

## THE END NOTE

### { What we said then }

*“Companies are broken, and many don’t know [it]. Many companies are reporting record profits, but longer-term trends suggest they are struggling. Absolute profits . . . matter little—at a minimum, profits should be considered relative to total revenue to get a sense of whether profits are rising faster or slower than revenue. But even that analysis overlooks a critical component of business activity: the assets required to run a business. Ultimately, companies need to earn a healthy return on those assets in order to stay in business.”*

*From “Success or struggle: ROA as a true measure of business performance”  
By John Hagel, John Seely Brown, Tamara Samoylova, and Michael Lui  
Published October 30, 2013*

### { What we think now }

“THERE’S AN INCREASING disconnect between the way the world is evolving and the way companies are responding. That’s why we wrote that companies are *broken*, not just under pressure. They’re continuing to use very traditional business approaches in a world that’s demanding something fundamentally different.

Companies are still applying various forms of financial engineering to cushion shareholders from the blow of deteriorating performance—everything from stock buybacks to increasing dividends to adding debt to the balance sheet. But at some point, they’ll have to face the fundamentals of their business and figure out why performance is deteriorating. We continue to believe that the most helpful financial measure of the fundamental performance of the business is return on assets (ROA), and the erosion in ROA for all US public companies has been significant and sustained over a period of decades.



**JOHN HAGEL**  
Co-chairman of Deloitte’s  
Center for the Edge

Traditional businesses have been run around the model of scalable efficiency: aggressively cutting costs and getting more efficient at greater and greater scale. In the new world, that approach is actually less and less efficient. They should focus on what we call scalable learning—how do we help everybody in the company learn faster, together, and improve performance more rapidly, not just in terms of cutting costs but in terms of increasing value?


That’s a fundamental shift. It changes everything in terms of how you organize the business, operate the business, and the kinds of strategies you pursue. It’s going to take a willingness to step back and ask some of the most fundamental questions of all:

What business are we in? What’s the reason we have a company? This new world requires committing to a fundamental transformation of business. Everything has to be reassessed. ●



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