

Foreword to the Shift Index 2013

IN 2009, Deloitte’s Center for the Edge took an X-ray photograph of American business. At the time, the endless stream of books, articles, reports, and business gossip suggested that deep change was taking place in our organizations, but offered no reliable measure of what was taking place. People had a sense that we were undergoing gigantic changes in society, in which everything we do was being reinvented—how we live, how we work, how we play, and how we communicate. Everyone could see that exponential improvement in multiple technologies was fueling exponential innovation.

Yet there was no accurate method of characterizing the speed or acceleration of the changes under way or their impact on business outcomes. The measures that were available tended to be less relevant variables or suffered from distortion by “financial gadgetry.” Without time-series data and a methodology for integrating them, business books often resembled the self-help, the science fiction, or even the romance section of the bookstore.

The resulting X-ray photograph that the Center for the Edge took—the Shift Index—provided, for the first time, comprehensive insight into the underlying drivers of corporate performance. This magisterial study measured the performance of 20,000 US firms from 1965 to date in great detail. It looked beyond merely cyclical events, and shed light on the deeper trends of longer-term change. It provided a clear, comprehensive, and sustained view of the dynamics changing our world, thus documenting and quantifying what it called “the Big Shift.” It was, in my view, the most important business study ever.

It revealed the fundamental paradox facing business today. On the one hand, new technology is indeed creating vast possibilities for doing things better, faster, cheaper, smaller, lighter, more convenient, and more personalized. Per capita labor productivity is steadily improving.

On the other hand, businesses are by and large not capturing value from these new possibilities. This turned out to be a steady trend of long duration. Core performance has been deteriorating for decades: The return on assets for US companies has steadily fallen to almost one quarter of 1965 levels. The conclusion is inescapable: Big hierarchical bureaucracies with legacy structures and managerial practices and short-term mindsets have not yet found a way to flourish in this new world.

The Shift Index thus anticipated the conclusion to which macro-economists are now reluctantly coming, namely, that an economy comprising mainly big hierarchical bureaucracies are undergoing a “Great Stagnation” (Tyler Cowen) or “Secular Stagnation” (Larry Summers). While those firms that have mastered the dynamics of the Big Shift, such as Apple, Amazon, and Autodesk, are growing rapidly, they are still only a relatively small part of the overall economy.

The 2011 edition of the Shift Index covered industry-specific data for nine key sectors and provided a guide to the thought leadership, methodology, and data that drives the index's metrics.

Now the 2013 edition of the Shift Index takes the analysis to the next level. It updates and confirms the trends of earlier editions while opening up the discussion in new areas. Among the highlights:

- It explores a key driver of an economy that is dependent on rapid innovation: worker passion. In recording that only 11 percent of employees are passionate about their work, the Shift Index shows how far big companies have to go in shedding legacy management practices.
- It examines why companies are broken, although many don't know it yet: They are looking at the wrong measures. It explains why the rate of return on assets provides a more realistic picture of the underlying drivers of performance.
- It discusses the various contradictions that companies find themselves in as a result of the exponential pace of change and the increased power of customers to get more for less. It shows how integrative thinking can reveal win-win solutions.
- It gives examples of what it takes to manage successfully in this different world, with lessons from the Amazon River, not just Amazon.com.

It is not too much to say that the Shift Index has changed our very conception of what the 21st-century economy is about. It reveals what's going on in terms of fundamentals. It points to the need, not just for better management, but for different management.

Is there a more valuable business study than the Shift Index? If there is, I don't know of it. The 2013 edition is another giant step toward understanding the new world into which we are willy-nilly being hurled.

The message for business leaders is clear: Ignore this study at your peril!

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