**Peer Review and Stack Ranking**

The following excerpt has been taken from the *Valve Employee Handbook*:

**Your Peers and Your Performance**

We have two formalized methods of evaluating each other: peer reviews and stack ranking. Peer reviews are done in order to give each other useful feedback on how to best grow as individual contributors. Stack ranking is done primarily as a method of adjusting compensation. Both processes are driven by information gathered from each other—your peers.

**Peer reviews**

We all need feedback about our performance—in order to improve, and in order to know we’re not failing. Once a year we all give each other feedback about our work. Outside of these formalized peer reviews, the expectation is that we’ll just pull feedback from those around us whenever we need to.

There is a framework for how we give this feedback to each other. A set of people (the set changes each time) interviews everyone in the whole company, asking who each person has worked with since the last round of peer reviews and how the experience of working with each person was. The purpose of the feedback is to provide people with information that will help them grow. That means that the best quality feedback is directive and prescriptive, and designed to be put to use by the person you’re talking about.

The feedback is then gathered, collated, anonymized, and delivered to each reviewee. Making the feedback anonymous definitely has pros and cons, but we think it’s the best way to get the most useful information to each person. There’s no reason to keep your feedback about someone to yourself until peer review time if you’d like to deliver it sooner. In fact, it’s much better if you do so often, and outside the constraints of official peer reviews.

When delivering peer review feedback, it’s useful to keep in mind the same categories used in stack ranking because they concretely measure how valuable we think someone is.

**Stack ranking (and compensation)**

The other evaluation we do annually is to rank each other against our peers. Unlike peer reviews, which generate information for each individual, stack ranking is done in order to gain insight into who’s providing the most value at the company and to thereby adjust each person’s compensation to be commensurate with his or her actual value. Valve pays people very well compared to industry norms. Our profitability per employee is higher than that of Google or Amazon or Microsoft, and we believe strongly that the right thing to do in that case is to put a maximum amount of money back into each employee’s pocket. Valve does not win if you’re paid less than the value you create. And people who work here ultimately don’t win if they get paid more than the value they create.

So Valve’s goal is to get your compensation to be “correct.” We tend to be very flexible when new employees are joining the company, listening to their salary requirements and doing what we can for them. Over time, compensation gets adjusted to fit an employee’s internal peer-driven valuation. That’s what we mean by “correct”—paying someone what they’re worth (as best we can tell using the opinions of peers).