large one which is attractive for professional internet managers. But at the same time, decision making moves farther from the work, the central unit becomes an internal monopoly and the result can be lack of responsiveness to other organizational departments who are using the internet.

To minimize the negatives of the central unit, the management of the company can design the appropriate processes, rewards and staffing policies. For example in the planning process, the central unit can present its plan to service the rest of the organization. The leadership team can debate the plan and arrive at an approved level of service. The plan can be prepared by people from the central unit and a horizontal team of people from throughout the company. Along with its goals of reducing duplications and achieving scale, the central unit will also be expected to meet the planned service levels that were agreed. The central unit's performance will be measured and rewarded on the basis of meeting planned goals. And finally to keep the central unit connected to the work, it can be staffed by a mix of permanent professionals and rotating managers from the rest of organization on one or two year assignments. This complete design increases the chances that the central unit will achieve its positives while minimizing the usual negatives.