# Andrews Strategy Framework

## Idea In Short

Kenneth Andrews, a noted business academics professor at Harvard Business School created this framework. According to Andrews' model formulation and implementation of corporate strategy are the two factors responsible for influencing organizational structure, behavior, processes and internal and external business relationships.

The Andrews Strategy Framework, developed by Kenneth Andrews in 1971, is a comprehensive model for developing and implementing business strategy. Kenneth Andrews' Strategy Framework, developed during his tenure at Harvard Business School, stands as a seminal contribution to the field of strategic management. This framework, rooted in the complexities of corporate strategy, offers a comprehensive approach to understanding and navigating the multifaceted nature of organizational decision-making and strategic planning. It has been instrumental in shaping modern business strategy, emphasizing the critical interplay between an organization's internal capabilities and the external environment in which it operates. At the heart of Andrews' framework is the concept that corporate strategy encompasses much more than the mere pursuit of profit. It involves a thoughtful analysis of an organization's distinctive competencies and weaknesses, market opportunities, and broader societal expectations. Andrews posited that effective strategy formulation requires a deep understanding of the firm's internal environment, including its resources, skills, and values, as well as the external environment, encompassing market dynamics, competition, and regulatory landscapes. One of the key aspects of Andrews' framework is the distinction between strategy formulation and implementation. While these processes are distinct, Andrews emphasized their interdependence. Strategy formulation involves determining the organization's purpose, setting objectives, and identifying the means to achieve them. Implementation, on the other hand, is about putting these plans into action. Andrews argued that these processes are cyclical and iterative, with the outcomes of implementation informing future strategy formulation. This perspective marked a shift from the linear approach to strategy that predominated in the business world at the time.

## Key Elements

Andrews's strategy framework comprises a comprehensive approach to strategic management, encompassing four key elements:

1. Environmental Analysis,
2. Corporate Strategy,
3. Functional Strategy, and
4. Strategic Implementation and Control

### Environmental Analysis

This involves conducting a thorough analysis of the external environment, including industry trends, competitor analysis, and market dynamics. Tools like PESTLE analysis (Political, Economic, Social, Technological, Legal, and Environmental) and SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) can be helpful in this process.

### Corporate Strategy

This involves formulating the overall direction and long-term goals of the company, ensuring that it aligns with the external environment. Decisions such as business portfolio analysis, resource allocation, competitive advantage, and growth strategies are crucial components of corporate strategy.

### Functional Strategy

This involves developing specific plans for each functional area of the company, ensuring that they support and contribute to the overall corporate strategy. The functional areas typically include marketing, operations, human resources, finance, and research and development.

### Strategic Implementation and Control

This involves translating the strategic plans into actionable steps, allocating resources effectively, and monitoring progress towards achieving the company's goals. It also involves establishing performance measurement systems and evaluating the effectiveness of the strategy. Andrews's framework emphasizes the interrelated nature of these four elements, highlighting the importance of aligning strategic decisions across different levels of the organization. It provides a structured approach to strategic management, enabling companies to make informed decisions and achieve their long-term objectives.

## Phases Of Strategy

The framework is based on the idea that strategy is a continuous process that involves three main phases:

1. Analysis,
2. Formulation, and
3. Implementation

### Analysis

This phase involves understanding the company's internal and external environment, identifying its strengths and weaknesses, and assessing opportunities and threats.

### Formulation

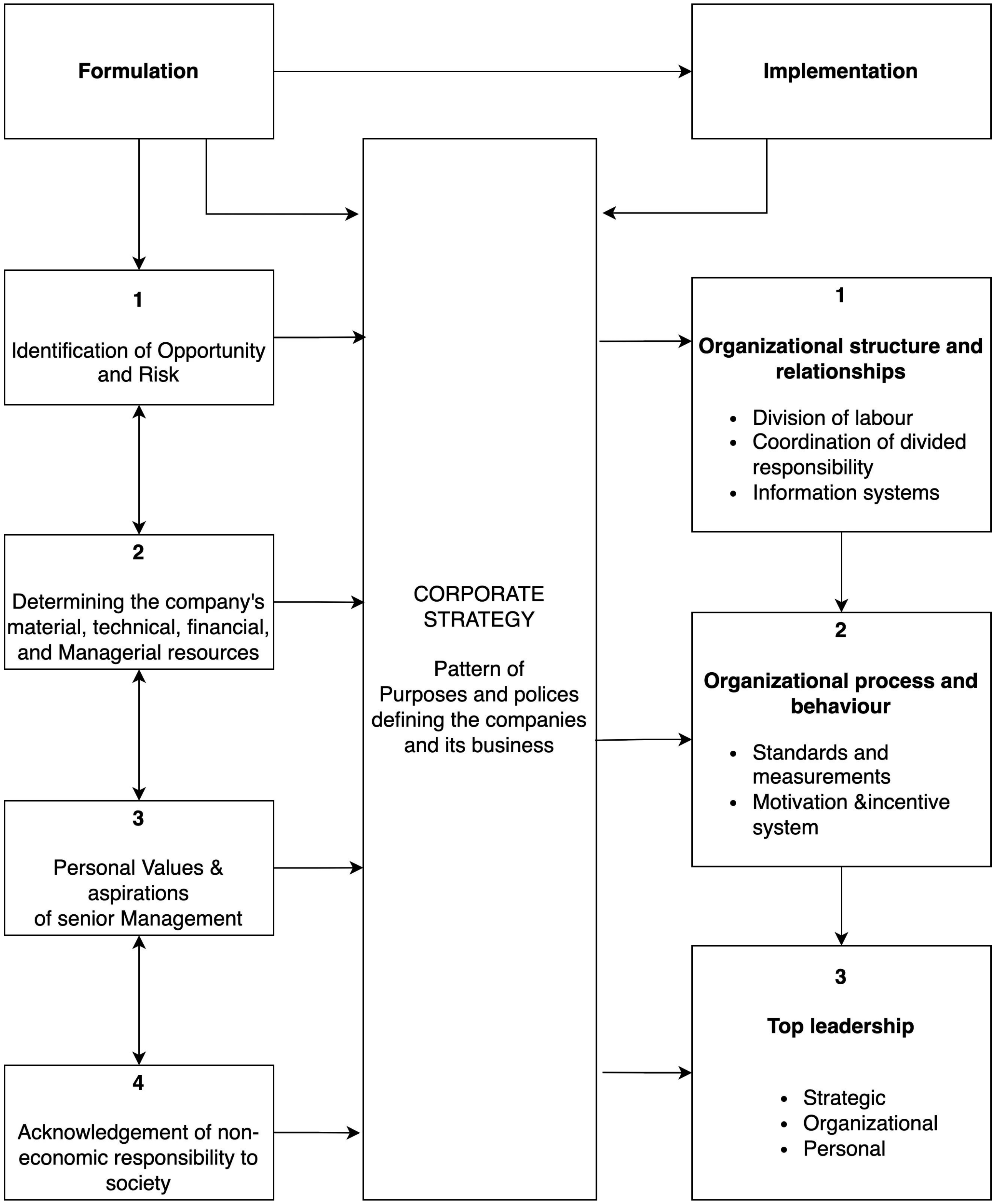
This phase involves developing a strategy that will capitalize on the company's strengths, address its weaknesses, and take advantage of opportunities in the market.

### Implementation

This phase involves putting the strategy into action, which involves making decisions about how to allocate resources, organize the company, and manage its operations.

## Development of Andrew's Strategy Framework

Andrews' development of his strategy framework was motivated by a desire to address the lack of a structured approach to strategic planning in business organizations. He observed that many companies lacked a coherent strategy, often operating in a reactive mode rather than through deliberate planning and foresight. The framework Andrews developed emphasizes the analysis of both the internal and external environments of an organization. Internally, it focuses on understanding a company's strengths, weaknesses, and core competencies. Externally, it requires an analysis of the competitive landscape, market trends, and the broader socio-economic context. A key aspect of Andrews' framework is the concept of SWOT analysis (strengths, Weaknesses, Opportunities, Threats), which has become a fundamental tool in strategic planning. This analysis helps organizations identify areas where they can leverage their strengths, address weaknesses, capitalize on opportunities, and mitigate threats. Moreover, Andrews stressed the importance of aligning a company's strategy with its values and corporate culture, as well as the necessity of adapting strategy in response to changing market conditions. This holistic and flexible approach to strategy formulation and implementation has been a lasting legacy of Andrews' work, guiding businesses in navigating the complexities of the modern marketplace.




Andrews Strategy Framework

# Formulation

## Identification of Opportunity and Risk

The first step involves assessing the external environment to identify potential opportunities for growth and advancement, as well as risks that could threaten the organization's success. This might include market analysis, competitor analysis, and evaluating broader economic, social, and technological trends.

### Determining the Company's Material, Technical, Financial, and Managerial Resources

A comprehensive internal analysis is conducted to determine the company's resources. This includes evaluating the company's physical assets (material), technological capabilities (technical), financial position and resources (financial), as well as the skills and competencies of its management team (managerial).

### Personal Values & Aspirations of Senior Management

The personal values and aspirations of the senior management team are factored into the strategy formulation process. This ensures that the strategy is aligned with the leadership's vision for the company and their personal commitment to certain goals.

### Acknowledgment of Non-economic Responsibility to Society

The strategy formulation also takes into account the company's non-economic responsibilities to society. This might involve considering ethical, environmental, and social impacts of the company's operations and ensuring corporate social responsibility is integrated into the strategic plan.

## Implementation (Achieving Results)

### Organizational Structure and Relationships

This element involves setting up an organizational structure that supports the implementation of the formulated strategy. This includes establishing clear divisions of labor, coordination of divided responsibilities, and information systems that enable effective communication and management.

### Organizational Process and Behavior

The strategy implementation process also requires the establishment of appropriate organizational behaviors and processes. This involves setting standards and measurements for performance, and developing motivation and incentive systems to drive the desired behaviors among employees.

### Top Leadership

Successful strategy implementation is heavily reliant on the top leadership of the organization. This includes their strategic leadership, which guides the overall direction; organizational leadership, which structures and mobilizes the company's resources; and personal leadership, which serves as a role model for others in the company.

## Fundamental Principles of Andrew's Strategy Framework

Andrews' Strategy Framework is built upon several fundamental principles that guide the formulation and implementation of corporate strategy. These principles are crucial for understanding how organizations can effectively navigate the complexities of the business environment.

### Groundwork for Organizational Research

Andrews' framework provides a solid basis for organizational research. It emphasizes a thorough analysis of both internal and external factors. Internally, this involves an examination of the organization's resources, capabilities, culture, and structure. Externally, it requires understanding the competitive landscape, market trends, customer needs, and regulatory environment. This comprehensive approach enables organizations to make informed decisions grounded in a deep understanding of their operational context.

### Variability of Organizational Structures

Andrews recognized that organizations differ significantly in their structures, which can range from flat and decentralized to hierarchical and centralized. The framework accounts for this variability, suggesting that strategy formulation should be tailored to fit the unique structure of each organization. It implies that the effectiveness of a strategy is partly contingent on how well it aligns with the organization's structure.

### Emergence of Strategies in Dynamic Environments

Andrews posited that strategies often emerge organically in response to changing business environments, rather than solely as a result of deliberate planning. This principle acknowledges the unpredictable nature of business and the need for organizations to remain flexible and responsive to sudden market shifts, technological advancements, and unanticipated opportunities.

### Relationship between Strategy Formulation and Implementation

A key aspect of Andrews' framework is the interdependent relationship between strategy formulation and implementation. Formulation involves setting objectives and deciding on the means to achieve them, while implementation is about executing these plans. Andrews emphasized that these are not sequential processes but are intertwined: the outcomes of implementation should inform and refine strategy formulation.

### Strategy Formulation as a Dynamic Process

Andrews viewed strategy formulation as a dynamic, non-linear process that evolves over time. It requires continuous reassessment and adaptation to changes in both the internal and external environment. This principle challenges the notion of strategy as a one-time, fixed plan, advocating instead for a flexible approach that can adapt to changing circumstances.

## Organizational Structure and Strategy Formulation

### Impact of Organizational Structure on Strategy

The organizational structure significantly impacts strategy formulation. Structure defines how activities such as task allocation, coordination, and supervision are directed toward achieving organizational objectives. It shapes the way information flows within the organization and influences decision-making processes. Different structures -- whether hierarchical, flat, matrix, or networked -- have varying implications for strategy formulation. In a hierarchical structure, strategy formulation might be more top-down, with senior management playing a key role in setting the direction. In contrast, a flat or networked structure might encourage a more collaborative approach to strategy, involving a broader range of stakeholders. The structure also affects the organization's ability to respond to market changes. For instance, a more decentralized structure can enable quicker responses to environmental shifts, as decision-making is often closer to the market. Conversely, centralized structures can benefit from a more unified strategic direction but might be slower to adapt to changes.

### Customizing Strategy to Organizational Context

Customizing strategy to fit the organizational context is crucial for its success. This involves aligning the strategy with the organization's structure, culture, resources, and capabilities. It requires understanding the unique characteristics of the organization and designing a strategy that leverages these features. For instance, an organization with a strong R&D capability might focus its strategy on innovation and product development. In contrast, an organization with a vast distribution network might focus on market expansion or penetration strategies. The key is to identify what the organization does well and how these strengths can be used to achieve competitive advantage. Additionally, strategy should align with the organization's culture. A strategy that is at odds with the prevailing culture is likely to encounter resistance and may not be effectively implemented. For example, a strategy that emphasizes risk-taking and rapid innovation may not be suitable for a culture that values stability and incremental improvement. Customizing strategy also involves considering the external environment -- the market conditions, competitive landscape, regulatory framework, and socio-economic trends. The strategy should position the organization to capitalize on external opportunities and mitigate potential threats.

## The Dynamic Nature of Strategy Formulation and Implementation

### Strategy in Response to External Situations

Strategy formulation within Andrews' framework is inherently dynamic, heavily influenced by external environmental factors. These factors include market trends, economic shifts, technological advancements, competitive actions, customer behavior, and regulatory changes. Strategic responsiveness to these external situations is crucial for organizational success and longevity. An organization's strategy must be flexible enough to adapt to unexpected external changes. For example, the emergence of new technologies may open up opportunities for innovation and market development, necessitating an adjustment in the company's strategic direction. Similarly, sudden economic downturns or shifts in consumer preferences can compel organizations to reevaluate and modify their strategies to maintain relevance and competitiveness. Strategically responsive organizations are those that continuously scan the external environment for signals of change and are prepared to pivot or adjust their strategies accordingly. This might involve diversifying product offerings, entering new markets, redefining customer value propositions, or altering business models to suit new market realities.

### Iterative Process of Formulation and Implementation

Andrews emphasizes that strategy formulation and implementation are not linear, one-time events but rather iterative, ongoing processes. Strategy formulation involves setting goals and determining actions to achieve those goals, while implementation is about executing these plans. However, the outcomes of the implementation phase often feed back into the formulation process, leading to a continuous cycle of refinement and adaptation. This iterative process allows for learning and adjustment based on real-world experiences and outcomes. As strategies are implemented, organizations gather data and insights that inform future strategy development. This can lead to the redefinition of objectives, the reevaluation of strategic priorities, or the modification of tactics. The interplay between formulation and implementation acknowledges that strategic plans cannot be rigid. Unexpected challenges, unforeseen opportunities, and changes in the internal or external environment can all impact the effectiveness of a strategy. The iterative process enables organizations to be agile and responsive, adjusting their strategies in light of new information and changing circumstances. In summary, the dynamic nature of strategy within Andrews' framework underscores the importance of environmental responsiveness and the need for an iterative approach to strategy development and execution. Organizations that embrace this dynamic approach are better positioned to navigate the complexities of the modern business landscape and achieve sustainable success.

## Adapting to Change: Strategy as a Dynamic Process

### Evolution of Corporate Strategy

The evolution of corporate strategy is a fundamental concept in Andrews' framework, recognizing that strategic planning is not a static exercise but a dynamic process that evolves over time. As businesses operate in increasingly volatile and complex environments, the ability to adapt and evolve becomes crucial for long-term success. This evolution is driven by changes in both the internal and external contexts in which a company operates. Internally, changes may include shifts in organizational capabilities, resources, leadership, or culture. Externally, factors such as technological advancements, competitive dynamics, market trends, and regulatory changes can significantly impact a company's strategic direction. For instance, digital transformation across industries has compelled many companies to reassess their strategies and adapt to the digital economy. The concept of strategic drift, where a company's strategy becomes less relevant over time due to changing external conditions, further underscores the need for the evolution of strategy. To avoid strategic drift, companies must continuously monitor their environment and be willing to make necessary strategic adjustments. This might involve diversifying into new markets, adopting new technologies, restructuring operations, or revising business models.

### Aligning Strategy with Changing Organizational Goals

As organizations grow and evolve, their goals and aspirations also change. Aligning strategy with these changing goals is critical for ensuring that the organization remains on a path to achieving its vision. This alignment requires a clear understanding of the organization's current position, its desired future state, and the strategic actions needed to bridge the gap between the two. This alignment process involves regular reviews of strategic objectives in light of new developments and insights. It may also necessitate realigning resources, restructuring organizational units, or redefining key performance indicators (KPIs) to ensure they are in sync with the revised goals.

## Case - Toyota

### Formulation (Deciding What to Do)

#### Identification of Opportunity and Risk

Toyota's strategic formulation began with a thorough analysis of the automotive market to identify growth opportunities and potential risks. Recognizing the increasing demand for environmentally friendly vehicles, Toyota identified an opportunity to lead the market in hybrid technology. However, risks included volatile oil prices, stringent environmental regulations, and intensifying global competition.

#### Determining the Company's Material, Technical, Financial, and Managerial Resources

Toyota evaluated its internal resources to support its hybrid technology initiative. The company's strong material resources, advanced technical capabilities in automotive engineering, solid financial position, and experienced managerial team provided a robust foundation for developing the Prius, Toyota's flagship hybrid vehicle.

### Personal Values & Aspirations of Senior Management

The senior management's commitment to sustainability and innovation aligned with the strategic decision to invest in hybrid technology. Their vision was to create a vehicle that would lead the market in fuel efficiency and reduced emissions.

### Acknowledgment of Non-economic Responsibility to Society

Toyota acknowledged its responsibility to society by addressing environmental concerns. The development of the Prius was a response to the global call for cleaner transportation solutions, demonstrating Toyota's commitment to corporate social responsibility.

## Implementation (Achieving Results)

### Organizational Structure and Relationships

Toyota implemented a functional organizational structure that facilitated the development of the Prius. The company's established division of labor, efficient coordination of responsibilities, and robust information systems enabled cross-functional collaboration essential for the Prius project.

### Organizational Process and Behavior

Toyota's corporate culture of continuous improvement (Kaizen) and its lean manufacturing processes were critical in the successful implementation of the hybrid vehicle strategy. The company established standards and measurement systems to track progress and created incentive systems to motivate employees.

### Top Leadership

The strategic, organizational, and personal leadership at Toyota played a crucial role in the Prius project. Strategic leadership provided clear direction, organizational leadership ensured resource alignment, and personal leadership by executives demonstrated a commitment to the hybrid initiative.

## Corporate Strategy

Toyota's corporate strategy emerged as a pattern of purposes and policies directed towards achieving leadership in hybrid technology and sustainable mobility. The company's strategy formulation and implementation were highly integrated, with the successful launch of the Prius informing future strategic decisions in the realm of environmentally friendly vehicles.

## Summary

Kenneth Andrews' seminal contribution to strategic management through his Strategy Framework provides an invaluable approach for organizations to craft and implement effective corporate strategies. Rooted in the interplay between an organization's internal strengths and the external environment, Andrews' framework advocates for a strategy that extends beyond profit-making to include an organization's responsibilities towards society. The framework's formulation phase involves a thorough analysis of opportunities, risks, and resources, coupled with the personal values and aspirations of senior management. Implementation focuses on building an organizational structure and culture conducive to achieving strategic objectives, underscored by strong leadership at all levels.