

Business Guidance Notes

Guidance Note 12

As part of the Institute's ongoing efforts to provide members with guidance and information on key issues, the Institute has developed a Business Guidance Notes series which presents guidance for members written by members.

The Basics

Share your thoughts:

Everyone needs to know:

- > What's expected of me?
- > How am I doing?
- > What do I need to do to grow and get better?

Create a fair process:

- > Give feedback
- > Help develop/grow
- > Link to pay/rewards
- > Link to business goals
- > Document performance
- > Consider promotion or alternatives
- > Consider termination

The Cycle:

- > Set goals
- > Monitor performance (provide informal feedback, coach and counsel)
- > Evaluate performance
- > Reward performance

Appraisal Form:

The form is a tool for setting goals, monitoring performance and evaluation. It should reflect:

- > **What** people do (their responsibilities and objectives)
- > **How** they do it (their behaviours and culture).

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This Business Guidance Note is an initiative of the Institute's WA Chartered Accountants in Business Panel and has been prepared with the assistance of the following contributors:

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Effective performance reviews

Performance management and appraisals are a valuable tool for providing and receiving feedback. However, sometimes those involved in the process may feel anxious and uncomfortable. This guidance note aims to provide an overview of the process, including how to get the best from the process and an accompanying knowledge guide includes links to further reading.

Why should you conduct performance reviews?

When done correctly, performance reviews can be positive and constructive interactions, which allow employees to know where they stand and what they need to do to achieve more. They also motivate people to achieve their potential and to contribute more effectively to their employer.

When should you set up a performance management process?

A performance management process should be set up as soon as an organisation recruits employees. Setting up a formal process can help, even in small organisations, as it overcomes the presumption that everyone knows how they are performing in their jobs. Having a process already set up can also help if an employment relationship deteriorates.

What does performance management include?

- Setting clear goals and measures:** Senior leaders set goals that are meaningful for their organisation and for the team. Managers then cascade these goals to their direct reports and establish individual objectives that are linked to corporate goals. These goals should be accompanied by measures to assess how well the goals have been achieved. Additionally, some organisations may also look at behaviours and culture as 'how' the work is done is often as important as 'what' work is done.
- Prioritising and allocating work:** Managers develop and implement action plans to get work done; they prioritise work and set expectations with employees regarding project tasks.
- Monitoring performance regularly:** Managers track employee performance on a continuous basis and provide timely and accurate informal feedback and coaching.
- Assessing employees and providing feedback:** The formal review process includes employee performance evaluation, rating calibration and review delivery by direct managers. Employees use performance feedback to create individual or achievement development plans to improve on specific development areas.
- Linking rewards to performance:** Employees may receive performance-linked bonuses and pay increases based on the formal review. In addition to monetary rewards, employees should be recognised for their accomplishments throughout the year.

What are the steps to developing a performance management process?

1. Select a performance management framework

This can be based on a number of criteria, such as:

- Standards based:** Evaluation against the standards set for the position
- Competency based:** Evaluation against behaviours or skills set for the position
- Comparison based:** Based on whether the employee met the required level. This may also look at the market outside the employer
- Forced choice:** Requires a choice between two statements of performance.

2. Establish a position description

The position description should be clearly defined. It would generally include the following elements:

- > Job title
- > Job summary

Continued overleaf >

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The importance of feedback

'... 89% [of managers surveyed] said that candid feedback is important, but just 39% said they had received it.'

McKinsey: *The war for talent, part two* (2000)

Takeaway

Quick questions for one-on-one reviews (employee to self assess, manager to make notes – prior to review)

Since your last performance review:

- > What has gone well?
- > What has not gone so well?
- > What have you achieved?
- > Has anything improved or affected our organisational performance?
- > How could your manager help to improve your performance?
- > What examples can you give to demonstrate your commitment to the company's values?
- > What parts of your job do you enjoy?
- > What parts don't you enjoy? How can this be changed?
- > What are your goals over the next 6 to 12 months?
- > What do you think the company could do to improve working conditions or to assist you further in your job?

Don't forget some basics:

- > Ensure the review date is planned well ahead of time. Do not cancel unless an absolute emergency (otherwise employees may feel they or their reviews are not important)
- > Have the meeting in neutral surroundings (e.g. spare meeting room)
- > Turn off your mobile and ensure no interruptions
- > Spend time to consider the employee's performance prior to the meeting – prepare, prepare, prepare
- > Document agreed actions at the end of the review, with proposed deadlines e.g. training requirements
- > Don't create expectations of pay increases if they cannot or may not be delivered.

- > Duties/tasks
- > Employee reporting arrangements
- > Minimum qualifications or skills
- > Working place or travel requirements
- > Job level descriptor (if these are in the workplace or industry)
- > Regular reporting
- > Statutory compliance roles
- > Performance goals.

3. Agree levels of core competence

It is important to agree on the core competences and the level to be achieved. These might include areas of personal development such as adherence to ethical standards, collaboration and working in teams, negotiation skills, conflict management and cooperation.

Other skills to be considered include communication, leading, influencing and coaching, problem solving, decision making and technical knowledge.

4. Provide ongoing, informal feedback

There are a number of ways in which informal feedback can be provided effectively:

- > **Be proactive.** Address issues early to avoid confusion that can result from delays. Meeting with employees on a monthly or quarterly basis demonstrates to employees their value and the manager's accessibility
- > **Be specific.** Give actual examples that illustrate your points
- > **Be clear** about the changes in behaviour that you expect in a specific time period, and follow up as scheduled
- > **Link employees' performance to organisational goals.** Reinforce the value of your employees' contributions by giving actual examples of how their work and positive behaviours serve the organisation and its customers.

5. Provide formal feedback

It is important that formal feedback is provided constructively. Below are some suggested methods:

- > Focus on business outcomes as they directly relate to the person
- > Prepare a standard set of questions or topics

- > Prepare and research by asking other managers or key clients
- > Focus on specific and observed behaviour
- > Ask questions
- > For high achievers, find a challenge
- > Don't commit what you can't deliver
- > Ensure you deliver what you commit to.

Examples of flawed feedback include cases when a manager:

- > Attacks the person rather than the person's behaviour (e.g. 'you are hopeless')
- > Provides vague or abstract assertions (e.g. 'We can't trust you')
- > Does not offer illustrations or examples of behaviour
- > Provides an ill-defined range of application (e.g. 'You are always unprofessional')
- > Does not clarify the impact and implications for an employee's action (e.g. 'You need to improve your attitude').

6. Linking performance to reward

Some questions to consider when linking performance to reward are:

- > **What is measured?** Remember that 'what gets measured gets done'. Reward for qualitative as well as quantitative performance. Identify the bottom line 'must haves' (reports on time, completed compliance) and the business objectives – employee turnover, improvements made and savings made
- > **How are employees rewarded?** Examples are salaries, bonuses or status. It is important to note the need for perceived fairness and consistency – a documented process with clear reward levels is important
- > **What are the tax and financial implications of the reward system?** Consider the employee's needs: A person with a young family may prefer a different type of reward to a near-retirement employee.
- > **How do the rewards relate to the market?** To find out, refer to job ads, talk to recruiters or obtain published salary guides.

For further information on these Guidance Notes, please contact Karen McWilliams on telephone +61 2 9290 5754 or email on karen.mcwilliams@charteredaccountants.com.au

A knowledge guide with supporting references and links is available on the Institute website charteredaccountants.com.au/performancereviews

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