# FROM REVIEW TO REVENUE:

## HOW PERFORMANCE EVALUATIONS CAN HELP YOUR BOTTOM LINE

BY ELAINE POFELDT

**GoTV Networks was struggling when** Tom Ellsworth came on board as CEO in 2005. The LA-based company, which creates technology that helps make video work on cell phones, was losing more than $700,000 a month, with sales of around $5 million a year. Today, it brings in between $12 million to $15 million in annual revenue—and turns a profit.

What changed? According to Ellsworth, it was a better performance review system, closely tied to a plan to achieve company objectives. Each year, GoTV's top management creates a list of things it wants to accomplish, and employees are given individual goals that support the company's own. In each annual review, a score is given, 60% of which is based on how well the employee achieved his or her individual goals; the balance is based on how well his or her team and the company performed.

Staffers receive scores of one to five points in seven main categories. They also get scored on how they handle the responsibilities unique to their jobs. The final score determines employees' salary increases. "I can't just be weak and give everyone 5% raises like it's communism," says Ellsworth, author of *The Rat, the Race and the Cage: A Simple Way to Guarantee Job Satisfaction and Success*.

If you've ever gotten a review—or used one to evaluate employees—you know they can be unproductive. In 2007, OnPoint Consulting reported that only 30% of respondents said their performance review systems helped them achieve the company's objectives to a "great" or "very great" extent.

But it doesn't have to be that way. Performance review systems can actually improve companies by helping them identify and promote talent effectively.

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It all starts with telling employees why you value them. "Employees tend not to understand their roles in the organization," says Billie Blair, CEO of Change Strategists, a Los Angeles-based corporate consulting firm that advises clients on performance issues.

Even if you only have time for formal reviews once a year, give workers brief, constructive feedback after each project or on a quarterly basis so they can work on their performance right away. "If something isn't consistent or great about someone's performance and you don't tell them for a whole year, you're wasting money and time," says Libby Wagner, president of Libby Wagner & Associates, a Seattle consulting firm that advises companies on improving performance. "You may be damaging your team environment."

To get the most out of reviews, create a list of performance expectations early on that outline what you expect from each employee so you can later evaluate whether they were achieved. This list should be more detailed than a general job description, including specific projects you want completed. And if an employee hasn't met a goal, always ask why. Your company may need to change the way it does things for the employee to succeed. "Out of performance reviews, a lot of good ideas will come," Blair says.

After each meeting, send emails that include deadlines or timelines you have set, and keep copies to use at the annual review. If you've offered regular feedback and kept a written record, "When you come to the annual review, it should simply be a summary of performance and a recommendation on a salary increase or not," Wagner says.

Hollis & Miller, an architecture firm in Overland Park, KS, evaluates its employees on 12 criteria, such as technical skills and organization. The firm's six partners also use the review system to determine whether or not team members have the potential to become associates or partners by evaluating them according to 12 additional criteria. "You could have somebody who wants to be a partner," Southard says, "but we know in our hearts and souls they'll never make it. Why lead them on for 15 or 20 years?"

While judging employees on specific criteria can work, many managers like to use 360-degree evaluations that include comments from supervisors, colleagues and clients. Ideally, these reports give managers a perspective on an employee's work that may not be readily visible to them, says Stefanie Smith, principal of Stratex Consulting, an executive consulting and coaching firm in New York City. She suggests letting employees select the reviewers who can offer a relevant perspective on their contributions. About half of the questions should be the same for all reviewers, but the rest should be specific to the reviewer's relationship with the employee.

Donna Novitsky, CEO of BigTent, a San Francisco-based company that provides an online gathering place for communities of volunteers, has used 360-degree reviews since the company was founded in 2006. "We find it helpful to see if the individual's assessment of his or her own performance is consistent with how the teammates and management see it, so that everyone is in alignment," she says. "You can't afford to have people not rowing in the same direction."

In addition to feedback from peers, client comments can help paint the whole picture—but they may be harder to get. Marie Johnson offers clients big incentives, such as a $700 discount, for completing a five-question survey within five days on the service they received from her corporate and education consultancy IzzyLou Studios in Hudson, WI. Recently, a client reported having a hard time following conversations with an employee who used a lot of technical lingo. That staffer is now working to communicate more clearly.

Reviews should be dialogues, so in addition to getting input from colleagues, the reviewee should also bring a summary detailing what they have achieved and where they want to improve. "You should give them something to bring to the table," Smith says.

After you have evaluated an employee, share the results right away. It may be tempting to postpone conversations, especially if you have bad news. Don't do it. You could put yourself at risk of a wrongful termination or discrimination suit if you later fire the employee for poor performance, says attorney Chad Shultz, an Atlanta-based partner in Ford & Harrison. "If an employee hasn't been given any kind of guidance on what's being done wrong, he or she doesn't know what needs improvement," he says.

Just as Ellsworth has found at GoTV Networks, once your employees start improving, the company as a whole is very likely to follow.

## KEY QUESTIONS TO CONSIDER IN ANNUAL REVIEWS

**FROM STEFANIE SMITH, PRINCIPAL OF STRATEX CONSULTING**

1. What is the employee's strategic value to the company? For instance, is a marketing executive strengthening the brand's position in the marketplace in general?
2. How well does the employee meet the operational goals for the position?
3. What are the opportunities for advancement? What is the next step toward helping the employee reach his or her potential?
4. How well has the employee managed interpersonal dynamics? What effect does he or she have on morale?