

# Capability Management Policy

For Australian Small & Medium Enterprises

Template Version 1.0 | December 2024

## Important Notice

This template provides general guidance on capability management. It should be customised to your specific workplace needs and used in conjunction with your performance management framework. Seek legal advice for complex capability issues.

## 1. Purpose

This policy provides a framework for managing employees who are not meeting the required performance standards due to a lack of capability, skills or knowledge. It aims to support employees to improve their performance while ensuring fair and consistent treatment.

## 2. Scope

This policy applies to:

- All employees who have completed their probation period
- Performance issues related to capability rather than misconduct
- Situations where an employee lacks the skills, knowledge or ability to perform their role

This policy does not apply to:

- Employees still within their probation period (refer to Probation Policy)
- Conduct or behavioural issues (refer to Misconduct Policy)
- Redundancy situations

## 3. Definitions

### 3.1 Capability

An employee's ability to perform their role to the required standard based on their skills, knowledge, qualifications, experience and aptitude.

### 3.2 Capability Issue

A situation where an employee is unable to perform their duties to the required standard despite having a genuine willingness to do so.

### 3.3 Performance Standard

The level of performance reasonably expected of an employee in their role, taking into account their position description, experience level and any relevant benchmarks.

## 4. Principles

[Company Name] is committed to:

- Providing clear performance expectations
- Supporting employees to meet required standards
- Fair and transparent processes
- Providing reasonable time and support for improvement
- Maintaining confidentiality throughout the process
- Allowing support persons at formal meetings

## 5. Identifying Capability Issues

### 5.1 Signs of Capability Issues

- Consistent failure to meet targets or deadlines
- Repeated errors despite training and feedback
- Difficulty learning new tasks or systems
- Inability to work independently when expected
- Quality of work consistently below standard
- Negative feedback from customers or colleagues

### 5.2 Distinguishing from Misconduct

Capability issues differ from misconduct in that:

- Capability: The employee can't perform - they lack ability despite trying
- Misconduct: The employee won't perform - they choose not to meet standards

The correct categorisation determines which policy applies.

## 6. Informal Stage

Before initiating formal processes, managers should:

- Discuss concerns with the employee informally
- Clarify performance expectations
- Identify potential causes of underperformance
- Provide additional training or support as appropriate
- Set clear goals and review dates
- Document conversations and agreed actions

Many capability issues can be resolved at this stage with appropriate support.

## 7. Formal Capability Process

### 7.1 Stage 1: First Written Warning

If informal discussions have not resolved the issue:

- Schedule a formal meeting with the employee
- Provide written notice of the meeting and its purpose
- Allow the employee to bring a support person
- Clearly explain the performance shortfalls
- Allow the employee to respond
- If appropriate, issue a First Written Warning
- Develop a Performance Improvement Plan (PIP)
- Set a reasonable review period (typically 4-8 weeks)

### 7.2 Stage 2: Final Written Warning

If required standards are not met during the first review period:

- Conduct a formal review meeting
- Consider any improvement made and ongoing gaps
- If appropriate, issue a Final Written Warning
- Update the PIP with revised actions if needed
- Set a further review period
- Warn that termination may result if standards are not met

### 7.3 Stage 3: Termination

If required standards are still not met:

- Conduct a final review meeting
- Consider all evidence and any mitigating factors
- Make a fair and reasonable decision
- If terminating, provide written notice with reasons
- Ensure all entitlements are paid

## 8. Performance Improvement Plans

### 8.1 PIP Components

A Performance Improvement Plan should include:

- Specific areas requiring improvement
- Clear, measurable performance targets
- Support and resources to be provided
- Training or development activities

- Regular check-in dates
- Review period end date
- Consequences if improvement is not achieved

## **8.2 Support During PIP**

- Regular feedback and guidance
- Access to training and development
- Reasonable adjustments if applicable
- Mentoring or coaching where appropriate
- Clear and accessible communication

## **9. Employee Rights**

Throughout the capability management process, employees have the right to:

- Be informed of concerns and expected standards
- Respond to concerns before decisions are made
- Be accompanied by a support person at formal meetings
- Have reasonable time to improve
- Access to training and support
- Have decisions reviewed or appealed
- Be treated fairly and with dignity

## **10. Documentation**

Managers must document:

- All informal and formal discussions
- Performance concerns and specific examples
- Support provided and training offered
- Employee responses and explanations
- Warning letters and PIPs
- Review meeting outcomes
- Final decisions and reasons

## **11. Special Considerations**

### **11.1 Health-Related Capability Issues**

If performance issues may be related to health:

- Consider whether reasonable adjustments are needed
- Seek medical assessment if appropriate

- Consider workers compensation implications
- Comply with disability discrimination laws

### **11.2 Recent Role Changes**

Consider whether issues are due to:

- Insufficient training on new duties
- Unrealistic expectations in a new role
- Lack of proper handover or induction

Additional support may be appropriate in these circumstances.

## **12. Alternative Outcomes**

Instead of or before termination, consider:

- Redeployment to a more suitable role
- Adjustment of duties or responsibilities
- Demotion to a lower-level position (with consent)
- Additional training or development
- Mentoring or coaching arrangements

## **13. Responsibilities**

### **13.1 Managers**

- Set clear performance expectations
- Provide regular feedback and support
- Address capability issues promptly and fairly
- Follow the process consistently
- Maintain appropriate documentation
- Seek HR advice for complex situations

### **13.2 Employees**

- Strive to meet performance standards
- Seek clarification if expectations are unclear
- Engage constructively with improvement processes
- Attend training and development activities
- Communicate any barriers to performance

### **13.3 HR**

- Provide guidance on policy application
- Support managers through the process
- Ensure consistency and fairness

- Maintain records

## 14. Review

This policy will be reviewed:

- At least annually
- When relevant legislation changes
- When business needs change
- Following significant issues or complaints

## Employee Acknowledgement

I acknowledge that I have read and understood [Company Name]'s Capability Management Policy. I understand how capability issues will be addressed and agree to engage constructively with any improvement processes.

Employee Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_