# Glossary

**acquisition—**the purchase of one company by another, for either cash or equity in the parent. Sometimes the word *takeover* is preferred when the acquisition is hostile, and resisted by the company being bought. Similarly, *mergers* are when two companies simply *agree* to come together as one.

**activities—**those things – acts and tasks – undertaken by an organization which, when aggregated, dictate the strength of a *strategic position*.

**adaptive strategic change—**strategies that emerge and develop on an ongoing basis as companies learn of new environmental opportunities and threats and adapt (or respond) to competitive pressures.

**adding value—**technically, the difference between the value of a firm's outputs and its inputs; the additional value is added through the deployment and effort of the organization's resources. Successful organizations will seek to add value to create outputs which are perceived as important by their customers. The *added value* or *supply chain* is the sequential set of activities from suppliers, through manufacturers and distributors, which is required to bring products and services to the marketplace.

**alliance (strategic alliance)—**an agreement, preferably formalized, with another organization. The alliance might be with an important supplier, with a major distributor, or possibly with a competitor, say for joint research and development.

**appropriability—**the ability of an organization to ensure that at least some of the benefits earned from the value that it creates and adds comes back to the organization, rather than only benefiting others, such as suppliers, customers or even competitors.

**architecture—**a relational network involving either or both external linkages (see *alliance*) or internal linkages between managers in a company or businesses in a conglomerate. The supply chain is one such network. The main benefits concern information exchanges for the mutual gain of those involved, and *synergies* (see below) from interdependencies. Sometimes linked with reputation and innovation as key strategic resources for an organization.

**backward (vertical) integration—**the process by which a manufacturer acquires direct control over its inputs, such that it makes what it previously bought in. See also *vertical integration*.

**benchmarking—**a process of comparative evaluation – of products, services and the performances of equipment and personnel. Sometimes companies attempt to benchmark their competitors; on other occasions they will benchmark those organizations which are seen as high performers.

**bird approach—**is an approach to strategic management resembling a bird scanning the horizon for the best tree to land on, thus experiencing almost unlimited choice. It is often viewed as an arbitrary and risky approach.

**blue ocean strategy—**is where organizations discover radical new opportunities for competitive advantage and thus reduce the likelihood of damage from aggressive price competition.

**branding—**the additional value and reassurance provided to customers through the reputation of the business, represented by the strength and visibility of its brand name.

**break-even—**the level of activity where the total costs incurred in producing and selling a product or service – or pursuing a particular strategy – are equal to the total revenues generated.

**business environment—**see *environment*.

**business ethics—**the principles, standards and conduct that an organization practises – and sometimes states formally – for the way in which it deals with its people, its external stakeholders and environmental issues that arise.

**business model—**a concise summary of the organization and its strategy which answers three questions – what, for whom and why? What products and business activities the organization will engage in – and what it will not, who the target market is for each product or business and what their compelling reason to buy is – the why element.

**business process re-engineering—**the analysis and redesign of workflows and processes within organizations and between them (i.e. along the supply chain).

**combination strategies—**term used where more than one discrete strategic alternative is pursued at the same time. Particularly relevant for a mixture of market penetration, market development and product development strategies; and invariably implies innovation.

**competitive advantage—**the ability of an organization to add more value for its customers than its rivals, and thus attain a position of relative advantage. The challenge is to sustain any advantage once achieved.

**competitive logic—** linked to Competitive Advantage, competitive logic concerns the robustness and viability of the competitive strategy for a product, service or business.

**competitive platforms—**the important bases of competition in an industry and for an individual competitor.

**competitive strategy—**the means by which organizations seek to achieve and sustain competitive advantage. Usually the result of distinctive *functional strategies*.

There should be a competitive strategy for every product and service produced by the company.

**competitor gap analysis**—a comparison of the organization with its leading competitors in terms of their respective ability to satisfy key success factors. Ideally, this will involve an input from relevant customers.

**competitor-influenced strategy**—strategies and tactics that arise from a need to compete in an industry or environment – for both markets and resources. When an organization introduces changes, competitors are likely to react, forcing further incremental changes. At the same time, competitors introduce new strategic ideas that vigilant organizations will respond to.

**concentration ratios**—normally the degree to which added value and/or turnover and/or assets in an industry are concentrated in the hands of a few suppliers. High concentration is reflected in monopoly and oligopoly industry structures. Sometimes measured in terms of aggregate output controlled by the largest companies in a country.

**controls**—means by which progress against stated objectives and targets is measured and monitored, and changed as necessary.

**core competencies**—distinctive skills, normally related to a product, service or technology, which can be used to create a competitive advantage. See also *strategic capability*. Together, they form key resources that assist an organization in being different from (and ideally superior to) its competitors.

**corporate governance**—the selection, role and responsibilities of the strategic leadership of the organization, their conduct and their relationships with internal and external stakeholders. Sometimes responsibility for overall strategy and ongoing operations will be separated.

**corporate strategy**—the overall strategy for a diversified or multiproduct/multiservice organization. Refers to the overall scope of the business in terms of products, services and geography.

**cost leadership**—the lowest cost producer in a market, after adjustments for quality differences. An important source of competitive advantage in either a market or a segment of a market. Specifically, the cost leader is the company that enjoys a cost advantage over its rivals through the management of its resources, and not simply because it produces the lowest quality.

**cost of capital**—the cost of capital employed to fund strategic initiatives, combining the rate of interest on debt and the cost of equity. The typical formula used is the weighted average cost of capital which encompasses the relative proportions of debt and equity. Should normally be lower than the discounted rate of return from the investment or initiative – see *discounted cash flow*.

**credit crunch**—a term used to explain a shortage of credit in an economy. The impact is felt by organizations which experience difficulties in borrowing money to invest and expand.

**crisis management**—how the organization (a) seeks to reduce the likelihood of, and (b) manages in the event of, a major disturbance which has the potential to damage the organization's assets or reputation. Some crises are the result of mismanagement or inadequate controls; others begin outside the organization and may be unavoidable.

**critical mass**—relates to the actual and relative size of an organization in terms of its ability to be influential and powerful in its industry or environment.

**critical success factors**—see *key success factors*.

**culture**—the values and norms of an organization, which determine its corporate behaviour and the behaviour of people within the organization.

**decentralization/centralization**—the extent to which authority, responsibility and accountability are devolved throughout the organization. Centralization should yield tight control; decentralization motivates managers and allows for speedier reactions to environmental change pressures.

**delayering**—the flattening of an organization structure by removing layers of management and administration.

**demerger or divestment**—term used when an organization sells or spins off (or maybe even closes) a business or activity. Usually linked to a strategy of increased focus.

**differentiation**—products and services are differentiated when customers perceive them to have distinctive properties that set them apart from their competitors.

**directional policy matrix**—a planning technique used to compare and contrast the relative competitive strengths of a portfolio of products and services produced by an organization. Used to help in evaluating their relative worth and investment potential.

**discounted cash flow (DCF)**—the sum of the projected cash returns or flows over a period of years from a strategic investment or initiative. Future figures are reduced (specifically, inflation is removed) to bring them into line with present values.

**diversification**—the extent of the differences between the various products and services in a company's portfolio (its range of activities). The products and services may be *related* through say marketing or technology, or *unrelated*, which normally implies that they require different management skills.

**divestment**—see *demerger*.

**divisionalization**—a form of organization structure whereby activities are divided and separated on the basis of different products or services, or geographical territories.

**dot.com companies**—organizations that have emerged as the power and potential of the Internet has been realized and exploited. Dot.com companies will normally trade over the Internet, but some are essentially service providers.

**double-loop learning**—an assessment of the continuing appropriateness and value of existing competitive positions and paradigms and the ability to create new competitive positions, ideally ahead of competitors. See also *single-loop learning.*

**downsizing—**sometimes associated with business process re-engineering, downsizing occurs when organizations rationalize their product/service ranges and streamline their processes. People, in particular layers of management, are removed. See also *rightsizing.*

**e-commerce—**short for electronic commerce, and meaning trading over the Internet.

**e-markets—**markets is the term used for when buyers and sellers come together to engineer an exchange. E-markets is the term used when this trading is via the Internet.

**economies of scale—**cost savings accrued with high volume production, which enables lower unit production costs.

**effectiveness—**the ability of an organization to meet the demands and expectations of its various stakeholders, those individuals or groups with influence over the business. Sometimes known as 'doing the right things'.

**efficiency—**the sound management of resources to maximize the returns from them. Known as 'doing things right'.

**emergent strategy—**term used to describe and explain strategies which emerge over time and often with an element of trial and error. Detailed implementation is not prescribed in advance. Some emergent strategies are *incremental changes* with learning as intended strategies are implemented. Other *adaptive strategies* are responses to new environmental opportunities and threats.

**empowerment—**freeing people from a rigid regime of rules, controls and directives and allowing them to take responsibility for their own decisions and actions.

**entrepreneur—**someone who perpetually creates and innovates to build something of recognized value around perceived opportunities.

**entrepreneurial/visionary strategies—**strategies created by strong, visionary strategic leaders. Their successful implementation relies on an ability to persuade others of their merit.

**environment—**everything and everyone outside the organization or organizational boundary – including competitors, customers, financiers, suppliers and government.

**E–V–R (environment–values–resources) congruence—**the effective matching of an organization's resources (R) with the demands of its environment (E). A successful and sustained match has to be managed and frequently requires change; successfully achieving this depends on the organization's culture and values (V).

**experience curve—**the relationship between (reducing) unit costs and the total number of units ever produced of a product. Usually plotted as a graph, and often with a straight-line relationship on logarithmic axes. The percentage unit cost reduction holds steady every time output is doubled.

**financial control—**term used to describe the form of control normally found in a *holding company* structure. Strategy creation is decentralized to independent business units which are required to meet agreed financial targets.

**focus strategy—**concentration on one or a limited number of market segments or niches.

**forward (vertical) integration—**when an organization takes control of aspects of its distribution, transport or direct selling. See also *vertical integration.*

**functional strategies—**the strategies for the various functions carried out by an organization, including marketing, production, financial management, information management, research and development and human resource management. One or more functional strategies will typically be responsible for any distinctive competitive edge enjoyed by the company.

**functional structure—**a structure based around individual functions, such as production, sales and finance, all of which report to an identifiable managing director/chief executive.

**generic strategies—**the basic competitive strategies – based on cost leadership, differentiation and focus – which are open to any competitor in an industry, and which can be a source of competitive advantage.

**global strategies—**strategies for companies which manufacture and market in several countries and/or continents. Issues concern, for example, the location of manufacturing units and the extent to which control is centralized at a home base or decentralized on a local basis.

**governance—**the location of power and responsibility at the head of an organization. See also *corporate governance.*

**heartland—**term used to describe a cluster of businesses (in a multibusiness organization) which can be justifiably related and integrated to generate synergies.

**holding company—**a structure where the various businesses are seen as largely independent of each other and managed accordingly.

**horizontal integration—**the acquisition or merger of firms at the same stage in the supply chain. Such firms may be direct competitors or focus on different market segments.

**implementation—**see *strategy implementation*.

**incremental strategic changes—**changes to intended (possibly planned) strategies as they are implemented. Result from ongoing learning and from changes in the environment or to forecast assumptions.

**innovation—**changes to products, processes and services in an attempt to sharpen their competitiveness – through either cost reduction or improved distinctiveness. Strategically, it can apply to any part of a business.

**intangible (strategic) resources—**resources which have no physical presence, but which can add real value for the organization. Reputation and technical knowledge would be typical examples.

**intellectual capital—**the hidden value (and capital) tied up in an organization's people which can set it apart from its competitors and be a valuable source of competitive advantage and future earnings. Difficult to quantify and value for the balance sheet. Linked to *knowledge.*

**intended strategies—**prescribed strategies the organization intends to implement, albeit with incremental changes. Sometimes the result of (formal) strategic planning; sometimes the stated intent of the strategic leader. May be described alternatively as *prescriptive strategies*.

**intrapreneurship—**the process of internal entrepreneurship. Occurs when managers or other employees accept responsibility and actively champion new initiatives aimed at making a real difference.

**joint venture—**a form of strategic alliance where each partner takes a financial stake. This could be a shareholding in the other partner or the establishment of a separate, jointly owned, business.

**just in time (JIT)—**systems or processes for ensuring that stocks or components are delivered just when and where they are needed, reducing the need for inventory.

**key (or critical) success factors—**environmentally based factors which are crucial for competitive success. Simply, the things that an organization must be able to do well if it is to succeed.

**knowledge—**an amalgamation of experience, values, information, insight and strategic awareness – which goes beyond the notions of data and information. Retained, managed and exploited it can be a valuable source of competitive difference and advantage. See also *intellectual capital*.

**leadership—**see *strategic leader*.

**learning organization—**one which is capable of harnessing and spreading best practices, and where employees can learn from each other and from other organizations. The secret lies in open and effective communications networks.

**leverage—**the exploitation, by an organization, of its resources to their full extent. Often linked to the idea of *stretching resources*.

**life cycle—**see *strategic life cycle*.

**liquidation—**the closing down of a business, normally because it has failed. Typically a last resort, when a rescue or sale has either not been possible or not successful.

**logical incrementalism—**term adopted by John B. Quinn to explain strategy creation in small, logical, incremental steps.

**(the) long tail—**relates to an extended product life cycle, especially for products (or services) whose popularity rises and falls rapidly due to ‘fashion’. Through e-commerce, products (such as CD titles and books) can remain available without normal distribution channels needing to carry expensive inventory.

**Machiavellianism—**where individuals use power and influence to structure situations and events, and bring about outcomes, which are more in their own personal interests than those of the organization. Linked to *organizational politics*.

**market development—**continuing with existing products and services but, and possibly with modifications and additions, seeking new market and new market segment opportunities.

**market-driven strategy—**alternative term for *opportunity-driven strategy*.

**market penetration—**persisting with existing products/services and existing customers and markets but accepting that continuous, incremental improvement is possible to strengthen the relevant strategic position. The assumption is that sales and revenue can be increased.

**market segment(ation)—**the use of particular marketing strategies to target identified and defined groups of customers.

**mass marketing—**where one product (or service) is sold to all types of customer.

**matrix organization—**a multidivisional organization which seeks to link the various functional activities across the divisions, to achieve the synergy benefits of interdependency.

**merger—**see *acquisition*.

**milestones—**interim targets which act as indicators or measures of progress in the pursuit of objectives and the implementation of strategies.

**military strategy—**strategy and planning in the context of warfare through the ages. Strategy has its origins in warfare and consequently a study of military strategy can provide valuable insights into corporate behaviour.

**mission statement—**a summary of the essential aim or purpose of the organization; its essential reason for being in business.

**monopoly power—**the relative power of an individual company in an industry. It does not follow that a dominant competitor will act against the best interests of customers and consumers, but it could be in a position to do so.

**monopoly structure—**term for an industry with a dominant and very powerful competitor. Originally based on the idea of total control, competitive authorities around the world now consider a 25 per cent market or asset share to be a basis for possible monopoly power.

**multinational company—**a company operating in several countries. See *global strategies*.

**niche marketing—**concentration on a small, identifiable market segment with the aim of achieving dominance of the segment.

**not-for-profit organization—**term used to describe an organization (such as a charity) that does not have profit as a fundamental objective. Such organizations will, however, have to achieve a cash surplus to survive.

**objectives—**short-term targets or milestones with defined measurable achievements. A desired state and hoped-for level of success.

**oligopoly—**(structure) an industry dominated by a small group of competitors.

**opportunity-driven strategy—**strategy creation and development that begins with an analysis of external environmental threats and opportunities. See also *resource-based strategy*.

**organizational politics**—the process by which individuals and groups utilize power and influence to obtain results. Politics can be used legitimately in the best interests of the organization, or illegitimately by people who put their own interests above those of the organization.

**outsource/outsourcing**—procuring products and services from independent suppliers rather than producing them within the organization. Often linked to strategies of focusing on core competencies and capabilities.

**paradigm**—a recipe or model for linking together the component strands of a theory and identifying the inherent relationships, a competitive paradigm explains the underpinning logic of a competitive strategy or position.

**parenting**—the skills and capabilities used by a head office to manage and control a group of subsidiary businesses. The head office should be able to add value for the businesses, while the businesses should, in turn, be able to add value for the whole organization.

**performance indicators or measures**—quantifiable measures and subjective indicators of strategic and competitive success.

**PEST analysis**—An analysis of the *political*, *economic*, *social* and *technological* factors in the external environment of an organization, which can affect its activities and performance.

**plan**—a statement of intent, generally linked to a programme of tactics for strategy implementation.

**planning**—see *strategic planning*.

**planning gap**—a planning technique which enables organizations to evaluate the potential for, and risk involved in, seeking to attain particular growth targets.

**policies**—guidelines relating to decisions and approaches which support organizational efforts to achieve stated (intended) objectives. Can be at any level in the organization, and can range from mandatory regulations to recommended courses of action. They may or may not be written down formally.

**portfolio analysis**—techniques for evaluating the appropriate strategies for a range of (possibly diverse) business activities in a single organization. See *directional policy matrix*.

**power**—the potential or ability to do something or make something happen. Externally, it refers to the ability of an organization to influence and affect the actions of its external stakeholders. Internally, it concerns the relationships between people.

**prescriptive strategies**—see *intended strategies.*

**private equity funds**—venture capital funds whereby professional investors secure funds to invest in organizations, sometimes parachuting in a new management team when they take ownership. The funders are usually looking to sell or float the business in a relatively short timescale to recover their funds and at the same time make a healthy return.

**product development**—developing additional and normally related products and services to enhance the range available to existing customers and markets, and thereby increase sales and revenue.

**profit**—the difference between total revenues and total costs. Often profit is a fundamental objective of a manufacturing or service business.

**profitability**—financial ratios which look at profits generated in relation to the capital that has been employed to generate them. Two different ratios relate (a) trading profit (or profit before interest and tax) to total capital employed (known as the return on capital employed) and (b) profit after interest and tax to shareholders 'funds (known as the return on shareholders' funds).

**public sector organizations**—*(p 73–4)* organizations controlled directly or indirectly by government and/or dependent on government for a substantial proportion of their revenue. Includes local authorities, the National Health Service in the UK and the emergency services.

**quality**—strategically, quality is concerned with the ability of an organization to 'do things right – first time and every time' for each customer. This includes internal customers (other departments in an organization) as well as external customers. *Total quality management* is the spreading of quality consciousness throughout the whole organization.

**reputation**—the strategic standing of an organization in the eyes of its customers and suppliers.

**resource-based strategy**—strategy creation built around the further exploitation of core competencies and strategic capabilities.

**revenue model**—linked directly to the Business Model, the revenue model illustrates why and how a product, service or business is profitable.

**retrenchment**—strategy followed when an organization is experiencing difficulties and needs to cut costs and consolidate its resources before seeking new ways to create and add value. Sometimes involves asset reduction (perhaps the sale of a business) and job losses.

**rightsizing**—linked to downsizing, implies the reduction in staffing is to a level from which the organization can grow effectively. On occasions downsizing can mean that strategically important skills and competencies are lost; rightsizing implies this is not the case.

**risk management**—the understanding where and how things can and might go wrong, appreciating the extent of any downside if things do go wrong, and putting in place strategies to deal with the risks either before or after their occurrence.

**scenarios**—conceptual possibilities of future events and circumstances. Scenario planning involves using these to explore what might happen in order to help prepare managers for a wide range of eventualities and uncertainties in an unpredictable future environment.

**single-loop learning**—the ability to improve a competitive position on an ongoing and continuous basis, acknowledging there is always the possibility of improvement. Sometimes the competitive paradigm itself has to be changed – see *double-loop learning*.

**small- and medium-sized enterprises (SMEs)—**term used to embrace new and growing businesses, and those which (for any number of reasons) do not grow beyond a certain size.

**social responsibility—**strategies and actions that can be seen to be in the wide and best interests of society in general and the environment. Sometimes associated with the notion of mutual self-interest.

**spheres of influence—**building an arsenal of products and services that enable real influence across a wide range of critical interests. Routes to growth around a key *heartland.* Also related to protecting existing interests in the face of competition.

**squirrel approach—**to strategic management resembling a squirrel climbing a tree, cautiously moving upwards from the trunk. The squirrel has limited options and makes many small well informed decisions. This approach is viewed as less risky, as the squirrel is on familiar territory.

**stakeholders—**any individual or group capable of affecting (and being affected by) the actions and performance of an organization.

**strategic alliance—**see *alliance*.

**strategic architecture—**see *architecture*.

**strategic awareness—**appreciating the strategic position and relative success of the organization. Knowing how well it is doing, why and how – relative to its competitors – and appreciating the nature of the external environment and the extent of any need to change things.

**strategic business unit—**a discrete grouping within an organization with delegated responsibility for strategically managing a product, a service, or a particular group of products or services.

**strategic capability—**process skills used to add value and create competitive advantage.

**strategic change—**changes that take place over time to the strategies and objectives of the organization. Change can be gradual, emergent and evolutionary, or discontinuous, dramatic and revolutionary.

**strategic control—**a style of corporate control whereby the organization attempts to enjoy the benefits of delegation and decentralization with a portfolio of activities which, while diverse, is interdependent and capable of yielding synergies from cooperation.

**strategic inflection points—**introducing important changes at the right moment – related to both competition and customer expectations. Can act as a transformation point in the history of an industry.

**strategic issues—**current and forthcoming developments inside and outside the organization which will impact upon the ability of the organization to pursue its mission and achieve its objectives.

**strategic leader—**generic term used to describe a manager who is responsible for changes in the corporate strategy.

**strategic life cycle—**the notion that strategies (like products and services) have finite lives. After some period of time they will need improving, changing or replacing.

**strategic management—**the process by which an organization establishes its objectives, formulates actions (strategies) designed to meet these objectives in the desired timescale, implements the actions, and assesses progress and results.

**strategic planning—***(p 16) in strategy creation:* the systematic and formal creation of strategies – to be found in many organizations, and capable of making a very significant contribution in large, multiactivity organizations. *In strategic control:* centralized control, most ideal where there is a limited range of core businesses.

**strategic positioning—**the chosen or realized relationship between the organization and its market. Clearly linked to competitive strategies and competitive advantage. The position itself is not a source of advantage, but the activities that underpin the position are.

**strategic regeneration (or renewal)—**major and simultaneous changes to strategies, structures and styles of management. See also *transformational change.*

**strategic thinking—**the ability of the organization (and its managers) to (a) synthesize the lessons from past experiences and to share the learning, (b) be aware of current positions, strengths and competencies and (c) clarify the way forward for the future.

**strategy—**the means by which organizations achieve (and seek to achieve) their objectives and purpose. There can be a strategy for each product and service, and for the organization as a whole.

**strategy creation—**umbrella term for the formulation and choice of new strategies. Encapsulates direction from the strategic leader (or an entrepreneur), strategic planning, and emergent strategy. See: *emergent strategy; entrepreneurial strategies; strategic planning.*

**strategy implementation—**the processes through which the organization's chosen and intended strategies are made to happen.

**stretching resources—**the creative use of resources to add extra value for customers – through innovation and improved productivity.

**supply chain—**the linkage between an organization, its suppliers, its distributors and its customers.

**sustainable competitive advantage—**a sustained edge over competitors in an industry, usually achieved by first creating a valuable difference and then sustaining it with improvement and change.

**SWOT analysis—**an analysis of an organization's *strengths* and *weaknesses* alongside the *opportunities* and *threats* present in the external environment.

**synergy—**term used for the added value or additional benefits which ideally accrue from the linkage or fusion of two businesses, or from increased co-operation either between different parts of the same organization or between a company and its suppliers, distributors and customers.

Internal co-operation may represent linkages between either different divisions or different functions.

**tactics—**specific actions that follow on from intended strategies but which can also form a foundation for emergent strategy.

**tangible resources—**the organization's physical resources, such as plant and equipment.

**transfer price—**associated with the transfer of products, components or services between businesses in the same organization. A particularly important issue where there are considerable interdependencies between businesses. The (corporately) imposed or agreed transfer price can be of markedly different attractiveness to the buying and selling businesses and can be a source of friction.

**transformational change—**major and simultaneous changes to strategies, structures and styles of management. See also *strategic regeneration*

**turnaround strategy—**an attempt to find a new competitive position for a company in difficulty.

**values—**the underpinning attitudes and manifest behaviours (perhaps desired as well as actual) that an organization wishes to have and to demonstrate.

**value chain—**framework for identifying (a) where value is added and (b) where costs are incurred. There is an internal value chain and one that embraces the complete supply chain. Internally, it embraces the key functions and activities.

**vertical integration—**where firms directly enter those parts of the added value chain served by their suppliers or distributors, the term used is vertical integration. To achieve the potential benefits of vertical integration (specifically synergy from co-operation) without acquiring a business which normally requires specialist and different skills, firms will look to establish strong alliances and networks.

**vision—**a statement or picture of the future standing of an organization. Linked to the mission or purpose, it embraces key values.