

Managing performance for small firms

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Managing performance for small firms

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What is performance management?

Why is it needed?

Performance management is the system you use to align your business goals with the work of your employees to:

- Get better results for your business
- Monitor and improve individual and team performance
- Understand individuals and how they need to develop.

Managing performance is about looking after the people side of your business and about taking your employees seriously – in terms of how they do their work, how they contribute to your success and the support and coaching they may need to overcome any problems.

How does managing performance work?

There are three aspects to planning an individual's performance. You need to:

- 1 Set **objectives** which your employees are expected to achieve. These objectives should be linked directly to your operational goals and your business vision.
- 2 Agree **competencies or behaviours** – this is the way your employees work towards their objectives. Commonly used competencies include 'teamwork: contributes to team effectiveness', and 'customer care: is aware of and responds to customers' needs'.
- 3 Plan an individual's **personal development** – any future training or coaching they need to achieve their objectives and realise their potential.

Agreeing, monitoring and reviewing these three elements usually happens as part of an appraisal system.

What are the benefits of managing performance?

Managing the performance of your employees will enable you to:

- **Lead** from the front. You might have a clear idea of where the business is going, but do your staff understand your vision and does it tie in with their daily activities?
- **Listen** to your employee's real concerns and pick up on their ideas. Employees will feel happier and perform better if they have a recognised system for talking to their line manager, getting feedback and getting help to improve and develop.
- **Understand** what makes your employees tick and how they contribute to your business success. This understanding can only really develop through the kind of regular and open interaction provided by performance management.
- **Achieve** results. If you buy a new piece of equipment or machinery, it usually comes with a manual that explains how to get the best out of it. It is not so simple with people. To work best, your employees need an ongoing system of tweaking, adjusting and reviewing the way they work in order to continually improve.

Where do I start?

Start by getting an idea of what an appraisal system looks like, what it's trying to achieve and what kind of system would suit you best.

Many small firms might find the thought of introducing a performance management system from scratch very daunting. But setting up an appraisal system is often just a way of clarifying and formalising what is already happening informally between line managers and employees.

Almost all organisations have strategic goals, a vision for the future, a business plan and objectives. Achieving this vision and reaching these targets means managing people – leading, coaching, directing, and involving them in the decisions you make about where you are going and how you are going to get there.

The best place to start is by getting:

- commitment from senior managers
- buy-in from your employees.

What is an appraisal system?

An appraisal system allows you to regularly monitor and record an assessment of an employee's performance, potential and development needs. The appraisal is an opportunity to take an overall view of work content, loads and volume. A typical appraisal review will:

- **look back:**
 - what was done?
 - how it was done?
- **look forward:**
 - can you identify any learning and development needs?
 - what are the employee's plans/aspirations for the future?

How do appraisal systems work?

A line manager will meet regularly with an employee to review their performance and conduct in this way. For the process to work effectively, managers and employees have to agree on the objectives and competencies for the job.

The number of performance meetings held will vary from one employer to another. Some managers find that monthly reviews work well, while others only meet quarterly. Most managers hold an annual review and assess the employee against a rating system – for example, 'outstanding', 'standard', 'less than standard', and 'unsatisfactory'.

Your employees should understand how the appraisal system works and how the various box markings will be allocated. It is best to consult them before introducing a new scheme.

What should appraisal systems aim to achieve?

An effective appraisal system aims to:

- establish a channel for open, two-way communication between an employee and their manager

- set measurable standards and deadlines for the job being done
- motivate employees and encourage team-working
- respond to ongoing operational and personal needs by actively reviewing and adjusting objectives, goals and developmental opportunities
- be relevant, fair and objective.

It is important not to use appraisal meetings as a safety net and only meet if there is a problem. Regular meetings – these can be both informal and formal – work best.

What are objectives?

Objectives are the activities an employee is expected to perform in their post. They typically refer to outputs, such as:

- the **number** of new customers recruited by the end of the year
- the **time** it takes to clear an invoice or process an application
- the **quality** of a product, for example, improving customer satisfaction by 25% over the coming year
- the **money** that is generated in sales.

These objectives should be agreed with the employee, as this will make them more relevant. If you have several people doing the same job, it may be worth agreeing common objectives.

How do I set objectives?

Objectives should be based on an employee's job description and form part of the wider aims of the team and business. They provide a link between the job of the individual and the business vision, giving an employee some wider context for the work they are doing.

The 'SMART' acronym is a useful way of getting objectives right. Objectives should be Specific, Measurable, Achievable, Relevant, Timebound:

- **Specific** – objectives should state a desired outcome. What does the employee need to achieve?
- **Measurable** – how will you and the employee know when an objective has been achieved?
- **Achievable** – is the objective something the employee is capable of achieving but also challenging?
- **Relevant** – do objectives relate to those of the team/department/business?
- **Timebound** – when does the objective need to be achieved?

There are some examples of SMART objectives on page 15.

What's the difference between objectives and competencies?

If objectives describe the output achieved by an employee – the 'ends', competencies describe the qualities an employee needs to reach these ends – 'the means'. For example, a hotel receptionist clearly needs to look after guests as they arrive. The receptionist might have:

- **Objectives** for checking in each guest within five minutes of arrival and answering all calls within three rings, and
- **Competencies** for 'customer care', setting out the standards of politeness and appearance required to meet the objectives, and 'communication', setting out the oral and written clarity needed to avoid confusion or misunderstandings.

Many employers, particularly in smaller firms, combine objectives and competencies. For example, you might agree that 'customer care' is a quality that should be demonstrated by meeting objectives for answering the phone, smiling at guests on arrival, wearing the correct uniform etc. For other employees, particularly those who are not customer-facing, job performance is often measured purely by objectives met.

How do I carry out an individual appraisal?

How do I prepare?

An appraisal review is a dialogue between you and the employee. If you have been giving regular feedback to the employee you should have a clear idea of what you want to say. You should also be fairly confident that nothing you say will take the employee by surprise.

Scenario: you are about to hold an appraisal meeting with Carole

	You	Employee
Overall impression	<ul style="list-style-type: none"> • Overall, she has been doing well • I have the feeling some customers like her more than others • She doesn't seem to socialise with the team much 	<ul style="list-style-type: none"> • I've worked hard and think I'll get a good report • There was just one problem and that was because I was going on leave and there was no proper hand-over because someone was sick. Not my fault • With a new baby who can blame me?
Evidence	<ul style="list-style-type: none"> • Three objectives fully met, one partially met • Customer feedback very good across the board but with one notable exception 	<ul style="list-style-type: none"> • Don't agree: that was due to the handover problem, when someone was sick. What am I supposed to do?
Issues to discuss	<ul style="list-style-type: none"> • Problems with a particular client • Any issues within the team 	<ul style="list-style-type: none"> • There are no problems, it's just the way this place is organised • The team are all much older than me so we don't have much in common
Help or development needed	<ul style="list-style-type: none"> • At last review she expressed an interest in swapping some duties with another member of the team. Couldn't progress it at the time – perhaps revisit? 	<ul style="list-style-type: none"> • I thought that had been forgotten about since I hadn't heard, but yes, we should know more about each other's jobs.

How should appraisal meetings run?

You may be able to plan what you say, but you can't always anticipate the response of the employee. In order to be fully prepared ask yourself:

- Do I have all the evidence I need?
- Are there any extenuating circumstances for any poor performance or conduct?
- Have you spoken to the employee about any problems as they crop up rather than saving them for the appraisal?
- How well do you know the employee? You should avoid making assumptions about their personal life. Just concentrate on the issues.
- If I do need to raise concerns, are you confident you can do so in the right way?

If you are worried that you or your managers do not have the right level of skills to manage these on-to-one interactions, training can be invaluable. Acas provides training for managers in smaller companies and covers topics such as having difficult conversations and employing people. Go to www.acas.org.uk/training to see what Acas training is available in your area.

For further advice and guidance on handling difficult conversations see our guide 'Challenging conversations and how to handle them' at www.acas.org.uk/publications.

Checklist:

- ✓ state the purpose of the meeting and how it will run
- ✓ use your listening skills
- ✓ go through the agreed objectives
- ✓ open up the discussion
- ✓ highlight positive and negative performance issues
- ✓ be forward looking
- ✓ provide a written summary.

What paperwork should I use at an appraisal?

To keep it simple, you could use just one document that you agree at the beginning of the year. This can get updated and amended as the year progresses:

- **start of year:** agree objectives, development plans and any training needs. Remember to make sure you use 'SMART' objectives

- **during the year:** as well as giving informal feedback it's worth holding at least one appraisal review during the year (ideally more) to comment on work well done and areas for improvement. These can be recorded on the form
- **end of year:** hold an end-of-year review and give your overall assessment of the employee's performance. Give the employee the opportunity to comment on the report and make sure they have a copy for their own records.

There is an example of an appraisal form at Appendix 1.

How do I deal with disagreements?

An employee is more likely to disagree with your assessment of their performance if you have not been giving them regular feedback over the course of the year. Make sure you have hard evidence to back up your assessment rather than relying on general observations.

Annual appraisal forms should be signed by the line manager and counter-signed by a more senior manager. Hopefully, they will have their own impression of how the employee has performed. You should also be using your own appraisal reviews with your line manager to keep them informed of any problems with staff.

Most appraisal systems have an appeal procedure, so that an employee gets the opportunity to challenge your annual grading of their work.

If they have a formal grievance they wish to raise – for example, about the way they feel they have been treated compared to other colleagues – they should raise this through your grievance procedure. For further information on handling grievances see the 'Discipline and grievances at work: the Acas guide' at www.acas.org.uk.

How do I deal with unsatisfactory performance?

You deal with unsatisfactory performance by:

- setting clear objectives and competencies that you and the employee agree on
- giving regular informal feedback and coaching to help the employee reach their objectives
- holding regular appraisal reviews to discuss any help or training needed or any problems achieving these targets.

There may sometimes be an overlap between performance management and your disciplinary process. For example, if you have tried to improve unsatisfactory performance through your appraisal system but it has not worked, you may decide to start a formal process by writing to the employee. This would normally be followed by a meeting where you agree an 'improvement note' – a written plan for reaching objectives within an agreed timeframe.

The aim of both your performance and disciplinary systems is to improve future performance rather than punish past performance.

Clearly, if you have issued an improvement note, this will be the subject of discussion at appraisal meetings. For further information on handling disciplinary and grievance issues see the 'Discipline and grievances at work: the Acas guide at www.acas.org.uk.

How and when do I take action?

For many managers it can be difficult to judge when a performance issue becomes a disciplinary issue. During the course of a reporting period you may notice that an employee is failing to meet their objectives. If this is this case, you need to ask yourself:

- **What is the nature of the problem?** If it is a very serious issue that is potentially damaging to your business, it will need to be dealt with urgently. In these cases you may instigate formal disciplinary action much sooner.

- **How long it has been going on?** If you have already discussed the issue at appraisal meetings and attempted to resolve the problem, you may decide it is time to follow your disciplinary procedure.
- **What is causing the problem?** If it is beyond the employee's control, for example, the lack of adequate training, this needs to be addressed before you begin any formal action.
- **Is the employee capable of meeting their targets?** If they are capable of meeting their targets, then their failure to do so may be due to a lack of motivation or hard work.
- **Is there a pattern of unsatisfactory performance?** If you notice that an employee has a pattern of only meeting their objectives as a last resort, when all other options are exhausted, you may decide that an informal approach is not working.

There are no hard and fast rules about when to start disciplinary action. It is important to act reasonably, keep communicating and continue to try and resolve the problem for as long as possible.

Appendix 1: Sample appraisal form

Use this model form to record the issues discussed at an employee's performance appraisal meeting.

Employee's name:	
Job title:	
Department:	
Date of engagement:	
Manager:	
Date of meeting:	
Current performance	
Objective/competence 1: This section should be used to record discussion on the key areas of the job, and include a summary of achievement against the objectives that have been previously agreed.	
Objective/competence 2:	
Objective/competence 3:	
Development summary: This section should be used to record any areas of the employee's work where further training and support is required, and any areas where performance is particularly strong and should be developed further.	
Development and training This section should list specific requirements for any training or development. These activities are not restricted to training courses, and may include attachments, projects, coaching, planned experience or any other suitable activity that will enhance the skills, knowledge and behaviour required in the employee's work or to develop him/her further.	
Career planning This section should record any areas of the department or Company in which the employee has expressed a specific interest.	

Other areas of discussion

This section should record any other points raised at the appraisal meeting.

Assessment Level

This is based on performance over the year against objectives achieved

Outstanding performance

(Objectives exceeded and competencies more than fully demonstrated)

Standard performance

(Objectives met and competencies fully demonstrated at required levels)

Less than standard performance with development needs

(Most objectives met but development required to fully meet all objectives)

Unsatisfactory performance

(Performance unacceptable; objectives not met and competencies not demonstrated)

Employee's signature:

Appraiser's signature:

Date:

Reviewing manager's signature:

Date:

One copy of this completed form will be kept by the appraiser, one by the appraisee and one in the employee's personnel file.

Appendix 2: Sample SMART objectives

SMART	Not SMART
Improve overall customer satisfaction by 5% over last year based on the results of the after sales questionnaire sent to all customers.	Improve customer satisfaction as far as possible.
Clear delivery bays daily of all waste and other material within 30 minutes of delivery vans leaving.	Keep delivery bays as tidy as possible.
By the end of the year prepare a board paper on staff absence levels with recommendations on how absence might be reduced.	Investigate absence levels.
Reduce pages printed on laser printers by 10% in the first quarter of this year compared with the same period last year.	Seek to reduce use of laser printers.
Recruit 50 new customers before the end of the year.	Concentrate on getting as many new customers as you can.
Answer all customer queries within two working days.	Answer customer queries as quickly as possible.
Complete staff reports within one month of the end of the reporting year.	Complete staff reports as soon as you can.
Carry out website usability testing once a quarter and improve customer satisfaction in usability tests by 25% over the course of the year.	Improve the ease of use of the website.



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Information in this booklet has been revised up to the date of the last reprint – see date below. For more up-to-date information check the Acas website at www.acas.org.uk.

Legal information is provided for guidance only and should not be regarded as an authoritative statement of the law, which can only be made by reference to the particular circumstances which apply. It may, therefore, be wise to seek legal advice.

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