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Glossary

acquisitions

When one firm, usually the larger one, buys another firm

agency problem

When the interests of the individuals that manage the company (agents such as the CEO) may not align with the interest of the owners (such as stockholders)

backward vertical integration

Moving back along the value chain and entering a supplier’s business

behavioral control

Focuses on controlling the actions of individuals through rules and procedures

best-cost

A strategy where the firm attempts to offer a hybrid of both lower cost and differentiated products or services, combining the two basic strategies

blue ocean strategy

Creating a new, untapped market rather than competing with rivals in an existing market

broad cost leadership

A strategy that offers the lowest price in the market for that product or service

broad differentiation

A strategy that offers something unique that differentiates their product or service from others

Causal Ambiguity

The reason for achieving a competitive advantage is not apparent, and therefore difficult to imitate

clan control

Relies on shared traditions, expectations, values, and norms to lead people to work toward the good of their organization

competitive advantage

When the economic value creation of a firm is greater than its competitors.

conflicts of interest

When a person could receive personal benefit from decisions they make in their official capacity

Copyrights

Provide exclusive rights to the creators of original artistic works such as books, movies, songs, and screenplays

core competency

A skill set that is difficult for competitors to imitate

core values

The important guiding principles of an organization, that every employee should embrace

corporate social performance

Measuring the impact of a firm's activities in corporate social responsibility

Corporate social responsibility

Efforts by a firm to be socially accountable by contributing to community and/or societal goals through philanthropic, activist, or charitable activities

Corporate Strategy

Specifies actions taken by the firm to gain a competitive advantage by selecting and managing a group of different businesses in several industries and/or product markets

corporations

A legal business entity that separates the owners from the liabilities of the business. Owners are issued stock, and profits are taxed twice, at the corporate and individual owner levels

Creating Shared Value (CSV)

A business model whereby society's needs and challenges are addressed as a firm prospers achieving its mission

Cultural risk

The potential for a company's operations in a country to struggle because of differences in language, customs, norms, and customer preferences

diversification discount

When the value of a conglomerate is less than the value of the sum of its business units

Economic risk

The potential for a country's economic conditions and policies, property rights protections, and currency exchange rates to harm a firm's operations within a country

Economies of scale

Created when the unit cost of goods and services decreases as a firm is able to produce and sell more items

Emergent strategy

An unplanned strategy that arises in response to unexpected opportunities and challenges

Entrepreneurial orientation

The processes, practices, and decision-making styles of organizations that act entrepreneurially

fighting brand

A lower-end brand that a firm introduces to try to protect the firm's market share without damaging the firm's existing brands

focused cost leadership

A strategy that attempts to provide the lowest cost to a narrow, niche target market

focused differentiation

A strategy that provides unique or differentiated products or services to a narrow, niche target market

foothold

A small position that a firm intentionally establishes within a market in which it does not yet compete

forward vertical integration

Moving further down the value chain to enter a buyer's business

Geographic Diversification

Expanding geographically into different markets

hierarchy of authority

The chain of command that shows who reports to whom

horizontal integration

Pursuing a diversification strategy by acquiring or merging with a rival company

Innovativeness

The tendency to pursue creativity and experimentation aimed at developing new products, services, and processes

intangible resources

Resources that are not physical, like a firm's reputation, a patent, or employee knowledge

Intellectual property

Creations of the mind, such as inventions, artistic products, and symbols.

intended strategy

The strategy that an organization hopes to execute

internal development

Adding new capabilities or products and services using a firm's resources or hiring those resources

International strategy

How a firm conducts its business outside the borders of its home country

isolating mechanisms

Methods that prevent a competitor from imitating the resource or capability that provides a competitive advantage

joint venture

A cooperative arrangement that involves two or more organizations each contributing to the creation of a jointly owned, new company

limited liability company (LLC)

A limited liability company with some of the ease of operation of a sole proprietorship or partnership but owners are separated from the liabilities of the business

merger

Two firms, usually similar in size, combine into one entity, often gaining strength in the market

mission

An organization's purpose, why it exists, beyond making a profit

multinational corporation (MNC)

A firm that has operations in more than one country

Offshoring

Relocating a business activity to another country, such as manufacturing or a call center

organizational performance indicators

Quantitative measures that indicate how an organization performs in comparison to historical trends and/or competitors.

Output control

Focuses on measurable results within an organization

partnership

A business that is not incorporated with two or more owners/partners, personally responsible for the liabilities of the business

Patents

Legal decrees that protect inventions from direct imitation for a limited period of time

path dependence

The historical path a firm takes over time, including the decisions, accumulated learning, and experience gained along the historical path are not easily duplicated.

performance benchmarks

Reference points that a firm can use to compare its performance against others.

performance measures

Quantitative measures that indicate how an organization performs in comparison to historical trends and/or competitors.

PESTEL analysis

Evaluation of six forces in an industry's macro-environment: political, economic, socio-cultural, technological, environmental, and legal.

Political risk

The potential for government upheaval or interference with business to harm an operation within a country

Proactiveness

The tendency to anticipate and act on future needs rather than reacting to events after they unfold

realized strategy

The strategy that an organization actually follows

Related Diversification

When a firm moves into a new industry that has important similarities with the firm's existing industry or industries

reshoring

Returning offshored jobs and activities back to the home country

S corporation

A special form of a corporation for smaller companies, with a limited number of owners/stock holders who are separated from the liabilities of the business. Profits are only taxed at the individual owners level.

Sarbanes-Oxley

Federal legislation in 2002 that reformed financial regulations, in the wake of multiple corporate scandals

SMART

Goals that are specific, measurable, attainable, realistic, and time-bound

social complexity

The interrelationships within a firm, along with relationships within or across a business process, that are difficult for competitors to imitate.

sole proprietorship

The simplest form of business, with only one owner who is personally responsible for the liabilities of the business, whereby the owner and the business are considered one and the same

strategic alliance

A cooperative arrangement governed by contract between two or more organizations for their mutual benefit.

strategic issue

The primary matter faced by an organization that must be addressed for the organization to survive, excel, or achieve a major strategic initiative

strategic management

An ongoing process used by firms to set an organizational vision, analyze the external, competitive, and internal environments, and develop strategies for success

strategic resources

Resources that provide an organization with an opportunity to develop competitive advantages over its rivals

strategy

A broad goal that an organization needs to achieve to be successful in the marketplace

stuck in the middle

Firms that attempt a hybrid, best cost strategy of low cost and differentiation, but are not able to achieve either effectively

Synergy

In the business context means the cooperation or interaction of two or more busi - ness units so that they perform more effectively together than they would if independent

Tangible resources

Resources that can be readily seen, touched, and quantified, such as cash or equipment

three P's

Measuring a firm's overall success based on People, Planet, and Profit, instead of the traditional view of only profit.

Trade secrets

Refer to formulas, practices, and designs that are central to a firm's business and that remain unknown to competitors

Trademarks

Phrases, pictures, names, or symbols used to identify a particular organization

unrealized strategy

A strategy that was developed but not accomplished

Unrelated Diversification

When a firm enters an industry that lacks any important similarities with the firm's existing industry or industries

value chain

The path and steps by which products and services are created and eventually sold to customers, including supporting activities

value statements

The principles that are important to an organization, that all employees should adopt and live by

vertical integration

Diversifying by entering an industry in the firm's value chain, such as a supplier upstream or a buyer downstream

vision

What the organization hopes to become, its aspirational goal for the future

VRIO framework

A tool used to assess if a firm's resource or capability is Valuable, Rare, Difficult to Imitate, and Organized to create value, and therefore what type of competitive advantage it provides.