Why I Stopped Doing Annual Employee Reviews

When my company Phone2Action launched in 2013, we tried to manage employee performance with annual reviews. It was pointless. Why wait months to discuss problems that matter now? In a startup, we needed to move faster and calibrate more often than annual reviews permitted.

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We scrapped reviews and implemented a performance management system developed by Martin O'Malley, former governor of Maryland. He "disrupted" conventional management techniques well before Agile and Lean Startup methodologies swept through Silicon Valley.

Today, many companies use "data-driven" management techniques. However, they struggle to find a balance between team and individual accountability, transparency and privacy, and actions and goals. O'Malley's approach may help you find the sweet spot.

The CitiStat story

When O'Malley become mayor of Baltimore in 1999, the city suffered from chronic absenteeism, excessive overtime and poor response times. He implemented a data-tracking and management approach called CitiStat, inspired by the New York City Police Department's CompStat crime analytics. Between 1999 and 2007, CitiStat saved Baltimore an estimated $350 million yet the program cost only $400,000 per year (spent mainly on staff salaries), according to the Center for American Progress.

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Frequency Isn’t the Reason.

CitiStat required city departments to track performance metrics unique to their responsibilities. The Department of Transportation, for example, recorded how quickly it filled potholes after being alerted.

The department heads met with the CitiStat team every two weeks to review the data. If it was trending in the wrong direction, the CitiStat team and department head would brainstorm and test a solution. At the next meeting, the data would reveal whether the follow-up actions had made a difference. By 2007, the Department of Transportation was filling 97 percent of potholes within 48 hours of notification.

Other cities took note of O’Malley’s success. Mayor Adrian Fenty introduced a version called CapSTAT in the District of Columbia Government, where I learned the system. We used it to track major initiatives such as school openings.

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“CapSTATs” were intense accountability meetings that gathered all the agency heads. When an initiative hit delays, there was no place to hide. The numbers, the colors (green for on track, yellow for delayed and red for behind) and mapping revealed the status of everything.

Having observed the effectiveness of CapSTAT, I wanted to create a version for Phone2Action. We called it ActionSTAT.

Why it’s different

There are different schools of thought in performance management. ActionSTAT addresses three conflicts that arise in most performance evaluation systems.

1. Team v. individual

Traditional employee reviews often happen in isolation and emphasize individual achievements. In contrast, ActionSTAT holds both the team and individual accountable by measuring how people spend their time. The system connects individual actions and goals to departmental and company goals.

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This kind of "systems thinking" is hard to achieve in government but comes naturally in technology companies, which have standard measures of success. In software-as-a-service (SaaS), these could include annual recurring revenue (AAR), monthly recurring revenue (MMR) and gross retention.

For example, let's say we ask each salesperson to make 40 calls per day. The salespeople who perform this "leading action" close more deals than those who don't. The action appears to work, so we keep doing it. If salespeople made the 40 calls but didn't close more deals, we'd test other leading actions. Ultimately, we trace the salespeople's work to AAR and MMR.

2. Public v. private feedback

One of the hardest aspects of performance management is giving and receiving feedback. When a manager gives an employee feedback in private, the company doesn't gain institutional knowledge. Only two people learn from the experience. When performance management is a team activity, a culture of continuous learning, improvement and transparency can emerge.

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Phone2Action holds ActionSTATs every Thursday at 10 a.m. The meetings are open to everyone but focused on one department each week. We start ActionSTAT by reviewing a dashboard that

shows the most important metrics of company health. Those include our load time, conversion rate and retention rate.

Next, we look at the department's lagging indicators (marked green, yellow and red, just like in CapSTAT) followed by its "leading actions." Often, we look at individual leading actions, too. The data sparks questions, conversation and feedback from across the company.

Over time, a few things happen:

1. Everyone in the company gets used to providing and receiving feedback.
2. Everyone gets used to discussing performance publicly.
3. Everyone sees what people do in other departments and therefore learns how each team member contributes to the company's goals.

The health metrics never change, but how teams spend their time can. By discussing the leading actions of each department, we set and correct behaviors.

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3. Actions v. goals

ActionSTAT distinguishes between how people spend their time (leading actions) and lagging indicators (goals defined by metrics). This is crucial because companies that manage solely by objectives cannot address the behaviors that drive the outcomes.

If we want to lose weight, jumping on the scale everyday won't change anything. What we eat and how much we exercise will. The same applies to companies. If we measure lagging indicators but not the activities that influence them, we will not identify what works.

Every ActionSTAT becomes a chance to refine leading actions.

If we wait one full year to evaluate an employee, we see if she hit the metrics, but we cannot correct behaviors along the way. Performance management is about continuously identifying the actions that produce desirable outcomes.

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A thing of the past

Every tech company wants to be “agile,” but traditional employee reviews hinder that culture. Annual reviews exhaust managers and stress out employees who might have spent months working tirelessly — in the wrong direction. Neither the company nor the employee can afford to wait a year for the feedback.

Today, people choose work environments where they can learn continuously and understand how their actions contribute to the company’s success. Annual reviews are thing of the past.https://www.entrepreneur.com/article/305997