The Rise of the Naked Manager

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FROM ANNUAL APPRAISAL TO ON-GOING CONVERSATION

SUMMARY

"As of September one of the largest companies in the world will do all of its employees and managers an enormous favour; it will get rid of the annual performance review."

Washington Post

When Accenture recently announced its plan to scrap annual reviews this enthusiastic response was typical.

Accenture is joining a small but fast-growing list of major corporations – including Deloitte, GE, Microsoft, Adobe, Gap and Medtronic – who have recently been in the headlines for scrapping and re-designing their performance management systems.

In this article we explore what lies behind this trend and introduce the concept of the Naked Manager – a phenomenon that the end of annual reviews is helping to create.

THE END OF AN ERA

> *"If performance review (as usually done) was a drug, it wouldn't be approved because it's so ineffective and it has such vile side effects."*
> *Robert Sutton, Stanford*

It looks like time is up for the annual appraisal.

According to research firm CEB, 6% of Fortune 500 companies had scrapped their systems of forced rankings and annual reviews by the start of 2015; up from 3% in 2013, and 1% in 2012.

Based on our experience over the past year, what was a tentative trend is rapidly turning into a stampede. Organisations in all sectors are following their example. Our workshops and seminars on the subject have been packed with organisations that plan to get rid of annual appraisals.

What has been a standard practice in almost every major organisation for half a century or more is about to disappear.

WHY THE CHANGE?

With hindsight, given the universal criticism of annual appraisals, it is more surprising that they lasted so long than the fact that they are now being replaced.

Though many major companies still haven't taken the leap, most are aware that their current systems are flawed. CEB found that 95% of managers are dissatisfied with the way their companies conduct performance reviews and more than 90% of HR leaders say the process doesn't even yield accurate data.

Academics and business leaders have criticised the annual appraisal for years. Managers and employees alike have complained year after year. The response in most organisations has been incremental reform. This has usually succeeded in making systems progressively more complex, but left the fundamentals untouched; the bell curves, forced ratings, rank and yank and skewed bonus schemes that made them so unpopular in the first place. The painful ritual of the annual appraisal meeting – the low point of the year for many – has continued to be endured by managers and employees alike.

Attempts to incrementally reform systems ignored a weight of evidence showing that the whole approach was flawed. It did not work. It did not help to manage or identify high performance and was actually counter-productive.

It is impossible to sum up a person's annual contribution in a single number rating from 1 to 5. In any balanced team people make varied contributions that are often highly valued by their bosses, but do not necessarily meet the criteria set by the organisation for 'top performance'. Assessment of human performance is by its very nature subjective.

> *"Performance ratings detract from the conversation. If an employee is sitting there waiting for the number to drop, they are not engaged in the conversation, at best. At worst it can actually make them angry and disaffected for a period up to a year"*
> *Caroline Stockdale, former Chief Talent Officer, Medtronic.*

Ironically, one of the reasons that business leaders persist with ranked performance evaluation is the belief that workplaces should be meritocratic – so that high performers should receive greater rewards than average or low performers.

This is linked to a widely held assumption that competition for financial rewards drives up average levels of performance – and that competition is further stimulated when 'rank and yank' penalises low performers.

Companies, including Microsoft and GE who previously evangelised the approach, have recently dropped ranking and switched from individual to team based bonuses. They recognised that excess competition erodes cooperation, and organisations today are dependent on cooperation. A senior manager at Microsoft made the observation that the company was; "*competing with ourselves rather than the competition*".

Excessive internal competition, driven by the performance management system creates a 'dog eat dog' culture.

WHY HAS IT TAKEN SO LONG FOR ORGANISATIONS TO ACT?

The simplest answer is institutional inertia. 'It might not be perfect, but we've always done things this way' – and this is reinforced by the idea that 'everyone has these kind of systems, so it must be best practice'.

The evidence that traditional systems do not work has been given new urgency because these cumbersome and bureaucratic systems suddenly look completely anachronistic. In workplaces that have moved on from traditional command and control hierarchies to ones that value teamwork, collaboration and matrix style management, performance edicts from on high are a terrible fit.

In addition a process based on delivering annual or bi-annual feedback is fast becoming an embarrassment and a liability for companies that want to attract and retain young employees, who want more regular feedback expect to be coached.

People we speak with cite three factors that have finally tipped the scales against annual appraisal.

TIMELY FEEDBACK

All the theorists tell us that people learn when feedback is delivered promptly and specifically; not when it is delivered up to a year later. People can get feedback in seconds now via technology, making annual performance appraisals increasingly ridiculous and out dated.

> *"In a fast-moving company like Superdry, priorities change weekly. If someone is working on opening a store in Italy, then France is no longer the priority, so objectives can quickly become irrelevant. In agile firms, it's about developing people to do a good job; it must be continual."*
> *Andrea Cartwright, HR Director, Supergroup plc*

Organisations have analysed the running costs of their performance management systems, and understandably, they want to improve the ROI.

At Adobe the annual review required 80,000 hours from the company's 2,000 managers – the equivalent of 40 full time employees per year. Deloitte was spending 2 million hours per year on unproductive activities related to performance reviews – training on new software and process updates, paperwork and actually delivering performance appraisals. CEB estimates that a company with 10,000 employees spends about $35m per year.

MOTIVATION

Companies are starting to accept all the anecdotal evidence that their systems undermine motivation and morale. Internal surveys reveal that employees feel less inspired and motivated after the round of annual appraisals, and that staff turnover increases.

> *"These are large-scale, complex systems for making people unhappy."*
> *Kevin Murphy, HR consultant*

WHAT NEXT?

Scrapping annual appraisals removes a major time-waster and de-motivator at one fell swoop. However, just getting rid of them does not guarantee improved performance management. Reaping the benefits depends on what replaces them, and how the change is managed. Reform involves much more than replacing one process with another.

Genuine performance management – getting the best out of people and developing their potential – is almost the definition of leadership.

> *"The art of leadership is not to spend your time measuring and evaluating."*
> *Pierre Nanterme, CEO Accenture*

Scrapping annual performance evaluation is an opportunity to develop a much more effective leadership style as a whole.

Successful performance management depends on the regularity and quality of performance conversations; and the format of an annual appraisal almost ensures that managers and employees fail to engage in genuine or constructive conversations.

> *"Most people simply think they perform better than other people. Unless you rate someone in the highest category, the conversation shifts away from feedback and development to justification"*
> *Mary Jenkins, HR consultant and co-author Abolishing Performance Appraisal*

It is clear that most annual appraisals are not authentic conversations. They happen because they have been mandated, not because the manager has a genuine interest in talking to employees or hearing their views, and not because employees have requested feedback or have some input they want to make. Conversations in annual appraisals are simply rituals.

The key objective for organisations that scrap their annual appraisals is aim to replace them with more authentic conversations. At Adobe these are called Check Ins – they have no prescribed format or frequency and managers do not complete any forms to document what happens – they just talk.

THE RISE OF THE NAKED MANAGER

However, whilst replacing annual appraisals and delegating responsibility to local managers may increase the opportunity for genuine performance conversations, this outcome is not a foregone conclusion.

In reality, many managers use the appraisal process as a fig leaf.

They might criticise and dislike annual appraisals, but they hide behind the structured agenda and tick box ritual of the meetings to avoid 'difficult conversations'. Then they blame the system.

We need to recognise that this is a human trait – in life as well as at work. We want to avoid the emotion involved in telling someone bad news. We are hardwired to avoid conflict. Telling colleagues that their performance is not up to scratch can definitely be considered a 'difficult conversation'. Too many people chicken out; avoiding the conversation all together or failing to explore the issues.

> *"Everyone in the organization expects and wants underperformance in others to be addressed. We need to find the courage to have the difficult conversations."*
> *Joel Le Goffic, Director of HR Operations, DS Smith*

Asking managers to engage in less structured and more personal conversations represents a major change in many organisations.

It leaves many managers feeling naked.

At root, performance management is about building productive relationships and personal development – for both managers and employees. It is not about continuous surveillance and control.

For less formal performance management to succeed, managers need training and support. Unlike the current situation this should not focus on using the process, but on developing their personal conversation skills. Line managers need the confidence to deal constructively with conflict, to de-fuse defensive reactions, and to explore difficult issues constructively, so that people are able to learn and develop.

IN CONCLUSION

Few would disagree that getting rid of annual appraisals is a good thing in its own right.

Furthermore, shifting to an approach that depends on regular informal conversations has the potential to improve much more than the performance management system. These conversations have the potential to serve as a starting point to improve the quality of leadership and to build stronger relationships at every level of an organisation – leading to improved collaboration, innovation and employee engagement.

But it will leave many managers feeling unsupported and 'naked' which means any change requires a corresponding investment in training and education.

> *"It is line managers who build engagement and a high performance culture, one employee and one conversation at a time."*
> *Towers Perrin report; Turbo Charging Employee Engagement, 2010*

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