# PERFORMANCE EVALUATION AT A REGIONAL ACCOUNTING FIRM: IS THERE AN ALTERNATIVE?

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*This case describes the struggles of a regional accounting firm to effectively evaluate employees as it seeks to increase retention and build long-lasting employee relationships. When the accounting firm Jordan & Kellaway, CPAs, initially implemented its quantitative performance evaluation system, it thought collecting a lot of data about each employee was a good thing. But compiling all the data and using it effectively has become a problem such that promotions and pay raises are being made on more of a subjective basis without regard to the data. Frustrated with the process, the partner in charge of human resources, through some informal investigative work, discovers she is not alone in having concerns about the system. She contemplates whether tweaking the current system or implementing an altogether new system is the answer. Students are asked to make this decision and prepare a formal recommendation to the other partners of the firm.*

## INTRODUCTION

"They did it again! They ignored all of our work!" Melinda blurted out loud in her office. Melinda Pruitt, the partner in charge of human resources at Jordan & Kellaway, CPAs, was frustrated after another annual partner meeting. The partners just spent many hours going over each employee's performance evaluation scores to make pay raise, promotion, and retention decisions. Melinda understood the importance and sensitive nature of these decisions. Taking the time to make the right decisions was critical to the success of the firm. What exasperated her so much was that, after laboring for so long over the numeric performance evaluation scores, the partners ended up relying on subjective information to make their final decisions. Why was all this time spent creating and compiling numeric information when the information was not used in the decision-making process? "What are we going to do?" Shaking her head, she mumbled under her breath, "What is the problem?"

## COMPANY BACKGROUND

Jordan & Kellaway, CPAs is a regional accounting firm located in Columbus. It was founded in 1992 by two CPAs who provided tax services to a handful of clients. As the client base and needs increased, the firm hired more employees and began to offer auditing and consulting services.

In the late nineties, Jordan & Kellaway, CPAs joined a national alliance of independently owned and operated, local and regional accounting firms with similar client service goals. The alliance offered the firm access to technology services, property/facility solutions, logistics, shared services, funding, and more. Membership in this alliance helped Jordan & Kellaway expand client services and improve internal processes with limited resources.

Jordan & Kellaway, CPAs was dedicated to being the firm of choice for exceptional client service, rewarding career opportunities, and service to the community. The firm had grown to its current size of six partners and 35 managers, associates, and other staff (Exhibit 1). These individuals provided accounting, assurance, business advisory, and tax services to a broad spectrum of clients throughout the state. The firm served clients in industries such as architecture/engineering, hospitality, legal, manufacturing, nonprofit, property management, and wholesale distribution.

## AN INVESTMENT IN PEOPLE

Two weeks after the partner meeting, Melinda was still concerned about the performance evaluation issue. She was first attracted to Jordan & Kellaway, CPAs because of its focus on employees. In fact, the firm's most valued investment was its people. Two of its three strategic objectives (retain and develop staff, recruit staff members, and identify and execute specific marketing initiatives) dealt with employee-related issues. She knew the company exercised great care in selecting and training professionals because above all, the talent and integrity of employees ensured satisfied clients. Her firm had a generous training budget. She thought back to all the training she received over the years, and knew that without it, she may not have become partner only eight years into her career. Employee training and development provided the firm with a considerable return on investment. Many current employees, herself included, had been with the firm for many years.

In addition to the training and development programs, Melinda also considered the role of the current performance evaluation system in creating knowledgeable and successful professionals. She knew that most firms needed a performance evaluation system or some way to examine how well employees perform their jobs. Because of its reliance on individuals to deliver high-quality services, performance evaluation was one of the firm's top priorities. Evaluations could address retention issues that were quite high industry wide. While Jordan & Kellaway's turnover was similar to that of other CPA firms in the area, it believed that retention at its firm could be enhanced by creating long-term relationships with employees through a top-notch performance evaluation system.

Melinda did not quite remember when the firm first instituted 'formal' performance evaluations. It was probably about the time when Jordan & Kellaway, CPAs had its first major growth spurt in 1997. Later when the firm joined the national alliance and gained access to additional performance review materials, a quantitative performance evaluation system was implemented. With only minor changes here and there, the old quantitative system was still being used.

**THE CURRENT PERFORMANCE EVALUATION SYSTEM**

Heading the firm's human resources function, Melinda was the expert on its performance evaluation system. She was a key player in its development and knew every aspect of how it worked. Reviewing the process in her mind, Melinda opened a file on her computer that contained the firm's performance evaluation form (Exhibit 2). The form had questions relating to the firm's five core competencies of (1) technical knowledge/firm systems, (2) client service, (3) productivity, (4) firm presence, and (5) people development and teamwork. At one point the performance evaluation form had 20 to 30 different questions. Recently however, the form was shortened such that employees would receive only five scores, one for each firm core competence. The performance rating scales for each question ranged from (1) unacceptable to (5) outstanding. After each item there was a section for comments.

In terms of the evaluation process, supervisors completed the form for each employee they were responsible for evaluating. Employees also used the form to perform self-evaluations. Supervisors and employees discussed the scores during formal performance evaluation meetings attempting to work through any differences in the scores. If there was still a disconnect between the supervisor and employee after the meeting, the employees would meet with a higher-level supervisor.

Each employee received a different number of supervisor evaluations, depending on what division they worked in. In the auditing area, supervisor evaluations occurred each time an employee worked on a job for more than 80 hours, with a minimum of four evaluations per year. On average this amounted to about four to six evaluations for each employee per year. This number of evaluations was in line with the industry standard for firms their size. In the tax and business outsourcing areas, evaluations were not based on the number of hours worked on a job, but instead occurred four times per year, spread as evenly as possible throughout the year based on the supervisor's workload. Some employees rotated across the three areas (audit, business outsourcing, and tax areas) of the firm. Regardless of rotation, the rule of how many evaluations employees received still applied. An effort was made by the firm to have a different supervisor perform each evaluation for a given employee. With two forms for each evaluation (i.e., the self-evaluation and the supervisor evaluation) and with each form having multiple numeric scores, this could amount to 40 to 60 evaluation scores for a single employee. Melinda recalled everyone's initial eagerness about collecting all of this valuable quantitative performance information.

Partners evaluated employees at year end. Employees were evaluated by partners each year and were assigned to the same partner on a 3-year rotating basis. For the evaluations, partners met individually with each employee they were assigned to and reviewed the employee's evaluations[1] (the evaluation forms filled out by both the supervisors and the employee during the year) and the employee's Personal Development Plan (PDP). The PDP was a comprehensive view of a larger set of core competencies based on the AICPA's core competencies of risk assessment, analysis, and management; measurement analysis and interpretation; reporting; research; systems and process management; and technology and tools.[2] Employees completed an updated PDP each year. Melinda always made sure she was prepared for these meetings and usually spent a lot of time trying to make sense of all the quantitative information.

After these evaluations were completed, the partners got together to combine the evaluations and PDPs for all employees. The goal was to come up with a numeric annual score for each employee on which to base pay raise, promotion, and retention decisions. Overall the process had clear steps and produced a lot of data. So, Melinda wondered, what was the problem?

## CONCERNS ABOUT THE CURRENT PERFORMANCE EVALUATION SYSTEM

Flipping through some papers, Melinda looked for her notes from the last two weeks. Feeling frustrated after the partner meeting, she began to wonder what others thought. She had set out to talk with some of the other employees about the system and kept notes so she could later refer to the specific feedback. During this time, she uncovered overwhelming agreement that subjectivity was a major

[1] These evaluations were not formally averaged. They were merely used as an input for discussion.

[2] https://www.aicpa.org/interestareas/accountingeducation/resources/pages/accounting-core-competencies-functional.aspx

problem with the system, *despite the fact that the scales were quantitative*. Most employees she talked to felt the quantitative measures created a false illusion of objectivity and consistency across individuals and teams. In reality there were inconsistencies among scores because employees interpreted the numbers differently. Asked to explain more, one senior associate told Melinda that rating a staff member lower than a "3" reflected poor performance, while another staff member told her that scores less than "3" were not bad and merely signaled a need for improvement. A manager commented that he interpreted the same score differently based on employee level. For example, giving a new senior associate a "3" reflected better performance than a "3" for a 9-month senior associate.

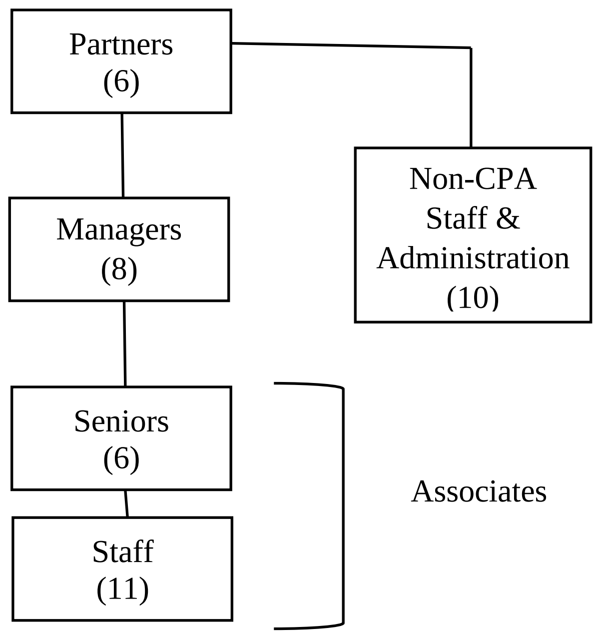
Because of these inconsistencies, employees were frustrated with performance evaluations more often than not. One newer staff associate confided that she was discouraged because she worked hard and expected to get a "5" on her evaluation. She received only a "3". After questioning her supervisor, she was told that while she was performing well, the supervisor never gave a "5" to staff-level employees.

Melinda reviewed her notes about other problems with the performance evaluation system. Not only did it take an extensive amount of time to do the evaluations and come up with year-end overall scores, but there was also an absence of a direct tie between supervisor evaluation scores and year-end scores, pay raises, and promotions. Also, the time lag between performance and evaluation was often too long to be helpful. For example, the fieldwork for an audit might be completed, but the final report may not be completed for several more months, meaning the performance evaluation was delayed. More than one manager had to "put up with" less than desirable performance from seniors because of untimely reviews. Timing also led to internal compliance issues. Because employees were being evaluated at different times based on job completion times and/or other evaluation schedules, it was difficult to know when evaluations were due. It seemed like employees were always being evaluated. Finally, most employees agreed that they were nervous and anxious about being evaluated. Melinda knew as well as anyone else, that these problems made everyone frustrated and ready for change. She also knew it was up to her to find a solution.

Melinda closed her files and looked intently outside her window. "Was it time to change how performance evaluations worked at Jordan & Kellaway, CPAs?" Right after the partner meeting, she posed this question to one of the other partners. He had suggested that she prepare a formal recommendation for changes to the system. After getting feedback from employees and doing research, she was unsure whether changes to the current system would be enough or if the company needed a new type of performance evaluation system altogether. It was time for her to decide and put together her recommendations for the other partners.

## EXHIBITS

### EXHIBIT 1. JORDAN & KELLAWAY, CPA'S ORGANIZATION CHART



## EXHIBIT 2. PERFORMANCE EVALUATION FOR ASSOCIATE

Quarter ____ Year Ended: ______Associate Name:________________________

Engagement____________________ Prepared by:_________________________

Review Procedures: It is the firm's policy that performance evaluation, compensation, and advancement decisions be based on a timely and objective evaluation of individual performance, that personnel selected for advancement have the necessary qualifications to fulfill their role, and that compensation be based on the quality of their work.

**Associate**: Responsible for learning and applying their technical skills; working as part of a team carrying out tasks under close coaching and supervision.

This evaluation should be completed using the following performance rating scale:

| | |
|---|---|
| **5-Outstanding** | Indicates extraordinarily high performance, well beyond that expected of someone at this level. This rating indicates a performance **level beyond the scope of the current position.** |
| **4-Very Good** | Indicates performance that exceeds usual expectations of someone at this level. This rating indicates a level of performance beyond the requirements, but **still within the scope of the position.** |
| **3-Good** | Indicates performance that meets that expected of someone at this level. This indicates a level of performance that **fully satisfies the requirements of the current position**. |
| **2-Below Expectations** | Indicates that assignments and responsibilities are not being met as well as expected. The employee performance **did not meet expectations for aspects of the position and requires some improvement**. |
| **1-Unacceptable** | Indicates unacceptable performance in need of immediate improvement. **Improved performance is required for continuation in this position**. |

Comments should be included for each core competency to provide further detail as to how the reviewer arrived at the rating. Ratings of "2" or "1" must be supplemented with detailed examples and suggestions for improvement which will assist in identifying the specific concern and developing a corrective action plan.

Rating

1. Technical knowledge / Firm Systems

| | |
|---|---|
| Thorough knowledge and understanding of an area of expertise to add value to clients on a practical level. | |

- Applies self diligently to learning and understanding technical skills and on the job practices and business processes, including relevant ethical standards.
- Researches technical issues and participates in technical discussions relating to client assignments.
- Develops an understanding of client businesses.
- Develops a basic business sense through research and understands the relevance to clients.
- Develops a depth of knowledge in tools, systems, and processes within their discipline and applies this knowledge practically.
- Able to gather data from a variety of sources.
- Able to synthesize and analyze data and develop accurate deliverables.
- Able to use relevant technology.
- Able to express ideas in writing clearly, completely, and concisely.
- Demonstrates sound judgment and analytical abilities by asking appropriate questions and identifying problems.

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| Comments: |

2. Client Service

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| Responsible for client relationships – proactively works to establish and maintain effective client relationships and continually looks for ways to add value. Manage projects for quality and profitability. | |

- Aware of importance of effective relationships between the client and the firm.
- Professional in all dealings at peer clients' level.
- Establishes rapport with peer client levels and is always professional and courteous.
- Learning to establish client expectations.
- Understands the context of their role within the client assignment.

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| Comments: |

3. Productivity

| | Rating |
|---|---|
| Helps manage and develop the business to ensure improved profitability in the short and long term. | |

- Understands performance expectations and plans, organizes and works efficiently.
- Develops an awareness of the firm's vision and business strategies.
- Develops an understanding of the business plan and their role in achieving it including utilization, realization, etc.
- Completes tasks within timeframes under direction.
- Effectively plans and organizes own work effort.
- Proactively seeks assignments to maximize utilization.
- Uses unassigned time effectively, for the benefit of the firm.
- Avoids unnecessary distractions.

| Comments: |
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4. Firm Presences

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|---|---|
| Knows the importance of being a firm ambassador and appropriately represent the firm at all functions. Recognizes and/or addresses appropriate opportunities to positively enhance the firm's presence in the marketplace. | |

- Represents the firm with a consistent, professional, and positive demeanor and appearance.
- Develops working knowledge of firm's services, systems and processes and is able to apply them with support and direction.
- Understands the importance of selling and marketing the firm's services.
- Develops an awareness of the sales process and participates in internal programs to develop sales knowledge and skills.
- Builds a network of peers externally through professional associations, networks, university studies, and client work.
- Develops an understanding of the firm structure, people services and clients.
- Participates in initiatives to recruit talented people by providing time to speak with potential candidates at career forums.

| Comments: |
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Rating

5. People Development & Teamwork

| Contributes to and supports the development of the team – continually builds and shares knowledge and engages in ongoing personal career growth. | |
|---|---|

- Recognizes and seeks on the job learning and development opportunities to understand their role and responsibilities.
- Participates actively in all formal learning and development opportunities.
- Seeks regular feedback on performance from immediate supervisors.
- Supports peers and less experienced Associates with on the job learning where appropriate.
- Works with a Senior or Manager to set and monitor career goals.
- Works co-operatively in terms to provide quality service to clients – sharing, gaining, ad gathering information.
- Has good communication skills – verbal and written and is a good listener.
- Actively participates in initiatives to increase retention.

| Comments: |
|---|

Employee Signature______________________________Date________________

Reviewer Signature______________________________Date________________