# Theme 3 Key terms

| Key term | Definition | Theme | Sub theme |
|---|---|---|---|
| Corporate aims | Broad, long term ideas as to how the business should develop | 3 | 3.1.1 |
| Corporate objective | A goal that a business strives to achieve in order to meet its long term aim | 3 | 3.1.1 |
| Critical appraisal | Assesses if the corporate aims and mission statement continue to reflect the current corporate vision | 3 | 3.1.1 |
| Mission statement | A set of guiding principles which is often used to steer stakeholders in order to achieve a business's aims and objectives | 3 | 3.1.1 |
| Ansoff's Matrix | A strategic tool to help a business analyse business growth | 3 | 3.1.2 |
| Architecture/origin | Refers to the contracts and relationships within and around an organisation | 3 | 3.1.2 |
| Cost leadership | A strategy of seeking lower cost to allow a business to reduce prices and therefore increase sales and revenue | 3 | 3.1.2 |
| Distinctive capabilities | A skill or attribute possessed by a business. | 3 | 3.1.2 |
| Diversification | New products to a new market. It is considered by Ansoff to be more risky than market penetration but potentially more rewarding because it offers greater opportunities to sell to a greater range of markets. | 3 | 3.1.2 |
| Financial resources | Resources used to finance a business strategy and can include cash, current assets and the ability to borrow finance for future operations | 3 | 3.1.2 |
| Innovation | Developing a new product or process in the production of a product | 3 | 3.1.2 |
| Market development | The marketing of an existing product in new markets | 3 | 3.1.2 |
| Market penetration | Selling existing products in an existing market, which is considered the least risky strategy by Ansoff. | 3 | 3.1.2 |
| Porters Strategic Matrix | Identifies the sources of competitive advantage that a business might achieve in a market | 3 | 3.1.2 |
| Product development | Marketing new or modified products in existing markets | 3 | 3.1.2 |
| Reputation | The operational factors concerned with premises, equipment and other resources needed to meet customer needs | 3 | 3.1.2 |
| Strategic decisions | Long term and relates to achieving an overall goal | 3 | 3.1.2 |
| Tactical decisions | Short term actions that help to achieve the strategy | 3 | 3.1.2 |
| SWOT analysis | A strategic planning technique used to help a business identify its internal strengths, weaknesses, and its external opportunities, and threats | 3 | 3.1.3 |
| Economic factors | Economic variables that can affect a business such as exchange rate, inflation and interest rates | 3 | 3.1.4 |
| Environmental factors | Businesses have a general obligation to the environment and some businesses are closely monitored | 3 | 3.1.4 |
| Legal factors | Legal requirements that a business must follow when operating in the country | 3 | 3.1.4 |
| PESTLE factors | The political, economic, social, technological, legal and environmental influences that can affect business strategy. | 3 | 3.1.4 |
| Political factors | Regional, national and international laws and government policies that could affect a business such as regulations and subsidies | 3 | 3.1.4 |
| Porter's five force model | A framework for analysing the nature of competition within an industry. It does this by looking at five main factors – threat of substitutes, threat of new entrants, bargaining power of buyers, bargaining power of suppliers and competitive rivalry. It can be used to identify the potential profitability of a particular strategic decision | 3 | 3.1.4 |
| Social factors | Demographic changes such as an aging population, changing lifestyles and tastes and fashion | 3 | 3.1.4 |

| | | | |
|---|---|---|---|
| Technological factors | The adaption of technologies that could affect a business such as new production processes, mobile technology and disruptive technologies such as electronic vehicles | 3 | 3.1.4 |
| Threat of competition | The behaviour of competitors that may lead to the loss of market share | 3 | 3.1.4 |
| Diseconomies of scale | A rise in average/unit costs experienced as a business grows in size. | 3 | 3.2.1 |
| Economies of scale | When average costs can fall as total output increases in a business | 3 | 3.2.1 |
| External economies of scale | The average cost reductions available to all businesses as the industry grows | 3 | 3.2.1 |
| Financial economies of scale | Large firms have advantages when they try to raise finance as they will have a wider variety of sources to choose from and they can often gain better interest rates | 3 | 3.2.1 |
| Growth | Expanding the sales revenue of a business, probably in hope that profits will increase too | 3 | 3.2.1 |
| Internal economies of scale | When a business invests in expanding production resulting in lower average costs | 3 | 3.2.1 |
| Purchasing/ marketing economies of scale | Large firms are likely to get better rates when buying raw materials in bulk | 3 | 3.2.1 |
| Risk bearing economies of scale | As a firm grows they may diversify to reduce risk | 3 | 3.2.1 |
| Specialisation/managerial economies of scale | As a firm grows they can afford to employ specialist managers e.g. marketing, Human resources | 3 | 3.2.1 |
| Technical economies of scale | Large businesses can often be more efficient through the use of capital equipment | 3 | 3.2.1 |
| Horizontal integration | The joining of businesses that are in exactly the same line of business | 3 | 3.2.2 |
| Merger | When two businesses join together and operate as one | 3 | 3.2.2 |
| Takeover | When one business acquires a majority shareholding of another business to gain control | 3 | 3.2.2 |
| Vertical integration | The joining of two businesses at different stages of production | 3 | 3.2.2 |
| Inorganic (or external) growth | Expansion by either merging with, or taking over another business | 3 | 3.2.3 |
| Organic (or internal) growth | Expansion from within a business, for example by expanding the product range, or number of business units and location. It does not involve another business taking over or merging with it | 3 | 3.2.3 |
| E-commerce | Buying and selling of goods or services over the internet | 3 | 3.2.4 |
| Extrapolation | When the trend line is extended to forecast future sales | 3 | 3.3.1 |
| Four period moving average | The average figure based on four time periods (oftern quarters of a year). It 'moves with time'. It is usually calculate using centring, based on an 8 period total. | 3 | 3.3.1 |
| Line of best fit | A line that goes roughly through the middle of all the scatter points on a graph | 3 | 3.3.1 |
| Moving averages | A succession of averages derived from successive segments of a series of values | 3 | 3.3.1 |
| Quantitative sales forecasting | Such as time-series analysis involves making future predictions based on trends identified from past data | 3 | 3.3.1 |

| | | | |
|---|---|---|---|
| Scatter graphs | A graph showing the performance of one variable against another independent variable on a variey of occasions | 3 | 3.3.1 |
| Three period moving average | An average calculated by adding 3 periods up and dividing by 3 | 3 | 3.3.1 |
| Average (Accounting) Rate of Return | A method of investment appraisal that measures the net return per annum as a percentage of the initial spending | 3 | 3.3.2 |
| Discounted Cash flow (Net present value only) | A method of investment appraisal that takes interest rates into account by calculating the present value, discounted according to the interest foregone (given up) | 3 | 3.3.2 |
| Investment appraisal | The evaluation of an investment project to determine whether or not it is likely to be worthwhile | 3 | 3.3.2 |
| Payback | The length of time a project will take to make recover the initial investment cost | 3 | 3.3.2 |
| Simple payback method | An investment appraisal technique that measures the time it takes for a project to repay its initial investment | 3 | 3.3.2 |
| Decision trees | A decision making tool showing the possible outcomes of a decision with the estimated probability and expected monetary value of each of these outcomes | 3 | 3.3.3 |
| Expected monetary rewards | The value gained from taking a decision | 3 | 3.3.3 |
| Probabilities | The likelihood of possible outcomes happening | 3 | 3.3.3 |
| Critical path | The tasks involved in a project, which if delayed, could delay the project | 3 | 3.3.4 |
| Critical path analysis (CPA) | The process of planning the sequence of activities in a project in order to discover the most efficient and quickest way of completing the project whilst ensuring that all stages are finished. | 3 | 3.3.4 |
| Earliest Start Time | How soon a task in a project can begin | 3 | 3.3.4 |
| Free float | The time by which a ask can be delayed without affecting the project completion time | 3 | 3.3.4 |
| Latest Finish Time | The latest time that a task in a project can finish. without delaying the whole project | 3 | 3.3.4 |
| Network diagram | A chart showing the order of the tasks involved in completing a project, containing information about the times taken to complete the tasks | 3 | 3.3.4 |
| Evidence based decision making | An approach to decision making that involves gathering information and using a systematic and rational approach to reach a conclusion | 3 | 3.4.1 |
| Long-termism | The time period where decisions have an impact on the vision, mission and objectives of a business, typically longer than five years | 3 | 3.4.1 |
| Short-termism | Where business and managers are focussed on quick financial rewards, such as quarterly profit or sales figures, often at the expense of investment in important areas | 3 | 3.4.1 |
| Subjective decision making | A more holistic approach to business strategy, incorporating aspects such as CSR and ethical behaviour | 3 | 3.4.1 |
| Corporate culture | An unwritten code of conduct within a business organisation that reflects its values and embodies the shared beliefs and assumptions that underpin the decision-making processes. | 3 | 3.4.2 |
| Culture | Shared attitudes, values, customs and expectations. | 3 | 3.4.2 |
| Person culture | Where there are a number of individuals in the business who have expertise, but they don’t necessarily work together | 3 | 3.4.2 |
| Power culture | Where there is a central source of power responsible for decision making | 3 | 3.4.2 |
| Role culture | Decisions are made through well established rules and procedures | 3 | 3.4.2 |
| Strong culture | A culture where the values, beliefs and ways of working are deeply embedded within the business and its employees | 3 | 3.4.2 |
| Task culture | When a business allows teams to focus on a particular task within the broad remit of the overall aim of the business | 3 | 3.4.2 |

| | | | |
|---|---|---|---|
| Weak culture | When the needs of the business are put before the needs of the customer, communication is weak, staff turnover is high and mistakes are about blame not learning | 3 | 3.4.2 |
| External stakeholders | Groups outside a business with an interest in its activities | 3 | 3.4.3 |
| Internal stakeholders | Includes employees, managers, board of directors and the owners of the business | 3 | 3.4.3 |
| Shareholder approach | When a business should focus purely on shareholder returns in its business decisions/objectives | 3 | 3.4.3 |
| Shareholders | The owners of a company who have taken a risk by investing their capital into the business | 3 | 3.4.3 |
| Stakeholder approach | When a business should consider all of its stakeholders in its business decisions/objectives | 3 | 3.4.3 |
| Stakeholders | People or groups who have an interest in the actions of a business. They include owners, employees, customers, suppliers, the local community, pressure groups, local and central government. | 3 | 3.4.3 |
| Capital employed | All the long term finance of the business including the share capital, retained profits and non current liabilities. Calculated as Non-current liabilities + Total equity | 3 | 3.4.4 |
| Corporate Social Responsibility (CSR) | When a business pays attention to the impact the company's actions have on social and environmental issues and the impact on a range of stakeholders, not just shareholders. | 3 | 3.4.4 |
| Ethics | Moral principles that determine how business decisions are made and may include providing good working conditions, fair pay and assessment of environmental impacts. They are considered to be the right thing to do | 3 | 3.4.4 |
| Socially responsible business | One that considers business ethics as a key influence on its strategic decisions | 3 | 3.4.4 |
| Gearing ratio | Measures the performance of a business that is financed from long term borrowing. Highly geared is over 50%. Calculated as non-current liabilities/capital employed x100 | 3 | 3.5.2 |
| Return on capital employed | The profit of a business as a percentage of the total amount of money used to generate it. Calculated as Operating profit/Capital employed x100 | 3 | 3.5.2 |
| Return on investment | The financial benefits or profits made from an investment, such as setting up a production location in another country | 3 | 3.5.2 |
| Absenteeism | The number of staff who are absent as a percentage of the total workforce. Calculated as number of staff absent on a day/ total number of staff x100 | 3 | 3.5.3 |
| Consultation strategies | When the management actually engage in discussions with employees about strategies and working practices | 3 | 3.5.3 |
| Employee share ownership | Where key employees will be paid a trance of shares if the business reaches important performance targets | 3 | 3.5.3 |
| Empowerment strategies | It is achieved by granting employees more authority in the workplace | 3 | 3.5.3 |
| Human resources | The set of people who make up the workforce of a business. Including the recruitment, training and redundancy of employees | 3 | 3.5.3 |
| Labour productivity | A measure of how efficiently a business uses its employees to produce output and is expressed as output per employee per time period. Calculated Total output/average number of employees | 3 | 3.5.3 |
| Labour retention | The number of employees that remain in the business over a period of time | 3 | 3.5.3 |
| Labour turnover | Measures the percentage of employees leaving a business over a period of time. | 3 | 3.5.3 |
| Business continuity | A plan for a business to continue operating after a serious incident | 3 | 3.6.1 |
| Transformational leadership | The ability to implement a vision through radical policies and strategies to bring about a positive change | 3 | 3.6.1 |

| | | | |
|---|---|---|---|
| Contingency plan | A course of action designed to help a business respond successfully to a major future event that may or may not happen | 3 | 3.6.3 |
| Risk acceptance | Where the full cost of mitigation is greater than the cost of the risk itself. This is often the case for small businesses | 3 | 3.6.3 |
| Risk assessment | Identifying and evaluating the potential risks that may be involved in an activity that a business proposes to undertake, ensuring compliance with health and safety legislation | 3 | 3.6.3 |
| Risk avoidance | This is the opposite of risk acceptance. It could involve ceasing to follow a particular action altogether; for example, a multinational pulling out of an unstable country | 3 | 3.6.3 |
| Risk limitation | This is the most common risk management strategy used by businesses. An example of risk limitation is a company accepting that data storage may fail and avoiding a long period of failure by having back-ups. | 3 | 3.6.3 |
| Risk mitigation | Identify, assess and prioritise risks and plan responses to deal with the impact of these risks on the operation of the business | 3 | 3.6.3 |
| Risk transference | This is the involvement of handing risk off to a willing third party. For example, numerous companies outsource operations such as customer service, payroll services, etc | 3 | 3.6.3 |
| Scenario planning | The process of anticipating possible changes in a business's situation and devising ways of dealing with them | 3 | 3.6.3 |
| Succession planning | A human resourcing process for identifying and developing new leaders who can replace old leaders when they leave, retire or die | 3 | 3.6.3 |