

Effects Of The Annual Review

A commentary on the annual review ritual

I once worked as an employee at a software development company where it was customary for the manager to provide each employee with an annual review. In the early years I recall this taking place on the anniversary of hiring. After a few years the company I joined was bought by another software development company, and the annual review was held at the same time of year for all employees.

At one point with the new company the employees reporting to each manager were ranked – number one, number two, and so on through number last. Everybody in the company then had a annual review ranking number which could be compared with that of any other employee. We had been told that this was necessary to be able to determine who were the most valuable employees should the company ever find itself needing to reduce its head count.

During the first of these ranking reviews I reported to a manager of three employees, who were ranked one through three, accordingly. It soon became apparent, perhaps due to the merger of two companies, that a person ranked third amongst three people might be regarded as less valuable as a person ranked fourth amongst ten people. A year or so later the policy was changed again so that employees were collected into evaluation groups of about thirty or so, in order, we were told, to provide a more equitable comparison of employee ranking numbers.

A consequence of this had been that fewer employees were assigned the highest ranking number, and it called into question the precision of reviews and the reliability of being able to determine conclusively between two highly ranked employees which of them deserved the highest ranking number. Again the policy was changed so that any employee with a ranking number within the top one third of their respective group no longer received a specific ranking number, but merely was assigned “in the top third”.

I found it astonishing that any company in the software business, relying on its employees to collaborate with each other in developing software products, would use such an undignified process for evaluating the contributions of its work force. For every employee who preened with delight over being ranked in the top third there was one equally dispirited over being assigned an actual ranking number in the lowest third. The annual review became a time dreaded by employees and their managers alike. Morale was abysmal.

I finally left that company, but it seems there is some variation on the annual review to be found no matter where in the industry one eventually works. W. Edwards Deming found this aspect of American corporate policy so repulsive that he specifically called it out in the 12th of his famous 14 points:

- “12b – Remove barriers that rob people in management and in engineering of their right to pride in workmanship. This means, *inter alia*, abolishment of the annual or merit rating and of management by objectives.”¹

Deming elaborates on this topic of the annual review, which he regards as one of his seven Deadly Diseases:

“Many companies in America have systems by which everyone in management or in research receives from his superiors a rating every year. Some government agencies have a similar system. Management by objectives leads to the same evil. Management by the numbers likewise. Management by fear would be a better name ... The effect is devastating:

“It nourishes short-term performance, annihilates long-term planning, builds fear, demolishes teamwork, nourishes rivalries and politics.

“It leaves people bitter, crushed, bruised, battered, desolate, despondent, dejected, feeling

¹ Deming, *Out of the Crisis*, 2000, p. 24.

inferior, some even depressed, unfit for work for weeks after receipt of rating, unable to comprehend why they are inferior. It is unfair, as it ascribes to the people in a group differences that may be caused totally by the system that they work in.

“Basically, what is wrong is that the performance appraisal or merit rating focuses on the end product, at the end of the stream, not on leadership to help people. This is a way to avoid the problems of people. A manager becomes, in effect, manager of defects.”²

Mary and Tom Poppendieck address the effects of the annual review within the software industry in their books on Lean Software Development:

“If you have a ranking system in your company, a lean initiative will be hollow at best. The behaviors that ranking systems encourage are competition, hiding information so as to look good, and hiding problems so as not to look bad.”³

“Many compensation systems, especially in America, rank individuals against each other for the purpose of determining pay raises. Under such a system, the best way to earn more money is to know as much as possible while being compared against others who know as little as possible. This creates the best incentive we have ever seen for knowledge hoarding rather than knowledge sharing.”⁴

Indeed, the Poppendiecks explain with the following snippet just how easily an organization can be defeated by its own policy of annual review where the criteria for evaluating employees becomes trivialized:

“... people are not evaluated on whether or not they made the best, most effective, most value-generating decision at the time; they are evaluated on whether or not they followed – in detail – the long-outdated guesses from the past.”⁵

Deming states the potential consequence to this policy:

“Failure to make a good grade in the annual rating leads a man to look around for better opportunities elsewhere. It is not unusual for the strongest competitor to be someone that split off on failure to receive a promotion.”⁶

Deming goes further in explaining his disdain for the merit system:

“Differences there will always be between any two people, any two salesmen, etc. The question is, what do these differences mean? Maybe nothing. Some knowledge about variation (statistical theory) is required to answer these questions.

“Ranking is a farce. Apparent performance is actually attributable mostly to the system that the individual works in, not to the individual himself.”⁷

As Agile software development practices eventually overtake the traditional waterfall approach, we may notice a trend toward the elimination of annual reviews. If so, it should not be regarded as an aspect unique to Agile since Deming had been advocating for this years before the Agile movement even became an idea.

Jim McDonough – June 5, 2011

2 Deming, *Out of the Crisis*, 2000, p. 101.

3 Poppendieck, *Implementing Lean Software Development – From Concept To Cash*, 2007, p. 143.

4 Poppendieck, *Leading Lean Software Development – Results Are Not the Point*, 2010, p. 182.

5 Poppendieck, *Leading Lean Software Development – Results Are Not the Point*, 2010, p. 232.

6 Deming, *Out of the Crisis*, 2000, p. 121.

7 Deming, *The New Economics for Industry, Government, Education*, 2nd edition, 1994, p. 25.