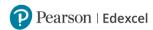


## Theme 3 Key terms

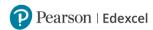
Key term	Definition	Theme	Sub theme
Corporate aims	Broad, long term ideas as to how the business should develop	3	3.1.1
Corporate objective	A goal that a business strives to achieve in order to meet its long term aim	3	3.1.1
Critical appraisal	Assesses if the corporate aims and mission statement continue 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/ma nagerial 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