



## Performance management: Does your process serve your strategy?

If you believe that your “performance management” system, the annual review process intended to assess each of your employee’s contribution to your organization’s goals, is due for an overhaul, you are not alone. In fact, the *Global Human Capital Trends 2015* report from Bersin by Deloitte, found that 49% of responding companies said that their performance management (PM) process is not an effective use of their time, and a mere one in 10 respondents said it drives employee engagement and high performance.<sup>1</sup>

But if traditional approaches to PM leave senior executives wondering whether the process is meeting its full potential, that

doesn’t mean the concept of creating strong and clear connections between each employee’s individual performance and the performance of the organization as a whole is flawed. In fact, many companies are substantially retooling their PM processes precisely because they recognize the increasing importance of that connection and believe that by taking steps to improve individual and team performance, the entire organization will benefit.

Toward that end, 89% of respondents in the same survey said they have changed their PM processes or plan to do so in the next 18 months.<sup>2</sup> In many cases, these changes have been, or will be, motivated by a

perceived need for PM processes to be more nimble in order to keep up with the accelerating pace of business, address an increasingly globalized and interdependent economy, leverage new technological capabilities, and meet the expectations of millennial employees, among other factors.

If companies are going to successfully migrate from traditional PM systems to a next-generation approach that meets all those needs, however, they may need significant input from their CFOs. In this issue of *CFO Insights*, we will examine why a new approach should be considered and what the CFO’s role should be in retooling PM systems. ➔

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## The case for change

There are plenty of arguments in favor of rethinking performance management. Consider that the traditional PM process often consists of long hours spent completing forms, holding meetings, and creating ratings. An internal Deloitte case study, in fact, found that the time devoted to PM equated to two million hours a year.<sup>3</sup>

Moreover, traditional PM processes are often focused on past performance and are not designed to facilitate the kinds of feedback that determine future performance. The aforementioned Bersin by Deloitte survey found that just 13% of companies share feedback with employees about their high-potential status; only 28% differentiate base compensation based on performance; and only 26% award promotions based on merit, performance, and competencies.<sup>4</sup>

Little wonder that many companies, including Deloitte (see sidebar, “How Deloitte does it”), have reinvented their PM process—and moved to more real-time approaches that focus on coaching and developing people on both the individual and team level. The desired result? A PM process that takes individuals and the entire business to a higher level.

To get there, many organizations are rethinking the principles that underlie their PM efforts. They are also shifting their emphasis to identifying employees’ strengths and encouraging their development, locally and in real-time, supported by relevant metrics, using an agile, simple, and continuous process.

That requires asking a lot of questions up front, which is critical to any successful PM transformation. Knowing the specific measurements that matter to a particular organization enables a company to measure the progress of the PM effort. Questions to consider include:

- How much do we spend on our PM process annually?
- Could higher levels of engagement/team performance translate into improved company financial performance?



## How Deloitte does it

The performance management system that was previously used at Deloitte may sound a lot like yours: Objectives were set for the organization’s thousands of employees at the beginning of the year, employee performance on projects was evaluated by a manager, and those evaluations resulted in a single rating, which was arrived at following a long series of “consensus meetings” at which counselors discussed hundreds of employees vis-à-vis their peers.

That process consumed nearly two million hours a year, many devoted to closed-door meetings about ratings for past performance rather than focusing on career development.

So over the past two years, Deloitte has redesigned its PM system, focusing on what the team leader’s future actions with respect to that person would be. That hinges on four statements:

- Based on what I know of this person’s performance and if it were my money, I would award this person the highest possible compensation increase and bonus.
- Based on what I know of this person’s performance, I would always want him/her on my team.
- This person is at risk for low performance.
- Based on what I know of this person’s performance, he/she is currently operating at the next level.

Answered after each project, or quarterly, the responses to these statements create a constant flow of data that helps leaders make important decisions about succession planning, development strategies, performance analysis, and more. The end result is referred to as a “performance snapshot.” And, to make sure team leaders are in constant contact with employees, the PM system also includes frequent “check-ins” that are initiated by the employee through an automated system that allows the employee to evaluate his or her performance and the team leader to provide feedback.

These check-ins and performance snapshots are augmented by other processes (surveys and talent reviews, for example) that, in the aggregate, are intended to measure, reward, and improve performance. There are still aspects of performance management that have yet to be resolved, but Deloitte has taken an important step forward in developing a richer understanding of each employee’s strengths and capabilities. The next phase is expected to provide an even more multidimensional understanding of each employee’s aptitudes, interests, contributions, and potential.

\* For more details regarding how Deloitte is redesigning its performance management system, see “Reinventing Performance Management,” Marcus Buckingham and Ashley Goodall, *Harvard Business Review*, April 2015.

- How do we generate real-time data relevant to an employee's performance?
- How do we translate that data into talent decisions?
- What characterizes our best teams, and what do the leaders of those teams do?

The answers to these questions can help the organization step back and decide how best to align its PM philosophy with its strategy and culture, which is an essential step before embarking on PM process changes, software deployment, or other actions.

### The role(s) of the CFO

CFOs can play a number of critical roles in helping their companies think through the strategic and tactical issues that will help fuel performance and drive a new PM system. Specifically, they can:

- **Identify metrics.** CFOs have the extensive experience in metrics and analytics that is fundamental to measuring performance. CFOs can help their organizations identify metrics regarding employee engagement, turnover and retention rates, recruitment costs, training and development expenses, and more, and show how those relate to company performance.
- **Calculate rewards.** CFOs are also key stakeholders in determining how performance will ultimately be rewarded based on the intersection of those metrics. That is important to both engaging employees in the process, and making sure the process ties to overall business strategy. If PM is about drawing a straight line between each employee's performance and that of the entire organization, it's hard to see how that happens without the CFO being part of strategic conversations around rewards and incentives.
- **Integrate strategy.** Effective performance management is not a one-size-fits-all proposition. It needs to be customized to a company's market position and strategy. A company

performing poorly may want to design a system that identifies the reasons for its weak performance so remedial actions may be taken, while a high-performing company may want to maintain its upward trajectory by focusing on its highest performing business units and replicating their methods across the entire organization. Given their unique position in the company, CFOs understand both where the organization is today and where it is going, which is critical to redesigning the PM system.

- **Assess costs.** Finance chiefs are also ideally positioned to help organizations assess the full costs, both in hard dollars and soft dollars, of retooling its PM system—including the opportunity cost of not moving forward at all.
- **Improve productivity and retention.** Finally, since labor is often a company's largest expense, or among the largest, the ability to increase the ROI of the workforce is inevitably a top concern for CFOs. Analytics is a useful tool to not only measure retention but even to predict it; one high-tech company, for example, can accurately predict retention by measuring an employee's social media behavior.<sup>5</sup> CFOs can help their organizations spot new ways to apply analytics to PM and to next-generation employee-engagement efforts.

That said, CFOs tend not to be the primary drivers of PM transformations, but are more likely to participate as key members of the leadership team steering such efforts. Still, as PM evolves away from a business process typically "owned" by human resources and focused primarily on past performance and instead broadens its purview to address issues such as employee engagement, corporate culture, career coaching, and talent development, CFOs bring a strategic view of organizational performance that has to inform whichever approach to PM a company eventually takes. ➤



### Embarking on the journey

One way to start the journey is to step back and ask why the organization does performance management. What purpose does it serve? What decisions should it influence, and at what frequency? This will establish alignment around key objectives and help guide the redesign process. Then, consider assessing the organization's current state across six facets of PM, ranking each on a continuum from "Traditional" to "In transition" to "Contemporary" (see Figure 1, "Understanding your PM maturity"). This can help clarify how each process element can be redesigned to create additional business value.

At the same time, companies need to decide how aggressively they should move from one end of the continuum to the other. In cases where there is less of a need for more real-time data, incremental changes may suffice. But many organizations, motivated by a desire to keep pace with a rapidly changing and globalizing business environment, the expectations of an increasingly millennial workforce, the capacity for mobile technologies to reshape work, and a variety of other factors, may opt for a more substantial change.

In the past year alone, there has been a marked embrace of strength-based PM

processes, as organizations realize that focusing on development is essential to fuel company performance. The good news is that a Big Bang cutover is not the only viable approach. Pilot programs provide a pragmatic way to test out new processes on a limited scale and in a short time frame.

In fact, the finance department itself may be a prime candidate for such a pilot. Given that leading-edge PM systems strive to address team effectiveness and that a CFO's success is often dependent on the quality of the finance team, it makes sense that the finance department would be fertile ground for a PM pilot. Such a pilot could also help a CFO determine what works and what doesn't, as well as allow him or her to advise other C-suite and business leaders on how well the organization can absorb change.

Figure 1. Understanding your PM maturity

Take five minutes to annotate where along the PM continuum you think your company falls in the following six areas. Then, plot where you think it will be in the next two-to-three years.



In addition, more frequent talks with your employees about their current duties and level of performance, their ultimate career aspirations, and the steps needed to bridge that gap can improve PM dialogue both within the finance function and in other parts of your organization. It may sound obvious, but given the many pressing needs of business today, it's the kind of conversation that is often put off. By making time for those individual talks, however, you may quickly see the value in fostering that kind of contact and focus across the entire organization. ◀



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## End notes:

1. "Performance management: The secret ingredient," *Global Human Capital Trends 2015: Leading in the new world of work*, David Parent, Nathan Sloan, and Akio Tsuchida, authors, February 2015. <https://dupress.deloitte.com/dup-us-en/focus/human-capital-trends/2015/introduction-human-capital-trends-2015.html>.
2. Ibid.
3. Deloitte internal case study, Deloitte LLP, 2015.
4. "Performance management: The secret ingredient," *Global Human Capital Trends 2015: Leading in the new world of work*, David Parent, Nathan Sloan, and Akio Tsuchida, authors, February 2015. <https://dupress.deloitte.com/dup-us-en/focus/human-capital-trends/2015/introduction-human-capital-trends-2015.html>.
5. Ibid.