Improving performance. For many leaders, it’s always top-of-mind. Yet, for all the attention it gets, a big opportunity may be being missed: There’s a new approach that can not only improve performance, but accelerate it. This approach allows companies to break out of the trap of diminishing returns—in which a single-minded focus on cost-cutting finds less and less to cut—to a performance curve of increasing returns, where targeted efforts lead to better performance, which in turn fuel even better performance.

Taking advantage of this opportunity, however, requires focusing on a part of the organization that is largely invisible today: the frontline workgroup.

To unleash the potential for accelerating the performance improvement of workgroups, organizations need to both recognize the frontline workgroup as the key engine of future performance and move beyond the notion of “high-performing teams.”

Leaders and managers can address this potential by cultivating a set of practices that are specifically designed to accelerate learning within the workgroup, one workgroup at a time, starting with those that have the potential to disproportionately drive the organization’s operating performance.

And in this issue of CFO Insights, we will discuss several elements of business practice redesign that can not only potentially help frontline workgroups learn faster and perform better, but could also accelerate performance improvement over time.

Frontline workers are often best positioned to see change first, but organizations often overlook and undervalue these workgroups.
The external challenge
While accelerating performance improvement is a big, unrealized opportunity, it may also be an imperative. Organizations that don’t get on an exponential trajectory may fall behind and become increasingly marginalized as the world advances at a faster rate.

Consider the gap between the rate of price-performance improvement in the digital infrastructure and the growth in labor productivity. Labor productivity has been increasing for decades, but this incremental linear increase is dwarfed by the exponential advances in the digital infrastructure (see Figure 1). Most companies are still capturing only a small fraction of the value that ought to be available through these new technologies.

The exponential advance of technology and concurrent trend toward less restricted flows of people, resources, and capital (the “Big Shift”)—creates opportunities, but also greater uncertainty and performance pressure. While previous technological revolutions were characterized by bursts of innovation followed by periods of relative stability, advances in the digital infrastructure show no signs of stabilizing.

This is already having a significant effect on the broader business environment. On the demand side, for example, customers have more power and choice than ever before and are less willing to settle for the standardized products that long drove the success of large institutions. On the supply side, businesses face intensifying competition as new platforms, connectivity, and other advances reduce the barriers to entry in many sectors.

How are companies reacting to these upheavals? Not well, judging by the performance of public companies as a whole over the 50 years since digital technology first began affecting business. For example, even as labor productivity has risen, the return on assets for all US public companies has declined at a significant and steady rate, by more than 70% (see Figure 2). As the pressure mounts, regular process improvements often don’t solve the problem. As reported in the 2016 Shift Index, the companies that are still around are having a harder time maintaining market leadership amid intensifying competition in many sectors. Over the past 80 years, the average tenure of a company on the S&P 500 has declined 80%.

A challenge for large companies—or companies that aspire to be large—is that scalable efficiency is often no longer effective. While that model yielded results in a relatively stable environment and may continue to improve productivity over time, it has created an environment that is often hostile to learning, where it is harder, and takes longer, to achieve higher levels of performance improvement.
The challenge for workers is that many, in all kinds of work environments, will face increasing pressure to reach higher levels of performance or risk being marginalized. Even if, as consumers, we benefit from greater power and choice, as workers, the useful life of many skills is in decline, creating a constant pressure to reskill. So it becomes important to learn not only how to learn fast, but how to construct new frames through which to learn. Meanwhile, many organizations continue to seek headcount reductions wherever possible, and employees fear automation or losing their jobs to robots, driving a wedge of tensions and stress in the workforce.

How to address the opportunity
What is likely to ramp up performance for the organization? Accelerating performance uses different levers than have been used in the quest for scalable efficiency. Organizations that want to pursue this opportunity will need to focus their attention differently than where most are today. Specifically, they will need to:

Focus on exception handling as a catalyst for performance improvement. One consequence of the relentless, rapid changes of the Big Shift is that many employees in large companies are already spending more of their time on “exceptions”—those unexpected issues that fall outside the realm of existing standardized processes. These exceptions can be early signals of changing customer needs or shifting contexts that represent potential threats or significant new opportunities for growth. Organizations that focus on improving their ability to handle exceptions—not just to resolve or eliminate them but to glean learning and create value from them—will discover a valuable source of performance improvement, especially if exceptions increase.

Focus on frontline workgroups as the location of the work that is most relevant to organizational performance in a volatile environment. Workers on the front lines of operations—whether a customer service unit or a supply chain management group, a cybersecurity response group or back-office IT department—will be the ones to first encounter the aforementioned exceptions. And it is at the front lines that new approaches to address these changing needs will likely first be crafted. These frontline workers are often best positioned to see change first, and they can learn from addressing the unexpected challenges and emerging opportunities. And yet, organizations often overlook and undervalue these workgroups. In an environment in which physical assets and intellectual property rapidly lose value, workers—humans—possess the boundless ability to adapt and continuously push the limits of performance improvement.

Focus on accelerating trajectories. Success in this environment may require getting on a trajectory that mirrors the exponential rate of technology and technology-enabled change. The most relevant measures of performance and the appropriate rate of improvement will be a function of the context of each company and workgroup. In order to achieve an accelerating trajectory, it cannot be overemphasized that organizations and workgroups will have to adopt a relentless focus on that trajectory rather than getting tugged back into looking at snapshots in time, absolute numbers, and comparisons with competitors.

Focus on value creation as the key driver of performance. While costs can’t be cut any lower than zero, the potential for value creation has no such bounds. Focusing on new value creation can be the key to getting on a trajectory of accelerating performance improvement. Given that technology is improving exponentially, the way to close the gap between business performance and technology performance is likely to involve looking for ways to create significantly more value than just being efficient or more flexible. At the same time, as noted earlier, customers’ increasing power and expectations, as well as their own rapidly changing needs, offer an opportunity for organizations and workgroups to be more creative and imaginative in finding ways to constantly create new value. To do so may require companies to learn faster about the changing needs and preferences of customers; the changing tools, potential partners, and resources available to serve customers; and how to leverage and develop capabilities into new approaches capable of creating significantly more value for everyone involved.

Focus on a different form of learning—learning through action. When we talk about scalable learning, we aren’t talking about what most people think of when they hear “learning” in a corporate context:
We are talking not about learning for learning’s sake, but about learning as a means to achieve ever-higher performance in a business environment characterized by mounting performance pressure.

We aren’t talking about knowledge management or sharing existing knowledge. This learning is about creating the new knowledge needed to solve new problems. It is the by-product of focusing on accelerating performance improvement.

And we are talking about not skills acquisition through formal training programs, but, rather, the kind of learning that occurs day-to-day, on the job where work practices are embodied in action.

In this type of environment, creating new knowledge will be more important to performance than improving access to existing knowledge. The people and institutions that will likely have more success are those that learn faster by creating new knowledge through action—coming up with new ways of doing things that can increase impact.

Focus on the practices that will help accelerate performance improvement in the workgroup. The term “practice” is often used loosely, but at its most basic, practice is the way work actually gets done. To capture the opportunities available, we need to focus on developing a specific set of practices: those that can help accelerate performance improvement in the workgroup. The key seems to be that the practices have to catch up with the technology. And here it’s important to recognize the connection between technology and practice. As new technology platforms and tools emerge, often so do new practices.

Practices tend to be context-specific, however. They emerge through action and are constantly evolving. Yet, there is also continuity. Specific instances of practices will share some similarities, such as intent and approach, which guide—rather than govern—our actions. So while you can describe a practice and what seems to be the most important about it at a high level, the actual practice will develop in a way that is specific to the context. As a result, there is almost infinite variation in practice because of the infinite variation in context.

Provoke, propel, pull
Within the sphere of the many management, individual, and business practices that exist today, this article focuses on those that can accelerate performance improvement. These practices can be grouped into three categories:

• Those that provoke the workgroup to think differently about the challenge and possible approaches and create better alternatives;
• Those that propel the workgroup into action to gain additional insight into the next best move to make a greater impact;
• Those that help the workgroup pull together to harness diversity and come up with ever-higher impact and outcomes.

While these practices aren’t intended to be the comprehensive final word on accelerating performance improvement, they represent a robust tradecraft for getting better faster.

If taken seriously, these practices—and the new tools and technology that are available—have the potential to help create a business environment with an increasing returns curve, where the more of us that join together, the more value we can create together. And if we shift our focus toward creating new value, ultimately the value we can provide may be infinite.

Rather than approach this as a “big bang” initiative to redesign all of a company’s workgroups, think in terms of small, smart moves to build momentum. Start by targeting the handful of workgroups that could potentially have the highest impact to your company—those that could be pivotal in addressing the biggest pain points or opportunities. Use these workgroups as a test bed for cultivating the practices that can accelerate performance improvement. By starting small, you don’t need permission—just get started, track, and learn.

*Excerpted from “Beyond process: How to get better, faster as ‘exceptions’ become the rule,” November 13, 2017; Deloitte Insights, Deloitte Development LLC. The original research was based on interviews with more than 60 different workgroups across a range of industries. Part 2 is scheduled to be published on January 31, 2018.
Endnotes

1. More discussion of the Big Shift, including metrics that describe these trends and their impact over the past five decades, can be found in John Hagel, John Seely Brown, Maggie Wooll, and Andrew de Maar, *The paradox of flows: Can hope flow from fear?*, Deloitte University Press, December 13, 2016.


3. Hagel et al., *The paradox of flows*.

4. Some of the areas where barriers are being reduced or even eliminated as a result of platforms, policy, and social changes include design, production, marketing, and distribution, as well as financing, customer service, and learning. For a deeper discussion of the barriers to entry and how the Big Shift is affecting them, see John Hagel, John Seely Brown, Tamara Samoylova, and Duleesha Kulasooriya, *The hero's journey through the landscape of the future*, Deloitte University Press, July 24, 2014.

5. Hagel et al., *The paradox of flows*.

6. Ibid. View in article.


9. As discussed in greater detail in John Seely Brown and Paul Duguid, “Practice vs. process: The tension, that won't go away” (*Knowledge Directions*, spring 2000), there is an ongoing and unresolved tension in any organization between how knowledge is generated, through practice, and how it is implemented or propagated, generally through process. Large organizations do not need to resolve this tension, but to become comfortable with the play between the practice and process.

* Our use of the term workgroup hews most closely to Jon R. Katzenbach and Douglas K. Smith’s definition of team from “The discipline of teams,” *Harvard Business Review*, July/August 2005. In the categorization of teams in that same article, we are concerned with those teams that make or do things—manufacturing, operations, or marketing groups.

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