Common Terminology in Strategy

A

Absorptive Capacity—a firm's ability to assimilate new knowledge based on the firm's prior related knowledge
Acquisitions—an arrangement in which the assets and liabilities of the seller are absorbed into those of the buyer
Adverse Selection—(1) the tendency for those that are most at risk to seek various forms of insurance, or (2) precontractual opportunism that arises when each party cannot freely observe the other's net benefit
Appropriability—the degree to which a firm can extract value from an innovation
Arrow's Information Paradox—in the market for information, to accurately value a piece of information, that information has to be fully revealed to a potential buyer

B

Backward Integration—when input sources are moved into the organization
Barriers to Entry—industry characteristics that reduce the rate of entry below that which would level profits
Barriers to Imitation—characteristics of firm resources and capabilities that make them difficult to duplicate
Barriers to Mobility—factors that prevent the movement of firms across strategic group boundaries in response to profit differences
Bertrand Competition—a model of oligopolistic competition where output is not differentiated and competition is based on price; suggests rents are competed away even with two firms
Boundaries—the scope of firm operations

C

Capabilities—the combination and use of firm resources to produce action
Capabilities Analysis—an assessment of the likelihood that a firm's resources and capabilities will provide a sustained competitive advantage relative to competitors
Cartel—a group of firms that explicitly agree to set prices and/or to limit output
Causal Ambiguity—situations where competitors are unable to understand clearly the link between resources and capabilities and competitive advantage
Collusion—when firms coordinate actions so as to gain market power over consumers
Common Property Goods—resources to which everyone has free access
Competitive Advantage—characteristics of a firm that allow it to outperform rivals in the same industry
Competitive Dynamics—the series of advantage-seeking competitive actions and responses taken by firms within a particular industry
Competitive Groups—clusters of firms within an industry that share certain critical asset configurations and follow common strategies
Competitive Positioning—the choice of strategies and product segments within an industry
Competitive Rivalry—the intensity with which two or more firms jockey with one another in the pursuit of better market positions
Competitive Scope—the extent to which a firm targets broad product market segments within an industry
Competitor Analysis—an assessment of a firm's competitors' capabilities, performance, and strategies
Complementarities—a group of assets that work together to mutually support a particular strategy
Complementary Assets—those assets necessary to translate an innovation into commercial returns
Concentric Diversification—a move by a firm into related, yet distinct, lines of business
Conglomerate—firms that are in multiple, unrelated lines of business
Core Competencies—the subset of a firm's resources and capabilities that provide competitive advantage across several businesses
Corporate Strategy—strategies by which firms can leverage their position across markets to garner economic rents
Cost Leadership—the ability to produce products at the lowest cost, relative to competitors, with features that are acceptable to customers
Cournot Competition—a model of oligopolistic competition where prices are set by the market and

competitors decide output; suggests economic rents greater the fewer firms within the industry
Cross Elasticity of Demand—percentage change in the demand for one good in response to a 1% change in the price of a second good

D

Decision Tree Analysis—a tool for assessing the payoffs to strategic actions under uncertainty and rivalry
Differentiation—the ability to provide value to customers through unique characteristics and attributes of a firm's products
Diversification—the process by which a firm moves into new lines of business
Diversification Matrices—a range of tools for understanding the scale and scope of the firm based on the potential of individual businesses and the ways they influence one another
Divestiture—selling off assets of the firm

E

Economic Rents—returns in excess of what an investor expects to earn from other investments of similar risk (also called above-average returns)
Economies of Scale—unit costs decline as output increases
Economies of Scope—costs of production of two lines of business run together are less than the sum of each run separately
Efficient Market Principle—"when markets are efficient, good situations do not last"
Elasticity of Demand—percentage change in demand in response to a 1% change in the price of that good
Entrepreneurship—the development of new products and processes (i.e., innovation)
Environmental Analysis—an assessment of the elements in broader society that can influence an industry and the firms within it
Escalation of Commitment—sticking to a course of action beyond a level that a rational model would prescribe
Excess Capacity—the capacity to produce additional units without substantial incremental costs or additions to fixed capacity
Exit Costs—costs incurred when a firm exits a business (e.g., early payments of contractual obligations such as salaries or environmental cleanup costs)

F

First-Mover Advantages—advantages held by a firm by virtue of being the first to introduce a product or service
Five Forces Analysis—an assessment of an industry's profitability by analyzing the intensity of rivalry among industry competitors and the threats posed by new entrants, buyers, suppliers, and product substitutes
Forward Integration—when output outlets are moved into the organization
Free Riding—not paying for a nonexclusive good in the expectation that others will
Friendly Takeover—an acquisition where a target firm welcomes offer from acquirer

G

Game Theory—the formal analysis of conflict and cooperation among intelligent and rational decision makers based on the actions available to them and the associated future payoffs
Governance—the structure of inter- and intra-firm relationships

H

Hierarchy—the organization of authority and decision making within a firm
Holdup Problem—when one who makes a relationship-specific investment is vulnerable to a threat by other parties to terminate that relationship so as to obtain better terms than were initially agreed
Hostile Takeover—an acquisition where target firm resists the acquisition

I

Industrial Organization View—perspective that above-average returns derive primarily from industry characteristics that reduce competitive pressures within industries
Industry Life Cycles—the periodic evolution of markets spurred by innovation and technological change
Information Asymmetries—when one party knows more than another
Institutions—various nonmarket stakeholders such as the government, advocacy groups, communities, and unions
International Strategy—the logic behind production or sales of products in markets outside the firm's domestic market

J

Joint Venture—independent firm created by joining the assets from two or more companies

K

Keiretsus—networks of closely linked firms that share equity, common in Japan

L

Learning Curves—reductions in the unit costs associated with cumulative, life-time experience in an activity
Leveraged Buyout—a restructuring action whereby a party buys all the assets of a public firm and takes the firm private
Licensing—when a firm authorizes another firm to manufacture or sell its products (in return for a royalty typically)
Limit Pricing—holding prices lower than what is profit-maximizing in the short term to deter entry

M

Market Leader—a firm with significant market share who may set prices for the rest of an industry
Mergers—an arrangement in which the assets and liabilities of two or more firms are integrated into one firm
Minimum Efficient Scale—the smallest output for which unit costs are minimized
Minority Equity Investment—purchase by one firm of a noncontrolling, minority stake in another firm
Monitoring—an activity whose aim is determining whether contractual obligations of another party have been met
Monopoly—a market with only one seller
Monopsony—a market with only one buyer
Moral Hazard—(1) the tendency for those who obtain some form of insurance to take more risk, or (2) post-contractual opportunism that arises when actions are not freely observable
Multipoint Competition—when firms compete with one another across multiple markets
Mutual Dependence—when two firms have relatively similar amounts to gain from an alliance

N

Negative Externalities—unpriced costs imposed on one agent by the actions of a second
Network Externalities—when the value to a customer of a product increases as the number of compatible users increases
Niche—a specialized part of the market, often small
Nonequity Alliance—contract between two or more firms that does not involve equity sharing

O

Opportunism—when an individual takes advantage of an information advantage so as to pursue his or her own self-interest
Opportunity Cost—the value of the next best opportunity which must be sacrificed in order to engage in a particular activity

P

Payoff Matrix—a tool for assessing the payoffs to individual strategic actions given likely competitor responses
Principal-Agent Problem—the potential for opportunism by an agent when a principal who wants the agent to engage in some behavior has difficulty observing the agent's behavior
Public Goods—resources that are nonrival (marginal cost is zero) and nonexclusive (people cannot be excluded from consuming)

R

Real Options—investments that enable (but do not require) future strategic actions

Rent-Producing Assets—resources and capabilities that confer above-average returns
Reputation Pricing—slashing prices in response to market entry to establish a reputation for being a fierce competitor
Residual Rights Of Control—the right to determine the use of firm assets in the absence of contract specifications
Resource-Based View—perspective that above-average returns derive primarily from within the firm via valuable and rare resources and capabilities that are hard to imitate or substitute for
Resources—inputs into a firm's production process—may be tangible (those that can be seen and quantified) or intangible (e.g., reputation, knowledge)

S

Scenario Analysis—a tool for making strategic decisions in the face of multiple uncertainties by aggregating those uncertainties into a limited set of coherent future outcomes
Schumpeterian Competition—a theory of competition proposed by Joseph Schumpeter in which innovation (not efficiency) is the hallmark of market-based economies
Specific Assets—assets that have value only in a very narrow use
Spillovers—knowledge gained by one agent may be observed by another agent
Stakeholder Analysis—an assessment of the pressures relevant constituencies (stakeholders) bring to bear on a firm
Stakeholders—the individuals and groups who can affect and are affected by the strategic actions of a firm
Strategic Actions—(1) individual actions to meet strategic mission and strategic intent, and (2) actions that require significant resource commitments
Strategic Alliances—partnerships between firms in which their resources or capabilities are combined to pursue mutual interests
Strategic Groups—clusters of firms within an industry that share certain critical asset configurations and follow common strategies
Strategic Intent—a plan to leverage a firm's internal assets to accomplish the firm's goals
Strategic Mission—a statement of a firm's unique purpose and the scope of its operations in product and market terms
Strategic Plan—a synthesis of analyses into a set of future strategic actions for the firm
Strategy Map—a tool for identifying strategic groups and unexploited niches within an industry
Switching Costs—one-time costs customers incur when buying from a different supplier
SWOT Analysis—a general assessment of the strengths and weaknesses of a firm and the opportunities and threats of the firm's industry
Synergy—the excess value created by businesses working together over the value those same units create when working independently
Synergy Trap—overpaying to acquire a firm in the pursuit of synergy

T

Tacit Collusion—when firms take actions so as to gain market power over consumers without explicit agreements
Tactical Action—strategic action that is easy to implement or reverse (e.g., pricing)
Theory of the Firm—an attempt to explain the boundaries of firms by viewing a firm as a nexus of contracts where residual rights of control are maintained
Tightly Held Assets—assets that are both rare (not widely possessed) and are hard to imitate or substitute for
Transaction Costs—cost of carrying out a transaction or the opportunity costs incurred when an efficiency-enhancing transaction is not realized

V

Value Chain Analysis—a tool for identifying a firm's value-adding resources and capabilities
Vertical Foreclosure—vertical integration that cuts off a competitor's access to the supply chain
Vertical Integration—the process in which either one of the input sources or output buyers of the firm are moved inside the firm

W

Winner's Curse—the winner of an auction is the player who has the highest valuation of the asset and thus likely overvalues the asset