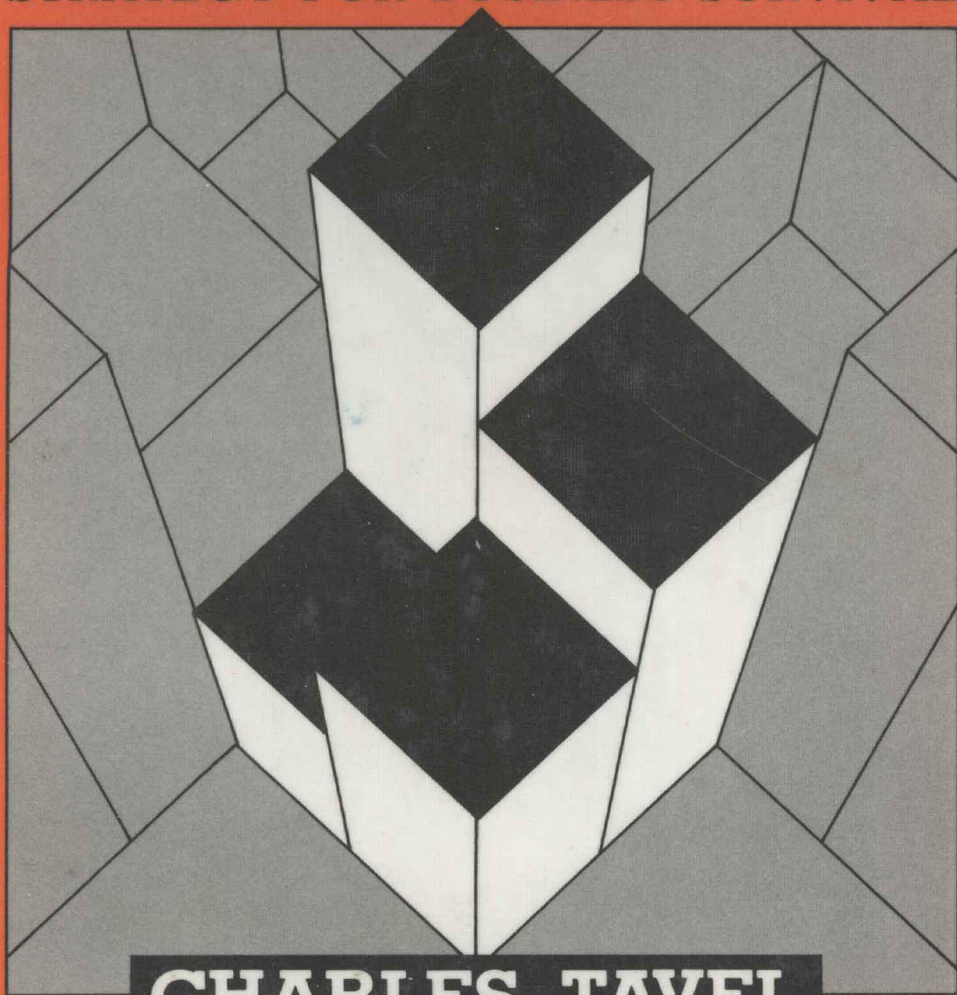


THE THIRD INDUSTRIAL AGE

STRATEGY FOR BUSINESS SURVIVAL



CHARLES TAVEL

PERGAMON PRESS

The third industrial age
*Strategy for business
survival*

CHARLES H. TAVEL, Ph.D.

Translated from the French by
Donald C. Caldwell

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To Jacqueline, Olivier, and Alec

for all the time I stole from them
during the three years of alternating
travel and seclusion that were
required to write this book.

Foreword

In the 1960s, as a guest lecturer discussing the elements of corporate strategy at Harvard Business School, I introduced a theory called “Fluid Planning.” It was a simple idea, based on the principles of setting good goals and blending business planning with opportunity. My view was that we must recognize that in the coming decades a new and more flexible approach to strategic planning would have to be taken if businesses were to survive. Traditional, sequential planning and straight-line business and economic projections, I posited, would be the downfall of corporations.

The fact is that since the 1960s traditional approaches to strategic planning have outlived their usefulness, have become immutable. They have failed primarily because of the inability of strategic planners to forecast the long-term external environment with sufficient accuracy and because of the inflexible practice of using plan forecasts as day-to-day management control procedures.

Some feel that traditional strategic planning has failed in recent years. Certainly it will not fare well in the new era we are now entering—an era filled with confusion, conflict, inflation, material shortages and energy crises; where change is compounding so rapidly that corporate leadership, enslaved by so-called “modern management methods,” is becoming less and less effective.

In his book, *The Third Industrial Age*, Charles Tavel describes the era we are now entering and analyzes the major trends shaping the future of developed economies. These trends may be frightening to some, but exciting and challenging to others. For Tavel, they are the latter. As he outlines it, industrial evolution is divided into three ages. The first age was marked by entrepreneurs, and the second by managers, or organization men (systems management). The third age, which is now upon us, is the age of the strategist. Taking up the challenge posed in this era, Tavel provides both a strategy for survival in this age and a prototype of a new kind of corporate leader—the strategist—to carry out this saving strategy.

By identifying the demanding requirements of the future and by initiating the analysis of the consequences for the corporation, the strategist-leader, the new chief executive, can guide his enterprise to exploit the future and capitalize on its opportunities, rather than be consumed by it.

Taking "a comprehensive view of the factors which affect the corporation," the strategist, Tavel says, will define the corporation's long-term objectives, choose the ways those objectives will be achieved, and set priorities and determine the amount of human and financial resources earmarked for each objective. "The strategist's job will be to know where to go and how to get there, and to provide the leadership required to make the journey."

It is this vital need for new creative and innovative leadership that I believe is Tavel's fundamental message—a message more profound and impressive than that articulated by Jean-Jacques Servan-Schreiber in *The American Challenge*. For what the industrial world (indeed the world at large) is sorely lacking are new leaders who can formulate corporate strategy, innovate and lead by the sheer power of personality. The times demand this new type of leadership if the corporation is to survive.

Business strategy often becomes confused with corporate strategy. The two strategies are very different and are distinct. Business strategy usually involves a plan for a single product or group of related products. It is the job of the line managers in a corporation to implement business strategy. Corporate strategy, on the other hand, seeks to unify all the business lines and policies of a corporation and point them toward a common objective.

In the Third Industrial Age innovative corporate strategy must be the overriding task and responsibility of the chief executive officer. Strategic planning is a dynamic process. Expediency, near-term and long-term strategic planning have been compacted into a homogeneous process, fluid in style and founded in good goal setting. The processes must be decomputerized and, instead, become humanized. This requires a new form of "must" leadership in business and industry throughout the world—one provided by the strategist.

As corporate strategist, the chief executive officer must rise above the narrow confines of business planning and systems management. He must be creative, innovative and imaginative, un beholden to conventional methods and willing to set overall corporate objectives; not a slave to sequential planning and projection; capable of exploiting new-found opportunities and adapting to changing circumstances. (This is what I referred to several years ago as "fluid planning.")

Most importantly, the chief executive officer must continually adapt corporate strategy to reality. The strategic planning should not be

an end in itself. There should be no such thing as *a* strategic corporate plan. It is the planning process and the decision-making processes which surround it that are critical and are vital. The chief executive officer should concentrate his attention on sound goals and on the assumptions and trends and flexibility underlying the plan, not on projected promises of fulfillment. He should gear plans to events, build contingency plans, set criteria in advance for abandoning a project, set up a monitoring system for reviewing strategic planning, do strategic planning on a rolling (fluid) basis.

Rigid adherence to publicized financial goals and profit projections (to the bottom line, if you will) can threaten survival of the corporation. For if it is to survive, tomorrow's corporation will have to be perceived as much as a social as an economic organization; its operating statement will have to be a socio-economic operating statement. Corporate success will have to be measured in terms of social progress as well as profits. Large multinationals, and even small businesses, must relate more to the general condition of the human order to survive. The new corporate leader will have to have the vision and energy to move his organization toward the goal of fulfilling not only the corporation's financial needs, but its human needs as well.

Tavel unfolds the answer and guiding process which can insure a sound strategy for business survival in the Third Industrial Age. Tavel's book is both an inspiration and a guide to the future of corporations. *The Third Industrial Age* points the way to this new era and provides the corporate leadership model that must evolve as we pass into this age. The strategist—the corporation's new-type leader—is the key to business survival and success. It is the strategist whose task is to guide an enterprise in exploiting the future rather than being consumed by it.

*Boston, Massachusetts, U.S.A.
October 1979*

ROBERT A. WEAVER, JR.*

* Founding President of the World Business Council.

Preface

The early 1970s marked a major turning point in the history of the world economy. The easy times of prosperity have given way to a period of uncertainty that the Middle East crisis merely served to heighten. The 1973 Yom Kippur war was not in fact the root cause of the subsequent increase in the price of oil; it only served as a pretext. The "oil crisis" existed long before that. By the spring of that year, a full six months before the war broke out, the crisis had already become the main cause for concern in the petroleum industry. The monetary system had already collapsed. Inflation was already rocketing upward. For years the world had been living beyond its means, and the time had come to pay the piper.

In actual fact, however much major macroeconomic* trends may be influenced by political events, they are in effect nothing but the end result of a multitude of microeconomic developments. Microeconomic adjustments in turn are dependent on underlying evolutionary trends, primarily those in the areas of technology and human behavior. Many of our leaders today are so disconcerted by the recent upheavals that they are merely drifting with the current. They are like a man paddling a canoe down a strange river. All he can do is try to keep from piling up on the rocks he can see 200, or perhaps only 50, feet in front of him, and to negotiate as best he can the rapids in which he finds himself caught up; his chances of coming through the experience with a whole skin are quite slim indeed if there happens to be a falls ahead of him. And since the relatively calm waters of the past two decades have begun to flow faster, since the river seems to be turning into a torrent with more and more white water ahead, it is hardly surprising that the canoeist should be getting worried. He would certainly not be so worried if he had been able to see even a rough map of the river before-

* Macroeconomics deals with economic aggregates, on the scale of an entire country, for example, or of international economic relations. Microeconomics is the study of economic phenomena at the individual company level.

hand. He would have been able to study it, to guide his actions by it, and would have been far more confident when starting out, no matter how difficult or dangerous the journey might have seemed to be. Having such a map would have changed the man from a tactician into a strategist.

However, simply being able to see a map of the river beforehand is no guarantee against bad weather, or against the times when the river overflows its banks. He will have to make allowance for such factors in his tactical behavior. Still, he knows that those are only passing events which may quicken or slow the pace of his journey, but which will not change the course of the river.

Now the recession that began to take shape in 1973 was a fairly sharp bend in the river. The unemployment that followed it and has since become one of the main problems confronting the Western world is not something that can simply be attributed to the normal unfolding of the business cycle; instead of deflation we have inflation, and with few exceptions neither production indexes nor per-capita incomes have declined. No, today's underemployment is structural, and its advent was foreseeable. The restructuring process that has now barely begun will eventually result in a new state of equilibrium and a new kind of prosperity, but one that will have to be described in different terms than in the 60s.

For too long the science of economics has delighted in confronting conflicting theories. And futurology (though not *prospective*) has fallen into the same habit in speculating about the future. It is time we learned to observe the facts. It is to the credit of the business schools that they were the first to begin to do so. But economic realities should not only be scrutinized under a magnifying glass. The observer should also stand back and size them up with the naked eye, and then rise above them to get the aerial perspective as well. By doing that, he will be able to see where the river is leading us.

That kind of observation is conducive to reasoning. By taking the observer out of the hurly-burly of everyday life, it provides him with an overview of the shifting framework within which our actions have to take place and our decisions have to be made. It is a new *scale* of observation, a scale commensurate with a new type of personality: the strategist. This is the kind of overview I have tried to achieve.

* * * *

The major turning point mentioned earlier had already been looming for several years when I decided to begin writing this book in late 1971. I was nevertheless aware of the danger of reasoning in a vacuum. So, having categorized the results of my observations, I packed my bag and set out in the fall of 1972 on a journey that, with interruptions, lasted seven months and took me around the world. In most

of the countries of Europe as well as in Japan and the United States, I tested my views on over 200 decision-makers and prominent figures in large and small companies, in government, in international organizations, in the financial community, in labor unions, in employers' associations, in business schools and universities, in research departments, and so on. I returned home considerably enriched and reassured; with minor adjustments, my views had been endorsed by the people I had interviewed. But there have also been all those, and their number is legion, who helped me through the books they have written, their contributions to professional journals, and their newspaper articles.

To all these men and women I owe an immense debt of gratitude. It is impossible to mention them all by name. In keeping with the standard practice, I have named everyone from whom I have borrowed written quotations. To my regret, however, I have had to give up the idea of identifying those who gave me what was sometimes a very considerable amount of their time—if only because professional ethics would have compelled me to submit an advance copy of the text to them. Their contributions have served to buttress a concept for which I alone take full responsibility.

Besides, the views expressed in this book have been proved right by events since the actual writing of the first edition was completed in 1974. When it came time to prepare this second edition four years later, I found that nothing of substance needed to be revised. In fact, about all I have really had to do, apart from updating the examples and figures cited, is change the verb tenses in some forecasts from future to past.

"Only men of considerable vanity write books," said John Kenneth Galbraith in the preface to his book *The New Industrial State*. I am willing to bet that he does not really mean it. There are times when writing is no longer a matter of choice, but of feeling a compulsion to express a strong conviction. Yet one has to be reckless indeed to embark on such an undertaking; my excuse is that I am a first offender. I have two other excuses, too: recklessness is the mother of success as well as of failure—and after all, I *am* in good company.

Geneva (Petit-Lancy), Switzerland
October 1978

CHARLES H. TAVEL

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1

Age of the strategist

*I don't know where I'm goin'
But I know I'm on the way*

American folk song

The third industrial age is upon us. The first bore the unmistakable stamp of that pioneering breed known collectively as entrepreneurs. The second belonged to the managers: as companies grew larger, specialization set in with the development of distinctive management techniques in the areas of finance, marketing, production, research, and administration, and it was no longer possible for one man to keep track of everything himself. Management became a group affair as the creative entrepreneur was replaced by the organization man, with a concomitant dilution of responsibilities. The head of the corporation had to make this arrangement work with as little friction as possible. He tended to become an administrator, and in fact even something of a mediator.

The third age will be the age of the strategist. The pages that follow deal with some of what will be its most significant features, especially those of which few people are aware as yet. But three essential characteristics can already be noted here:

1. The first is *an overview*, not only of the inner workings of the corporation—that was already a hallmark of the second age—but

2 *The third industrial age*

above all *of the outside factors* which act upon it. This overview must not be a purely static one. It should not be a mere panoramic snapshot of the present situation, but much more, involving an awareness of the driving forces behind those outside factors and where they will lead; in short, it implies the ability to project current trends into the future.

2. The corporate management will be marked by *the personality of its chief executive officer* to a greater extent than during the second age. The chief executive will be a strategist, developing concepts, polarizing attitudes, stirring up action and, as Andrews says, having a unifying function. (1) He will actually be more of an entrepreneur than an administrator, but an entrepreneur of a new type.
3. The strategic approach will have to be essentially *creative*. Original thinking will be required if a company is to get more mileage out of the strategic approach than its competitors and outperform them by meeting the felt, or soon to be felt, needs of the market better than they do. Creativity at the strategic level will be different from that of the pioneer. It will be much more universal in scope, and as such will be in the hands of generalists.

In many respects, the corporation of the future will be more dependent than in the past on the world in which it does business. It will have no control over the major political, economic, social, and technological trends of the day—it will simply have to adapt to them. To do so, it will have to learn not only to identify those trends but also to project them into the future and, if possible, determine where they will ultimately lead. For in most cases the corporation will have no choice but to try to outdo increasingly dynamic and imaginative competitors in increasingly vast markets, and it will therefore become more and more vulnerable. How successful it is—and in fact whether or not it even survives—will depend on how well it manages not only to counter the threats posed by those trends, but also, and even more important, to turn them to its advantage.

One purpose of this book is to acquaint the reader with some of the major trends that will shape the future of the developed economies, to show why creativity will be essential for the survival of the great majority of industries, and to suggest how this knowledge can be used to devise a creative strategy. The strategist's job will be to know where to go and how to get there, and to provide the leadership required to make the journey. Obviously, this new emphasis on strategy does not mean that good management will be any less imperative, but it does mean that the strategist will outrank the manager. To draw a military parallel, the main function of the commanding officer of an army in combat is not to supervise the work of his field or staff officers, but to

devise battle plans for the deployment of his troops. That is also what the function of the corporation head will be, and seen in that light the term strategist takes on its true significance.

What is meant by corporate strategy?

Strategy is generally defined as:

The art of preparing a campaign plan.

The art of directing an army toward decisive or strategic positions.

The art of reconnoitering the positions where the greatest numbers of troops should be placed to win a battle.

By analogy, we shall say that *corporate strategy* consists in:

Defining the corporation's long-term *objectives*.

Choosing the *ways* those objectives will be achieved, e.g., diversifying or concentrating production, acquiring a company or patent, securing a license or launching a research program in the event of diversification, investing in or divesting itself of certain operations, merging or entering into cooperation agreements with other companies, expanding into international markets, and so on.

Setting the *priorities* and determining the *amount* of human and financial resources earmarked for each objective.

This book, unlike some others, will not concern itself with the second definition of the word "strategy," which, especially in English, embraces the art of using stratagems for the purpose, say, of making competitors act the way the strategist wants them to act. That kind of approach will be regarded here as involving *tactical* considerations.

Strategy implies a *comprehensive* view of the factors which affect the corporation. Such a view requires a vantage point that is high enough for the viewer to see the whole picture; as Lecomte de Nouÿ once said, it is a question of scale of observation. The main thing is not to be too close to the problems involved. Its *purpose* is to define the guidelines to which tactical decisions will have to be subordinated, and by doing so, to provide a framework for concrete action. Its *effect* will be to avoid the anarchy that results from what will be an increasingly necessary decentralization of responsibilities. But more than that, it attempts to create synergy¹ among the corporation's product divisions on the one

¹ The word synergy describes a process whereby several operations of a corporation may be combined in such a way that the total result is greater than the sum of those operations acting independently. An abbreviated definition often given of synergy is: $2 + 2 = 5$.