

Glossary¹

Absorption mode of integration

According to Jemison and Hspeslagh, absorption acquisitions take place between companies operating in similar industries and business contexts. The objective here is to achieve as rapidly as possible the necessary synergies through consolidation and rationalisation of activities.

Adjusted present value (APV) country risk

Adjusted present value (APV) is a technique of discounted cash flow in which specific downside adverse risks are identified, their impact on the cash flow is calculated and probability of their occurrence is determined. The cash flows are adjusted using the probabilistic distribution; the cash flows are translated into the investor's currency using the purchasing power parity differences as a proxy for currencies fluctuation; cash flows are discounted using the investor's cost of capital.

Alliance

An alliance is the sharing of capabilities between two or several firms with the view of enhancing their competitive advantages and/or creating new business without losing their respective strategic autonomy. Alliances can take several legal forms from simple long-term contracts to equity joint ventures.

Arbitrage

Economic arbitrage exists when it is possible to buy a product in one market and simultaneously sell it in another market at a higher price. Dealers in foreign exchange often use arbitrage on foreign currencies that are not exactly quoted at the same rate of exchange on different markets. With electronic transactions, it is possible to buy and sell simultaneously. Commodity traders also use arbitrage. By extension, the concept is often used even if there is no simultaneity—for instance, difference in taxation between countries in free trade area may take advantage of arbitrage opportunities.

Asymmetric development

In international economics, economic development is considered as asymmetric, when countries develop at considerable different rate. For instance, the gap in revenues between African and Western countries has increased over time, showing a strong asymmetry.

Back office

Refers to those activities of a firm that are not in contact with customers, such as warehousing, IT, accounting or kitchen in a restaurant.

Best practices

Any practice, knowledge, know-how, experience that has been proved to be valuable or effective within one organisation that may have applicability to other organisations (this definition is due to Chevron Corporation). For instance, if one subsidiary of a multinational company has developed a successful way to launch a product, this may be considered as a best practice that can possibly be

transferred to other subsidiaries. Professor Sulanzki has pinpointed that there are a lot of difficulties in transferring best practices between the units of a same company. He calls that 'stickiness'.

BOT

(Build Operate and Transfer) is an infrastructure construction or maintenance contract by which the project manager is in charge not only of the construction but also of the management of the operations. At the end of a given period, the infrastructure is handed over to the customer. The project manager is responsible for the output and is paid on the basis of a predetermined price per unit of output (\$ per kilowatt/hour, \$ per toll fee, \$ per cubic meter of water, etc.)—for instance, a Western electricity company that builds or takes over a power generation plant in China or a water treatment company managing the water distribution network in Jakarta. There are many derivatives to BOT:

- BOO (Build Operate and Own): the project manager keeps ownership;
- BOOT (Build Own Operate and Transfer): the project manager has full ownership of the infrastructure during the period of operation;
- ROT (Refurbish, Operate and Transfer), similar to BOT but with old installations to refurbish.

Bottom of the pyramid

According to Prahalad, the 'Bottom of the Pyramid' in emerging countries is constituted by the largest proportion of the population located at the lower end of income who are willing to consume goods that are of good quality but lower at price level, adapted formulation and packaging.

Bribe

A form of direct corruption, generally a cash payment or a bank transfer to an overseas account.

Bricks and mortars

As opposed to Internet based operations, brick and mortars operations are those that require tangible fixed assets to operate: factories, branches, stores, etc.

Browsers

A software application is used to locate and display web pages. The most popular browsers are Netscape Navigator, Microsoft Internet Explorer and most recently Mozilla Firefox. All of these are graphical browsers, which means that they can display graphics as well as text (definition from GreatNexus Webmaster Resources).

Business etiquette

The set of body gesture, clothing code, way of expressing oneself, social behaviour and attitude that are considered as proper in a given business circle. For instance, business etiquette in Japan requires a ceremonious exchange of business cards.

Business strategy

There are many definition of business strategy. In this book, we offer the following definition:

A company business strategy is a set of fundamental choices, which define its long-term objectives, its value proposition to the market, how it intends to build and sustain a competitive business system and how it organises itself.

Californisation

This word has been used by Kenichi Ohmae in his book 'Triad Power' to describe the world convergence of consumer's tastes, particularly among young people.

Capabilities fit

In an alliance or an acquisition, capabilities fit assessment consists in determining whether the respective contributions of the partners in an alliance or the combination of assets, resources and competences in a merger or acquisition are supplementing or complementing each other. When performing a capabilities-fit analysis, one should first determine the required resources, assets and competencies needed for competitiveness of the alliance or the merged entity. Then one draws for each partner the specific contribution in each element of the value chain. Then, in the last phase, one determines the potential gap to be filled by joint investment, and one evaluates whether the mutual contributions plus the additional investments make the future alliance effective.

Career plan

The planned evolution of a person in an organisation in terms of potential future functions, job rotation and training.

Centre of excellence

An organisational unit (plant, laboratory, product development centre, etc.) that has developed a high quality, particular expertise that can possibly be transferred to other units.

Clusters

Professor Michael Porter in his book 'Competitive Advantage of Nations' uses the term 'clusters' to describe regions of the world in which some industries have developed a high level of competitiveness, thanks to a supporting demand, supply and competitive context.

Coalition alliance

Coalitions are alliances in which competitors, distributors and suppliers in a same industry put together their capabilities to develop markets or to establish a common standard.

Co-location

The fact for people or organisational units to be physically located at the same site.

Comparative advantage

The theory of comparative advantage is commonly referred to as the 'Ricardian model', the original description of the idea can be found in an *Essay on the External Corn Trade* by Robert Torrens in 1815. David Ricardo formalised the idea using a compelling, yet simple, numerical example in his 1817 book titled, *On the Principles of Political Economy and Taxation*. According to the principle of comparative advantage, the gains from trade follow from allowing an economy to specialise. If a country is relatively better at making wine than wool, it makes sense to put more resources into wine and to export some of the wine to pay for imports of wool. This is even true if that country is the world's best wool producer, since the country will have more of both wool and wine than it would have without trade. A country does not have to be best at anything to gain from trade. The gains follow from specialising in those activities which, at world prices, the country is relatively better at, even though it may not have an absolute advantage in them. Because it is relative advantage that matters, it is meaningless to say a country has a comparative advantage in nothing. The term is one of the most misunderstood ideas in economics and is often wrongly assumed to mean an absolute advantage compared with other countries (the definition comes from the International Study Centre at <http://internationalecon.com/v1.0/ch40/40c000.html> for the first part and the World Trade Organisation web site for the second part).

Compensation

Remuneration and benefits given to a person for a given work. Refers to remuneration of employees.

Competencies

Refer to collective know-how of an organisation. This know-how can be technological or managerial. Competencies can be a source of competitive advantage, if the know-how is difficult to buy, replicate or imitate by competitors. Some competencies are called 'core competencies' when they are specific to a firm.

Constellations

A form of alliance with multiple partners. Doz and Hamel identified three types of constellations: networks, portfolios and webs. Alliance networks are those to which multiple partners contribute to one goal, increase reach, adopt a common standard or promote a new technology. Alliance portfolios are those in which a company enters in a partnership with multiple companies. Alliance webs are those in which multiple partners contribute and benefit interdependently.

Convergence

Theory according to which societies become more and more similar. This concept is used in international marketing to describe the fact that consumers tend to progressively behave the same way across the world.

Corporate culture

The set of values and beliefs that are shared by employees in a corporation.

Corporate strategy

In a multi-business corporation, the corporate strategy consists in defining its long-term objectives, selecting its business portfolio, allocating resources across businesses and designing its organisational structure, processes and systems.

Corruption

The definition of corruption given by Transparency International is 'the abuse of public office for private gain'. Corruption involves a corruptor (the person who delivers the private gain) and a corrupted (the person who receives it). As compensation, the corruptor expects some favour or gain from the corrupted.

Co-specialisations

Co-specialisation alliances are alliances in which partners combine complementing capabilities.

Cost leadership

According to Professor Michael Porter, cost leadership is a strategy by which firms gain and sustain competitive advantage—thanks to a lower cost position than their competitors. Generally, cost leadership is linked to size: the higher the size, the higher the economies of scale and hence the lower the costs.

Cost of capital

The cost of capital is the cost at which future cash flows are discounted in order to obtain the net present value (NPV) of an investment. Generally, the cost of capital is calculated as weighted average of cost of debts (interest on loans) and cost of equity (the minimum return that shareholders are expecting from their own investment).

Country diamond

Term used by Professor Michael Porter in his book "The Competitive Advantage of Nations" to describe the four context dimensions that characterise the competitiveness of a country (or a cluster—see above). The four dimensions are (1) a context that encourage vigorous competition and encourage investment, (2) the presence of related and supporting industries, (3) demanding customers and (4) the quality of resources (human capital, natural resources, infrastructure, etc.).

Country life cycle

The theory according to which countries follow a development path from emerging to maturity.

Country risk analysis

Set of techniques used to assess how risky is a country. The four dimensions of country risks are political, economical, competitive and operational.

Country stock market beta

A measure of risk developed by Professor Don Lessard comparing the volatility of a country stock market with another one.

Cross-listing

Refers to the listing of a corporation to several world stock markets.

Cultural fit

In an alliance or an acquisition, cultural fit assessment consists in determining whether the companies involved exhibit similar or dissimilar value and way of doing business.

Cultural heritage

The values and norms that are the results of past historical experience.

Currency swaps

Technique of currency risk hedging. It consists in contracts intermediated by a swap bank that is matching long-term loans issued by two companies in their respective currency zone for use in the other company currency zone. Company X borrows in currency A to be used in country B with loan repayment generated in currency B, while company Y borrows in currency B to be used in country A with loan repayment generated in currency A.

Customer value curve

The set of factors that customers explicitly or implicitly consider valuable for them in a product or service. Also called 'customers utility curve'. Customer value curve can be used by firms to compare their product or service offering with one of their competitors. Customer value curve is one of the main tools used by the strategic approach designed by Professors Kim and Mauborgne and is called 'value innovation'.

Cybercrimes

All kind of attempts to property (or sometime to human physical integrity) through the Internet. The worst frequent cybercrimes are the diffusion of electronic virus and the illegal access to database to steal money or information.

Death valley

A frequent phenomenon encountered in joint ventures and alliances at the early stage of implementation when partners discover unexpected behaviour or surprises. Death valley can degenerate deep conflicts.

Deglobalisation

A neologism used by ATTAC, an anti-globalisation NGO, to recommend that countries (particularly developing countries) re-orientate their production to serve local markets and not global ones.

Differentiation

How firms position differently than their competitors. According to Professor Michael Porter, differentiation is a strategy by which firms gain and sustain competitive advantage, thanks to superior product's functionalities, superior services, superior quality that create 'barriers to imitation'.

Documentary credit

A well-established technique of trade financing. The principle is that an importer of goods mandates his bank to issue a letter of credit that guarantee the exporter that he will be paid at reception of shipping documents establishing the proof that goods have been actually delivered to the transport company.

Dotcom companies

Companies operating essentially through the Internet.

Dotted lines relationship

Term used to describe a non-hierarchical relationship between individuals or organisational units but that however need to establish some kind of mutual reporting.

Due diligence

The investigation that a potential acquirer performs in order to value a targeted asset. Originally, due diligence was essentially financial. More recently, it is also applied to non-financial elements, such as managerial capabilities and culture.

E-commerce

Generic term to describe commercial transactions through the Internet.

Electronic data interchange (EDI)

The sharing of data between a supplier and a customer, used to place orders and settle transactions electronically.

Electronic marketplaces

Internet-based procurement web sites.

Emerging countries

Countries that exhibit (a) a high economic growth, (b) an increasing development of a middle class, (c) a high degree of infrastructure investments, (d) opening of their market to international trade and investment.

Emerging countries' champions

Companies based in emerging countries and that can pretend to be globally competitive.

Entry modes

The kind of operation that a foreign investor is setting, in order to operate in a country. Entry mode describes the legal form of the operation as well as the size of the investment that the foreigner is willing to make. The main types of entry modes are wholly owned investment, acquisition, joint venture or licensing.

Environmental crisis

An ecological disaster.

Ethics

The codes of conduct that guides a non-corrupted behaviour.

Expatriates

People employed in one country with a contract originated in another country. Frequently designates managerial personnel sent by corporate headquarters to work in foreign subsidiary.

Explicit knowledge

Knowledge that can be documented precisely and therefore that can be communicated and transferred.

Export credit agencies

Government agencies that act like insurers and cover the risks associated with international trade and investments. As a result, the exporter and the foreign investor can benefit from export credits.

Extractive agenda

When partners in a strategic alliance are primarily motivated to enter in an alliance in order to learn something from their partner or to obtain some resources that otherwise they would have difficulties in obtaining by themselves.

Fair process

A management practice that consists in (a) *engagement*: involvement of relevant people, seeking inputs and allowing them to challenge ideas; (b) *explanation*: everybody involved or affected should understand why a particular decision was taken; (c) *expectation*: defining clearly the roles and responsibilities. According to Professors Kim and Mauborgne, fair process is needed in order to get people involved in difficult or innovative decisions.

First mover advantages

The competitive advantages that a company gains by being the first or among the first to enter a new market. First mover advantages can be due to the pre-emption of existing resources, the creation of a standard or the ability to rapidly create the entry barriers for new comers.

Fit analysis

The study of the possible compatibility between partners in an alliance or between buyers and sellers in an acquisition. There are four types of fit: strategic, capabilities, cultural and organisational.

Forward contracts

Contracts by which the contracting parties commit to buy or sell a good or a currency at a given price at a predetermined date. Foreign exchange forward contracts are a classical way to hedge against exchange rates fluctuation.

Franchise

A contract by which the owner of a brand (the franchiser) grants an individual or a company (the franchisee) the right to operate under its brand. Franchise contract is generally granted under the condition that the franchisee respects a certain number of quality practices defined by the franchiser.

Front office

Designate activities that are in direct contact with customers.

Future contracts

Contracts by which the contracting parties agree of performing a transaction at an anticipated date and at predetermined conditions. Forward contracts are one category of future contract, but future contracts can also cover agreements that are not necessarily based on a financial transaction.

Global accounts

Global accounts are customers that are operating globally and for whom the suppliers negotiate and manage the delivery of goods or services on an integrated way across borders.

Global business strategy

A business strategy that defines the ways and where a company decides to compete across borders.

Global Capability Index

An index to measure to what extent a company has globalised its assets and personnel: how assets or personnel are distributed across the world.

Global hub

A highly centralised organisation, such as the worldwide functional or global product structure.

Global industries

Industries in which, in order to survive, competitors need to operate in the key world markets in an integrated and co-ordinated way.

Global managers

Managers whose career is made up of successive appointments in different countries.

Global positioning

Global positioning consists in the definition of various value propositions for the products or services of the company, corresponding to the type of segments and countries in which the company wants to compete.

Global Revenue Index

An index measuring the distribution of sales of a company across the major regions of the world relative to the distribution of markets across the same regions.

Global solution selling

The sales of a valuable solution to a client located in a particular country that implies the mobilisation of resources and competencies of several subsidiaries across the world from part of the seller.

Global warming

Increasing warming of the planet due to greenhouse effects resulting from emission of CO₂.

Globalisation

The progressive change in competitive structures from multinational (country by country) to global (worldwide).

Grand tour

The fact-finding trip of corporate executives in countries where the company is considering foreign investment in view of assessing the countries attractiveness.

Hedging

A technique of reducing risk by settling risky transactions at predetermined fixed terms. Used very often to manage risks resulting from currencies' variations.

Hierarchy of needs

A theory developed by Maslow according to which humans start by satisfying their primary needs and progressively move up to more intellectual and artistic needs when the lower levels of needs are satisfied.

Hub

In the context of global business, a hub is a location that serves and supports several other locations in a region. Typically, in hub services, logistical activities would be concentrated: example Singapore or Hong Kong for Asia, Geneva, London or Brussels for Europe.

Industry analysis

The systematic analysis and forecast of demand, competitive forces and risk in an industry.

Industry culture

The norms and ways of thinking that are common to people operating in a given industry.

Innovation

The process of inventing and developing new concepts, products and services.

Integration process

The process by which various firm and, activities, are made to work together. Following a merger, acquisition or an alliance, the post-merger integration process organises the way two firms are working together from full to partial integration of their activities.

Intellectual property

The legal ownership of a patent, a design, a brand, an artistic or a literary production.

Internal stickiness

The difficulty for different units of an organisation to exchange ideas and practices.

International division

An organisational design for managing international operations by centralising the control of geographical subsidiaries in one division reporting to top management.

International product life cycle

The theory according to which new products are launched sequentially over time internationally from developed countries to less developed ones.

Joint venture

The legal form by which two or more companies organise their collaboration. Joint ventures can be done under the form of equity contribution or under a contractual arrangement.

Joint venture decay

The phenomena that typically occurs in a joint venture after several years when partners have obtained what they wanted from their collaboration and do not see anymore the value of the joint venture.

Knowledge management

A managerial process by which companies capture and distribute internally strategic, commercial and technical information.

Leading and lagging

A technique of international cash management consisting in delaying or accelerating the payment of expenses and the receipt of income according to the strengths and weaknesses of the currencies involved.

Learning alliances

Alliances whose main purpose is, for the companies involved, to generate new knowledge or to learn knowledge from each other.

Licensing

A contract by which the owner of a product, a service or a process (the licensor) authorises another party (the licensee) to manufacture the product, deliver the service or use the process to its own benefit.

Local manager

A manager recruited and operating in a country.

Logistics

The physical handling, transportation and storage of goods.

Macroeconomic indicators

Measures that indicate the economic characteristics of a country, for instance production, growth, income, trade and investments.

Market segmentation

The division of consumers in categories according to different criteria and who exhibit different demand characteristics.

Marketing positioning

The choice by a company of the market segments in which it wants to compete and the definition of the various elements of its approach to those segments (its 'value propositions').

Matrix

An organisational design by which the line of command is shared in two or more decision makers. In global firm, the typical matrix is either function and geography or business and geography.

Megacities

An urban area in which lives 10 million or more population.

Mentoring

In global firms, the human resource management process by which expatriate personnel is coached by a 'mentor' at the corporate level.

Metanational

A global firm that leverage innovation across countries.

Middle-class effect

The effect by which the size of the middle class increases more rapidly than the average of the economy.

Missions

Short-term international assignments.

Modularisation

The technology of producing goods and services by sub-components that can be assembled according to various configurations.

Multinational companies

Companies that operate in different countries.

National and ethnic culture

Norms and values that are characteristic of a nation, an ethnical or religious group.

Netting

An international cash management system by which only the net cash movements are transferred across borders. Netting minimises foreign exchange risk exposure.

Network externalities

The economic benefits accrued to a product or service derived from the number of existing users of this product or from related products. Examples of network externalities are products based on technical standards such as mobile phones, video disks, IT systems or services such as auctions.

Networked organisation

The fact for an organisation to manage its activities through a strong exchange of information and co-ordination of actions between internal and external units through partnerships and alliances.

Offshoring

The production of goods and services outside the country in which a company is located. Generally, offshoring takes place in low-cost countries. It is also known as 'de-localisation'.

Offsourcing

The purchasing of goods and services outside the country in which a company is located. Generally, offsourcing takes place in low-cost countries.

Options

The ability to make an investment with the possibility to retreat with minimum costs.

In the financial sector, an option is materialised by a tradable instrument that allows the investor to exercise its full investment if the conditions are favourable or not to exercise if the conditions are not favourable.

In the non-financial world, options are called 'real options' and consist in making a minimum investment with the possibility not to continue if the conditions are not favourable.

Organisational culture

The set of values, beliefs and behavioural norms that are predominant in an organisation.

Organisational fit

The ability for two organisations in an alliance, a merger or an acquisition to synchronise their structures, systems and processes.

Organisational processes

The way decisions are made and actions are controlled in an organisation: processes can be bureaucratic, mechanistic, participative, top-down, bottom-up, etc.

Organisational structure

The way the chain of command, the roles and the functions are defined in an organisation. One can talk about centralised or decentralised structure; flat or hierarchical structure; structure by functions, by products, by country or by matrix structures.

Post-acquisition process

The process by which acquisition is integrated after the deal has been signed. One talked also about the 'Post-Merger Integration'.

Power distance

A dominant social value in a group or a society by which group members accept authority. In a high power distance society, one is obedient and respectful of leaders, while in a low power distance, one can openly challenge the views of the leader.

Pre-acquisition process

The process by which the decision to acquire is made, the acquisition target selected, the valuation and negotiation conducted.

Preservation mode of integration

A mode of post-merger integration that consists in keeping the acquired company autonomous from the acquiring company.

Procurement

The purchase of good and services.

Professional culture

The dominant values, beliefs and norms that member of a profession share. Examples are medical culture, engineering culture, accounting culture, academic culture, etc.

Project valuation

The techniques used to calculate the return or the price of a projected investment. Discounted cash flow is the most used valuation technique.

Real option

See options above.

Regionalisation

The concentration of the international expansion of a company in a particular region of the world.

Representative offices

A limited form of implantation in a foreign country. In a representative office, people make contacts, collect information and negotiate contracts, but do not sign, neither implement the contracts.

Scenarios

The description of possible anticipated future state of affairs.

Segmentation

The division of a market or a business into sub-components that share similar features. Examples are the division of consumers by income levels.

Silent languages

The non-verbal expression of opinions, emotions and decisions. Silent languages are important mode of expression in certain societies, and for the person external to that society, it becomes critical to understand the meaning of physical gestures, facial movements that express opinions, emotions, decisions.

Socialisation

The process by which newcomers in a group or an organisation are initiated to the norms, values and practice of the group.

Socially responsible investing (SRI)

Investment in companies that are respectful of environment and human rights.

Sprinkler model

The simultaneous launch of a new product in all markets.

Stand-alone value

The value of an acquisition calculated without the potential synergies that the acquisition may bring. If the acquired company is listed on a stock market, the stand-alone value is the market value. Alternatively, the stand-alone value has to be calculated by the classical valuation techniques: discounted cash flow, net assets, comparables, etc.

Strategic fit

In an alliance or an acquisition strategic fit is for the parties engaged to have compatible objectives and to be committed to the success of the association.

Sub-optimisation

The negative or lower economic performance resulting from one or more decisions ignore the overall effect on a system. An instance of sub-optimisation would be to adopt a global price ignoring the adverse effects it can have in different markets that have different demand curves.

Symbiotic mode of integration

A mode of post-merger integration that consists in first keeping the acquired company autonomous from the acquiring company and progressively integrating the functions for which real synergies exist.

Synergies value

The calculation of the additional value brought in a merger, an acquisition or an alliance by the integration of the entities concerned.

Tacit knowledge

Knowledge that cannot be codified.

Technology transfer

The process by which knowledge is transferred from one individual, group or organisation to another individual, group or organisation. Technology can be transferred through documents when the knowledge is codified or through apprenticeship and collaboration when the knowledge is tacit.

Time incompressibility

When a capability in order to be replicated needs as much time than originally spent to create it. Time incompressibility makes imitation difficult and gives the creator of capability a first mover advantage.

Transaction exposure

Transaction exposure is the risks that currency fluctuations impose on existing contractual engagements and that may result in unexpected losses.

Translation exposure

Translation exposure reflects the effects that change in currency values have on the financial statements of global firms, and therefore on their profits and book valuation.

Transnational

Two meanings: 1) the meaning given by the United Nations to designate multinational corporations; 2) an international organisational design model described by Bartlett and Ghoshal, that does not focus on organisational structure but on management processes and culture.

Turn Key Project

A project in which the customer contracts out the whole project to a specialised engineering firm or to a consortium of equipment suppliers. The project manager takes care of completion at a fixed price and delivery time and hands over the project to the customer after the start-up phase. The project manager is financially responsible for the whole amount of the contract.

Value chain

The set of activities needed to the creation, production and commercialisation of a product or service.

Value curve

The set of products or services attributes that customers' value, such as performances, quality, responsiveness, price, convenience, etc.

Value proposition

The set of products or services attributes such as performances, quality, responsiveness, price, convenience, etc . . . that companies propose to customers.

Values

Set of beliefs and code of conducts that a person or an organisation adheres.

Waterfall model

The sequential launch of a new product market after market.

Wholly owned operations

An organisation that is controlled entirely by another organisation.

Window of opportunity

The span of time at the beginning of a market when the market is not saturated, and it is possible to enter without creating overcapacity.

Notes

1. This glossary is the sole responsibility of the author.