WHITEPAPER

THE BENEFITS OF REAL-TIME FEEDBACK

Contents

INTRODUCTION

The new technology age has impacted all facets of the way the modern company functions. Smartphones are streamlining the way we do business on the go. Social media is increasing the global reach of our marketing strategies. Skype opens the door for sales teams to pitch products to clients in different locations. Customers have the power to give ratings and feedback for products and services online. Meanwhile, Human Resources is the only sector that has lagged behind this process until now.

Today employees are demanding more from their employers, pushing them to rethink their strategies to attract and retain top talent. Industry leaders such as Accenture, Adobe, Deloitte and General Electric have responded to the changing workplace dynamics by replacing the established stack ranking system and annual performance reviews with policies that fit the needs of the modern business world.

You know it's time for your company to innovate but don't know where to start. Real-time feedback is the key ingredient behind the HR revolution. Each of these companies has modeled its new system around more continuous feedback between managers and employees. This paper will elaborate on the current trends that make real-time feedback benefits irreplaceable and the easiest and most cost effective ways to implement this system into any company.

01|

WHY STACK RANKING IS FAILING

Though many major companies have now shifted away from traditional HR practices, GE gained notoriety when it reformed its system in 2015. The company's former CEO, Jack Welch, created and promoted the popular stack ranking system. The logic behind this model was the need to cut down the oversized company while staying competitive. In this system managers would rank their top employees in the top 20%, putting them in line for promotions/raises. 70% would be ranked in the middle and the bottom 10 percent would be let go. The idea was that this system would motivate employees to produce results to secure their position.
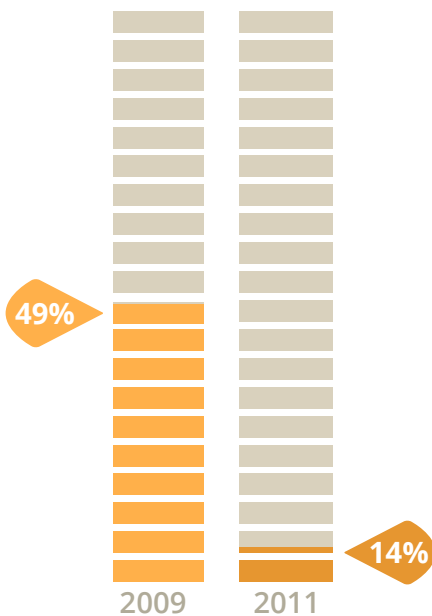
Despite its popularity throughout the 80s, 90s and early 2000s, the real picture began to emerge when studies started showing it actually worked to tear down teamwork by pitting employees against each other and encouraging office politics. This was especially threatening to knowledge sharing as top performers often avoided working together to secure their ranking. According to the Institute for Corporate Productivity, the number of companies practicing stack ranking plummeted from 49% in 2009 to 14% in 2011.[i]

49%

14%

2009   2011

02|

THE PROBLEM WITH ANNUAL PERFOMANCE REVIEWS

$35 million

95%
of managers are unhappy with the way performance reviews are conducted

90%
of HR leaders question the accuracy of the information received

Similarly the annual performance review is already becoming a thing of the past. While it had been the most widely used HR practice, the annual performance review has elicited groans from managers, HR and employees. The amount of time and money spent in preparing these reviews is seen more as a burden than an opportunity. According to best practice insight and technology company CEB, faulty performance review processes can cost a company of 10,000 up to $35 million in lost productivity.[ii] 95% of managers are unhappy with the way performance reviews are conducted in their companies and 90% of HR leaders question the accuracy of the information received.[iii]

In today's rapidly moving business world information given in an annual performance review is often outdated and obsolete by the time it's received, often referring to projects that were already completed months prior to the review. As Accenture's CEO Pierre Naterme explained after the company's shift, "We are not sure that spending all that time in performance management has been yielding a great outcome. Performance is an ongoing activity, its everyday... What people want to know is 'on an ongoing basis am I doing right?' 'Am I moving in the right direction?'"

This also means that performance data collected during an annual review can often be distorted and leaves little room for employees to improve. If a struggling employee receives coaching and begins showing improvement towards the end of the year, their review may not reflect this change accurately. In effect, this actually demotivates employees from seeking development advice and putting effort into improving their performance.

Furthermore, studies have emerged on the psychological effects of annual performance reviews on employees. Rather than motivating them, neuroscience research has shown that this kind of competition actually triggers our natural 'fight or flight' instinct, hindering the chance for professional development. Twenty-two percent of employees have called in sick rather than face their annual performance review, 62% report having felt blindsided by performance reviews[iv]

03|

THE NEED FOR BETTER DATA AND GREATER TRANSPARENCY

Top down assessments are known for being subjective, often based more on the reviewer than the reviewee, a phenomenon known as the idiosyncratic rater effect. Everyone has different ideas of what constitutes a high level of dedication and some have a reputation for being a more lenient/hard rater. In combination with little and inaccurate performance data, this system creates a lack of transparency which actually allows for more subjective assessments by managers. Indeed, research shows that two-thirds of performance management systems actually misidentify top performers regardless of forced rankings. [v]

Most recently, there is increasing evidence that the lack of transparency in this system actually hinders the advancement of women and minorities in the workplace due to unconscious biases. Not only does this result in the loss of talented employees but also the potential for lawsuits. In 2015 lawsuits were filed against Twitter, Facebook and Microsoft for gender pay disparities based on evidence of bias found in annual performance reviews. The need to fill the transparency gap is even more urgent as a new Fair Pay Act came into effect 1 January

2016 placing the burden of proof on California-headquartered companies to prove they're not discriminatory in their compensation practices.[vi] Managers' decisions to promote or not promote an employee will therefore be scrutinized more closely. This means that companies will need to be ready to provide more detailed and objective performance data.

Since announcing their decision to break with the old ways, GE, Accenture, and other major companies have instituted their own systems for giving and receiving real time feedback. The question is, why now? What conditions have set the new HR movement in motion and why has a consensus formed around real-time feedback as the solution?

04|

THE MODERN EMPLOYEE

Advances in technology have impacted what companies are looking for in an employee. Though more people are earning degrees than ever before, what's more significant is the widespread availability of information on the web. While Bill Gates and Steve Jobs had previously been the exceptions, today the most successful CEOs include college and high school dropouts.[vii] As modern technology is taking over more technical tasks, the type of employees that companies are trying to attract has changed. What companies really want are bright young employees who are self-motivated and have the ability to think creatively and innovate.

Revealing of this shift in today's talent scouting, Google's SVP of People Operations, Laszlo Bock, asserts that technical skills rank lower in the essential qualities they're looking for in a Googler.[viii] Potential hires must have the personal drive to take ownership of their work. The right amount of confidence must also be balanced with

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20 ●

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10 ●

● ┐
  │ Average life of
● │ professional skills
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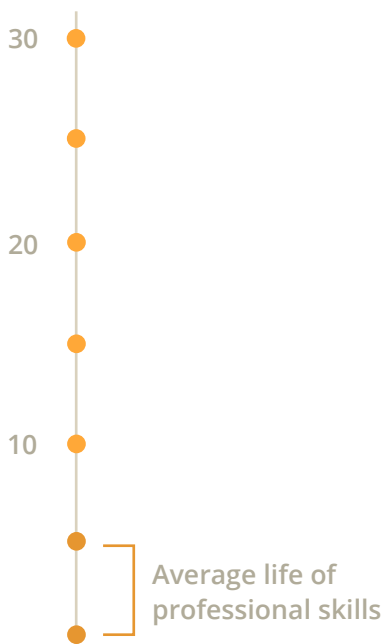
humility and the ability to accept advice from others. They must have the leadership skills to step in and guide a colleague when help is needed. Finally, and most important of all, Google is looking for employees who have a strong ability to learn new things and adapt quickly to the ever changing pace of the industry. Today professional skills have an average life of 2 ½ to 5 years meaning employees must constantly be learning to keep up with new trends. [ix]

Essentially what companies are now looking for are employees who are highly motivated, able to accept feedback from others and willing to coach others when needed. Most important, they must have a high learning agility and ability to switch gears quickly based on the needs of the company. The new challenge is that attracting, managing and retaining this type of employee requires more involvement from managers than ever.

05|

MILLENNIALS

What Millennials Want

...FROM THEIR BOSS
TOP FIVE CHARACTERISTICS MILLENNIALS WANT IN A BOSS

> *will help me navigate my career path*

>*will give me straight feedback*

> *will mentor and coach me*

> *will sponsor me for formal development programs*

> *is comfortable with flexible schedules*

The entrance of millennials into the workforce is another factor that has brought about great changes to HR and management policies. Unlike the previous generation of employees, millennials are notorious for their lack of company loyalty and job hopping tendencies. Eighty-six percent of millennials would quit their current job to pursue professional or personal opportunities.[x] Growing up with mobile technology and social media they're used to getting the information they want instantly. Coupled with their insatiable desire for professional development, millennials not only expect but demand more feedback from their employers on their performance. A Deloitte Survey found that two-thirds of employees believe it's their manager's responsibility to provide them with development opportunities.[xi]

...FROM THEIR COMPANY
TOP FIVE CHARACTERISTICS MILLENNIALS WANT IN A COMPANY

> *will develop my skills for the future*

> *has strong values*

> *offers customizable options in my benefits/reward package*

> *allows me to blend work with the rest of my life*

> *offers a clear career path*

...TO LEARN
TOP FIVE THINGS MILLENNIALS WANT TO LEARN

> *technical skills in my area of expertise*

> *self-managment and personal productivity*

> *leadership*

> *industry or functional knowledge*

> *creativity and innovation strategies*

42%
millennials want feedback every week

The failure to provide sufficient coaching and opportunities is the most common pitfall for managers who stick to traditional management styles, resulting in high and expensive employee turnover rates. 42% of millennials want feedback every week, over twice the percentage of every other generation.[xii] This desire for feedback is not based on the drive for growth alone. In a survey by Tri-Net and Wakefield Research, 85% of millennials reported they would feel more confident if they could have more frequent performance conversations with their manager. [xiii] While some managers may argue that they simply don't have the time to satisfy this generation's high demands, there's good news.

Millennials spend an average of 5.4 hours on social media every day.[xiv] Being raised in a real-time environment with instant messaging, Twitter and Facebook, millennials aren't looking for long reports about their progress. What this Twitter generation wants is quick short pieces of information in no more than 140 characters. Marketing teams are catching onto this trend completely revamping their marketing strategies to connect more with this demographic. Isn't it time HR did the same?

06|

THE PARADIGM SHIFT IN HR

83%

OF EMPLOYEES FOUND RECOGNITION MORE FULFILLING THEN REWARDS
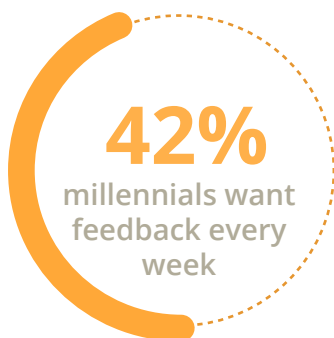
These new dynamics have led to a paradigm shift in the way we think about HR. Rather than seeing things from the perspective of what employees can do for us, companies must compete with others in what they have to offer. Today's HR buzzwords are focused on the employee, with employee engagement, satisfaction and turnover dominating discussions.

This includes new ways of thinking about motivation. Traditional models like stack ranking and performance reviews revolve around monetary incentives to motivate employees: if you work hard you'll make it to the top 20% putting you in line for a raise. However, studies have shown that monetary rewards are not as effective as once believed. According to a study by McKinsey&Company, praise, recognition and opportunities to lead new projects were more motivating for respondents than monetary rewards.[xv] 83% of employees found recognition for contributions to be more fulfilling then rewards or gifts. [xvi]
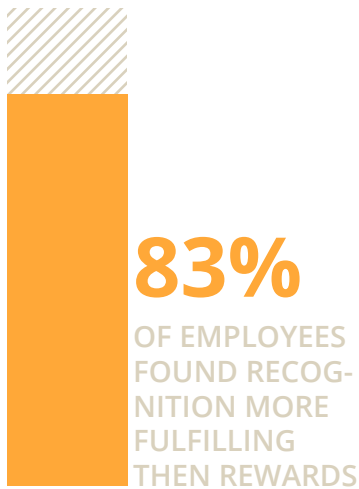
A shift towards strengths-based development has become the latest trend in HR. The ideology behind this trend is that, rather than focusing on improving employee's weaknesses, manager's should help them develop their strengths in the workplace. Everyone has skills they excel at and people are typically happier and more engaged when they're putting these abilities to full use. In turn, managers who know their employees' strengths benefit by being able to assign tasks more effectively and having employees who are motivated at work. However, employees need feedback both to get a better picture of their strengths and then to continue developing them in the workplace. Managers who know their employees' strengths are 71% more likely to have employees who are energized and engaged. 78% of employees feel their work

is appreciated and making a difference when managers have strengths-based discussions with them.[xvii]

What these modern HR trends require is more dialogue between managers and their employees.

07|

THE BENEFITS OF REAL-TIME FEEDBACK

Less Time and Lower Costs. One of the most obvious advantages of real-time feedback is that it's less expensive and takes less time than formal annual reviews. Managers spend an average of 210 hours a year on performance management and employees about 40 hours.[xviii] Redirecting this time towards feedback and growth opportunities will be more important than ever. Deloitte reports that employees can only devote 1% of their week to training and development.[xix] To keep their workforce up to date on the latest trends, companies need employees to learn faster and managers to devote more time to training.

Enhances Learning Agility. Giving timely development advice equips your employees with the tools they need to keep up to date on new skills and stay ahead of the game. Real-time feedback doesn't run the risk of becoming outdated in a year, instead it keeps pace with the fast changing needs of your company. It helps to onboard employees to new projects and facilitates the development of new skills as needed.

High Quality Performance Data. Conducting yearly reviews not only withholds the feedback employees need but often leads to incomplete or distorted performance data. Because real-time feedback is continuous, the data collected is more objective, providing a clearer picture of improvement over time. In fact, with the po-

48%

OF EMPLOYEES BELIEVED
THEIR HR DEPARTMENT
WAS NOT READY TO
RESKILL ITSELF

"

tential for unconscious bias in annual performance reviews, many companies are turning to real-time feedback to provide a more transparent and fair assessment of employees, mitigating legal liability risks.

Reinvents HR. These changes won't leave the HR department in the dust. Cutting down the time normally devoted to the review process, HR can instead become a strategic driver behind the creation of a new feedback culture. A Deloitte study found that 48% of employees believed their HR department was not ready to reskill itself to meet modern business demands, while less than 8% of HR leaders believe their department has the skills and ability to keep up.[xx] These shocking statistics point to the essential need for HR to rebrand itself.

Creates a Strong Feedback Culture. Creating a strong feedback culture is an essential step to reap the full benefits of real-time feedback and provides the perfect opportunity for HR to reinvent itself. Giving more continuous feedback puts less pressure on the development process and helps to overcome 'fight or flight'. It encourages employees and managers to become more open to receiving advice on their work, allowing for a more honest flow of communication. This not only encourages knowledge sharing but also helps build greater trust and stronger relationships within teams.

Empowers Employees. Rather than a top down process, real-time feedback follows a more circular path with employees also being encouraged to give feedback to their managers and each other. This change in dynamics fosters a greater sense of employee ownership in the system and gives them a voice in the development process. Unlike in a stack ranking style system, real-time feedback actually encourages more knowledge sharing and communication at all levels.

Higher Engagement and Lower Turnover. Receiving feedback from employees also enables managers to better assess how engaged their employees are at work and

acts as a warning signal. When companies create a strong feedback culture, employees are more likely to speak up about their concerns allowing managers to address problems before losing valuable employees. The most commonly cited reasons for employee turnover include a lack of opportunities, recognition and problems with management. Research by the Society for Human Resource Management suggests that employee turnover can cost a company between 90%-200% of the employee's annual salary.[xxi]

Real-time feedback tackles these issues by helping managers to keep the modern employee engaged. Positive reinforcement can have a major impact on performance but only when it's delivered in a timely manner. Sixty-nine percent of employees reported that they would work harder if their efforts were recognized but 39% still don't feel they're appreciated.[xxii] Showing appreciation weeks or even months after an achievement greatly reduces the impact. Instead, with a strong real-time feedback culture managers are encouraged to continuously recognize employee achievements instantly in person or on the go via mobile apps. Companies that give regular feedback to their employees experience a 14.9% decrease in turnover rates. source

As Pierre Naterme of Accenture explained, "Now it's all about instant performance management."

14.9%

DECREASE IN
TURNOVER RATES

08|

HOW TO INTRODUCE YOUR OWN REAL-TIME FEEDBACK SYSTEM

Though these companies have designed their own real-time feedback systems for internal use, this takes a significant investment and may not be the best option for every company. The development and maintenance costs can be high, what's more, design and workflow integration are essential components which will take time to develop. Onboarding your staff to a new tool can be a difficult process at first, especially if the design is not user friendly and the integration process is slowed by the inevitable first use glitches. Once this is completed, upkeep and updates will be a constant necessity.
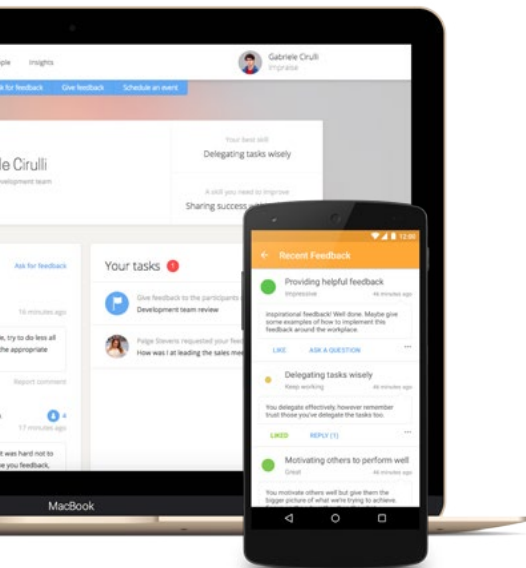
To address these issues, there are a growing number of options available for companies that also want to benefit from this type of system. Impraise has developed a web and mobile solution that takes the hassle out of creating your own system. Impraise helps you transition your performance management practices from being purely assessment based to centering on training and development.

What Impraise offers is one platform for everything: real-time feedback, employee engagement surveys, 360 degree reviews, manager reviews, in-depth analytics, and peer coaching. The convenience of Impraise's mobile app encourages managers to give more of the real-time feedback their employees want and not miss an opportunity to provide recognition and support when needed. Managers can use the system to ask for feedback about their management style and improvements that could be made within the team, benefiting from direct information about employee engagement levels.

The 360 degree nature of the system enables employees to ask for and give feedback to managers and peers at

any time. Rather than a one sided review, employees are encouraged to ask questions about the feedback they receive and seek it outside of formal reviews. Promoting an open feedback culture between peers also helps to defuse tensions before they start and encourages knowledge sharing.

The platform can also be used to create specific feedback events that prompt team members to give each other feedback during or upon completion of a project. This ensures everyone gets the advice and recognition they need to continue improving performance with each assignment. It also allows the receiver to respond to feedback asking for more information, creating a dialogue rather than scrutiny.

All feedback data gathered is stored so managers and employees can see their progress over time. If your company decides to use this real-time system in conjunction with performance reviews, Impraise's platform makes it easy for managers to access in-depth analytics about an employee's performance and make an objective assessment using one tool.

Having this information readily available also enables employees to better pinpoint their strengths based on the feedback received, and set development goals. They can then continue to ask for feedback on specific skills as needed allowing them to take ownership of their own professional development.

With over 100 clients to date Impraise has facilitated the transition of different types of companies at different stages of the feedback process. From the start the Impraise team guides HR through the process of transitioning their company to the new system and helps onboard key stakeholders. After the system has been implemented companies benefit from continuing IT and customer support eliminating maintenance and update costs.

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