AEM 2601: Reading Questions 03 – Best Answers

1. **Every business enterprise has a distinct purpose; however, common to all businesses is the goal of:** ***(making customers satisfied, creating value, satisfying stakeholders, or maximizing shareholder value)***
   Creating value.

2. **India's Tata Group is a diversified group. Some of its largest companies are: Tata Steel, Tata Motors, Tata Consultancy Services (IT), Tata Power (electricity generation), Tata Chemicals, Tata Tea, Indian Hotels, and Tata Communications. How do you think Tata Group's recent adoption of EVA as a performance management tool is likely to influence the way in which it allocates investment among the companies listed above?**
   - India's Tata Group, by using EVA - a more demanding performance discipline for managers - will consider re-allocating investment from capital intensive companies to those that still show healthy profits once capital costs are factored in. Taking the real costs of capital into consideration will deter Tata Group from investing in capital-heavy businesses.
   - The EVA calculation compares net operating profit after taxes minus invested capital and the cost associated with purchasing that capital. This shows how and where Tata Group creates its wealth. This will be useful in the future because as such a diverse group Tata may need to utilize trade-offs. With so many companies, some are bound to be more successful than others. Using EVA will show which companies are generating a great deal of income, and which are wasting capital and resources via excess costs. This way Tata Group can leave certain business ventures in order to focus more on companies that are doing well.
   - Tata Group's adoption of EVA as a performance management tool will take into account the real capital-intensive costs of some of the companies in the Group's portfolio. Companies with significant capital expenditures up front, such as Tata Steel and Tata Motors, would receive a more accurate investment allocation because the true value of their capital investments would be accounted for.

- Using Economic Value Added, the company will probably shift to investing in areas that are the most profitable and cutting down on those that create less value. For example, if Tata Steel requires a lot of capital but isn't making that much money, it will probably be under review to be divested from.

3. What is the difference between emergent strategy and planned strategy?

- The difference between planned strategy and emergent strategy is that planned strategy is when the company sets out very specific goals and objectives while emergent strategies leave more room for adaptation to unpredictable market events.
- Historically, strategy analyzes past experiences to inform and dictate future decision making. This historical context lends itself to planned strategy- strategy that is intended, deliberate, and often pursued to ensure it elicits desired results (otherwise this is an unrealized strategy). Emergent strategy is more fluid. It is strategy that appears without clear intention but when harnessed, managed, and modified can identify patterns that when properly leveraged, can be beneficial for a firm.
- Emergent strategies appear without clear intentions and converge into patterns; they are not initially deliberate. Emergent strategy fosters learning and precludes control. In contrast, planned or deliberate strategy aims to work everything out in advance; it precludes learning once the strategy is formulated.
- An emergent strategy is one that appears without intention when running a business even if the successful trend is then recognized and then capitalized in. Planned strategies are planned in advance then implemented in order to achieve specifics goals. In terms of "The Art of War", planned strategies take place before the battle and an emergent strategy is one formed from the observation of the battlefield and can be adapted specifically for the situation.
- Planned strategy is a strategy which is formulated intentionally regarding the business operations and goals and then implemented. Purely deliberate strategy precludes learning and is fixed and non-flexible to current market shock, evolution, or inconsistency. Emergent strategy is one that is formed in response to evolving

situations. Purely emergent strategy precludes control and leads instability and confusion among the business.