

Business May Be Your Life - But - Life Is *Your* Business

Part XII: Power Performance Reviews ^{A, B}



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**"Performance is your reality.
Forget everything else!"**

Harold S. Geneen - Former CEO of ITT

KEY CONCEPTS:

- Performance reviews can be either a negative or positive tool in efforts to achieve fully-engaged committed employees and a successful company.
- To add company value, appraisals should be conducted in a fair manner that accurately recognize the two-way function of the employee-supervisor relationship, and provide concrete information on how to build that relationship and align the employee's goals with those of the company.
- A specific technique and format that has proven successful for the author in building companies is provided.

This coming January, many of us will be involved in some kind of annual performance review, either giving or receiving one - or both. If you are a CEO, it is the time of the year when you will likely look back over your company's performance for 2011 and ask, "How did we do? Could we have done better? And if so, how?" In your thoughtful reminiscence, you might also ask, "How did each and every one of us in the company do?"

It's performance review time. To many people this is a frightening experience, both for those receiving performance reviews, and those giving them - especially if there is constructive criticism that needs to be presented and discussed.

Performance reviews are a controversial subject. Some executives feel they are useless, contentious and even deleterious. That is certainly true if not conducted in an appropriate manner. But without honest, well-designed reviews, it is challenging, perhaps not even possible to build a truly successful company.

The key word here is "successful." What is success, anyway? For me, the best definition of

success was formulated many years ago by motivational author and speaker, Earl Nightingale. **Success is the progressive realization of a worthy goal or ideal to which you are personally committed.** The same applies to a company. Therefore, if every employee does not understand and commit to the corporate goals and strategy, and subsequently set his or her goals in a way that supports those of the company, how can either be successful?

At Catalytica, Inc., the U.S. public company I co-founded and managed for some years, we developed a performance review system that was valuable to both employees and the company. It was not a fearful process, and it was an important contributor to our success as a company. Although the form I present below applies especially to supervisors, managers and executives, when non-relevant points are eliminated where appropriate, much of the content is directly adaptable to all employees. **Its prime purpose is to align all employee goals with those of the company, and in doing so, to create a fulfilling professional life for employees and a successful enterprise (see Figure 1)¹.**

2011 RESULTS AND 2012 STRATEGIC PLAN

Over the years, we developed a form that was completed by **both** the employee and his or her supervisor and presented respectively to each other at least one week before the review session. The supervisor's form was given to the employee, and the employee's form to the supervisor. To be clear, the form is filled out by the employee concerning his or her performance for the year, and the form completed by the supervisor addresses the supervisor's perspective on his or her performance for the year. The supervisor is responsible for **facilitating** the performance review, and should have, or be trained to use effective communication skills - especially listening - to do so.

Some might think of this as a "360 degree" performance review, but as you can see from the content of the form that both parties complete, it is not quite the same approach. It takes considerable time to fill out this form for the first time, but in subsequent years it is much easier. Filling it out properly also requires that the company management be open and transparent with employees concerning relevant financial and other data. The employee must clearly understand his or her specific expected role and contribution. Therefore, clarity of and commitment to the overall company strategy and goals are very important. Equally key, is that the employee and supervisor both understand and agree to the employee's **measurable** goals in contributing to the corporate strategy and achieving the annual plan.

The following form is completed by both the employee and supervisor to the best of their ability and then both copies are discussed and modified as mutually considered necessary, during or immediately after the review. There is a significant effort required by both employee and supervisor, but the benefits far outweigh this effort.

1. Financial Results

	2011 Plan	2011 Actual	2012 Plan
Sales			
Pre-tax Profit			
EBITDA			
Number of Employees (EOY)			
Sales Due to Employee's Team			

2. Significant events during 2011 - List the top 2-3 significant **good** and **not-so-good** things that happened during 2011 that had an impact on your performance.
3. If I could relive 2011, what actions would I take differently?
4. What did I learn in 2011 that I believe has future value to me and to the company?
5. What do I believe are the current external threats to our company and to our industry? What is my role, if any, in helping our company to address these threats?
6. What new **external** and **internal** opportunities do I see for our company?
7. What are the 1-3 most significant issues or dilemmas I currently face within the context of my job?
8. What do I understand are the essential elements of our current business strategy for 2012 and how do they apply to my position?
9. What are the two or three things that absolutely **must** happen to make our strategy work in 2012? How does this apply to my area of operation?
10. What do I understand are the company goals for 2012?
11. What are my team and personal corporate goals for 2012?

^{A)} **EDITOR'S NOTE** - This is Part XII in a series of articles based on the author's experience as an entrepreneur, having founded several successful businesses, including Catalytica Pharmaceuticals, Inc., a billion-dollar public company. His business experience base spans "5 lives" - Recording artist; R&D Director for Exxon; Chairman & founder of 2 public companies; CEO, founder and Executive Producer for Chateau Wally Films; Chairman & Owner of Chateau Mcely, an international award-winning luxury hotel & SPA. This article is extracted from his latest book, presently in preparation and entitled, "Finding Fulfillment in Life and Business - Tales of Purpose, Passion & Enterprise."

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Figure 1: A performance management system that drives focus and transparency is vital to the success of today's leading organizations. The primary purpose of performance management is to align individual goals with the company vision, mission and strategies. Success lies in the ability to equip employees with the skills and tools to take charge of their work responsibilities, development and future (Reference 1).



12. How do I want you to help me in 2012 to achieve these goals?
13. Who are our customers and what, if any, good news are we delivering to them?
14. Who are our competitors and what competitive advantage are we striving for? What is the company doing, and what specifically am I doing to help achieve this advantage?
15. As I review our company's strategic plan **for the next 1-3 years**, and I study the area for which I am responsible, what changes do I foresee in (a) our products and services, (b) our market scope, (c) the general size and profitability of our markets (increase or decrease), (d) How will I spend my time?
16. What feedback do I want to give you so that you can become a more effective manager/employee? In particular, what did you do in 2011 that facilitated my job and what did you do that made it a greater challenge.

Providing answers to these questions and having a constructive conversation between the two people involved in the performance review requires a corporate culture that is open and respectful of input to both the employee and the supervisor. However, a company that develops such a culture has a significant competitive advantage, and is almost always a market leader.

Some might think that this approach requires too much time, is too transparent, and perhaps a bit too progressive. True, it does require a considerable amount of quality time. And yes, it is quite transparent and surely can be considered progressive, when compared to the norm. But is your goal, or your company's goal to be the norm? Furthermore, this technique has proven very successful.

There are more progressive approaches, which may be even more successful. Consider the corporate culture and performance appraisal technique of Linden Lab as described in a recent book by Jeff Hollender and Bill Breen². The company was founded in 1998 and employs well-established, one might even say "famous" high-tech professionals from companies such as Apple, Microsoft, Electronic Arts and Disney. As a measure of its performance, in 2008, the company was awarded an Emmy for its on-line virtual-real-time environment product called *Second Life* (see

Figure 2)³. Much of their success is due to their corporate culture. They consider themselves a *community* and not a company, and they behave that way.

Why a community? Because they believe that to galvanize people into a passionate mode of action within the workplace, so that they deliver the very best every day, the organization must behave as a community, and not as a typical corporate hierarchy. As a communal company, they have demonstrated that profits fuel the drive to meet a higher purpose and all stakeholders are treated fairly.

Support for this approach comes from a recent ambitious global study by HR consulting firm, Towers Perrin in which they surveyed 90,000 employees in large and medium-sized companies across 18 countries⁴. They measured how committed people feel to their work. The results are cause for some deep thought. An incredible 71 percent of respondents said they were disengaged or disenchanted at work. But most interestingly, Towers Perrin noted that quite often employees care a lot about their work and want to learn and grow, but unfortunately, many companies are not only wasting their people's talent and knowledge, but they also actively discourage their em-

Figure 2: Linden Lab is the maker of *Second Life*® - A 3D virtual world created by its Residents (people like you) that's bursting with entertainment, experiences, and opportunity. *Second Life* offers a uniquely immersive experience where you can create, buy, and sell anything you can imagine; socialize with people across the world; and enjoy live events and gaming activities (Ref. 3).



ployees from contributing more, even though most employees reported that they would like to do so. So how did Linden Lab break the bureaucratic hierarchy?

The management wanted to find ways to eliminate fear, which pervades most people in the workplace. As discussed earlier in this series⁵, fear can make people worry about looking foolish in a meeting; perhaps fear of not living up to expectations; or maybe even fear of losing their job. Fear constricts and it works against innovation and creativity. To minimize such fear, Linden Lab wanted to create a community-based culture that espoused virtues such as happiness, caring, altruism, autonomy, and service.

Philip Rosedale, Linden's founder and CEO (see **Figure 3**) developed for employees, a number of novel interactive techniques, one of which he calls the "Love Machine." It is an intranet Web page that allows any of Linden's employees to send a quick message of appreciation to a colleague. They call these "Love Notes." They have more than 300 employees and each day a similar number of Love Notes or peer-to-peer "pats-on-the-back" make their way through Linden's Intranet. They use these Love Notes in their performance review process, thereby allowing the entire *community* to have their input.



Every three months, employees pick the 10 notes that they think best capture their contributions to the company over the prior quarter. Those notes are used in each employee's performance review. Also, each quarter, Rosedale sends out a questionnaire to every employee and asks three questions:

1. Do you want to keep me or find a new CEO?
2. Over the last three months, did I get better at my job or worse?
3. Why?

The voting is anonymous, so that employees feel free to be open and honest. Rosedale shares the results with the entire company and with the company's board of directors. He feels that you can argue with one person, but not with the crowd. He notes that "When every third person says, 'You're too scattered,' it's the truth."

Companies do not have to be as progressive or avantgarde as Linden Lab, but evaluating employee performance in a way that is fair, productive, personally supportive, and focuses on the employee-supervisor interface, can bring powerful and positive results.

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¹ For example, see *Analytix Strategy and Performance Management* <http://www.analytix.co.za/Training/Courses/StrategyPerformanceManagement.aspx>

² Jeffrey Hollender and Bill Breen, "The Responsibility Revolution—How The Next Generation Of Business Will Win," Jossey-Bass, San Francisco, CA 2010.

³ See: <http://www.flickr.com/photos/lindenlab/>.

⁴ Towers Perrin Global Workforce Study, 2007-2008: "Closing the Engagement Gap: A Roadmap for Driving Superior Business Performance," http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2008/200803/GWS_Global_Report20072008_31208.pdf.

⁵ James A. Cusumano, "Business May Be Your Life - But - Life Is Your Business: Part I The Power of Passion, The Fallacy of Fear," *Leaders Magazine*, Part VI, 2009.

About the Author: James A. Cusumano is Chairman and Owner of Chateau Mcely (www.ChateauMcely.Com), chosen in 2007 by the European Union as the only "Green" 5-star luxury hotel in Central and Eastern Europe and in 2008 by the World Travel Awards as the Leading Green Hotel in the World. He is a former Research Director for Exxon, and subsequently founded two public companies in Silicon Valley, one in clean power generation, the other in pharmaceuticals manufacture via environment-tally-benign, low-cost, catalytic technologies. While he was Chairman and CEO, the latter - Catalytica Pharmaceuticals, Inc. - grew in less than 5 years, to a \$1 billion enterprise with 2,000 employees. He is co-author of "Freedom from Mid-East Oil," recently released by World Business Academy Press (www.WorldBusiness.Org) and the author of "Cosmic Consciousness - A Journey to Well-being, Happiness and Success," published in English and Czech by Fortuna Libri, 2011.