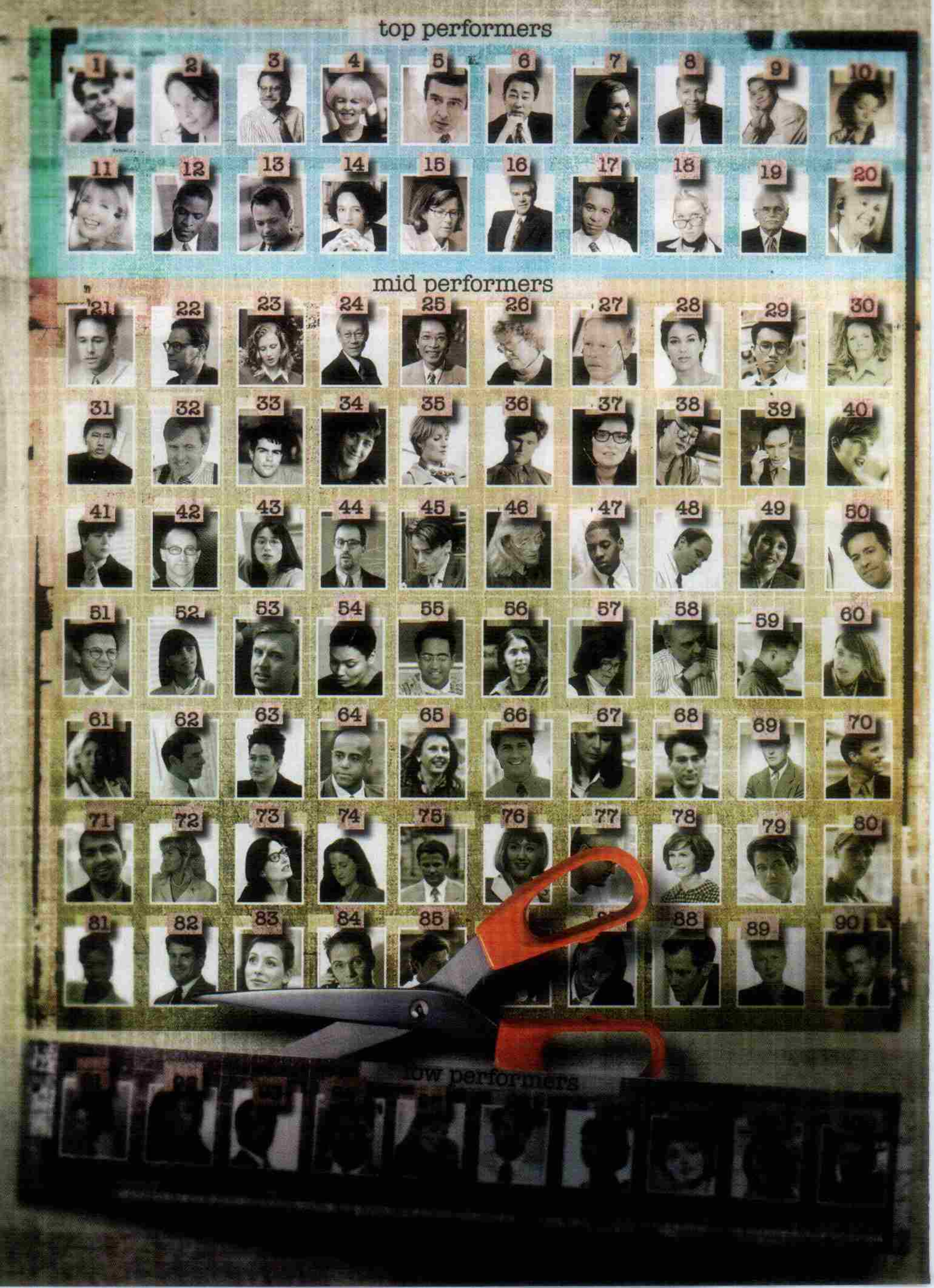

top performers
1 2 3 4 5 6 7 8 9 10
11 12 13 14 15 16 17 18 19 20
mid performers
21 22 23 24 25 26 27 28 29 30
31 32 33 34 35 36 37 38 39 40
41 42 43 44 45 46 47 48 49 50
51 52 53 54 55 56 57 58 59 60
61 62 63 64 65 66 67 68 69 70
71 72 73 74 75 76 77 78 79 80
81 82 83 84 85 88 89 90
low performers

Forced Rankling

By Steve Bates

While grading employees on a scale relative to each other forces a hard look at finding keepers, losers may become weepers.

Forced ranking, the controversial process by which employees are graded against each other instead of judged against performance standards, is all the rage in corporate America. Experts estimate that it is being used by at least 20 percent of *Fortune* 1,000 companies and growing, fueled in part by pressures to identify large numbers of people who can be laid off as the economy stumbles along. But many executives, consultants, academics and HR professionals are raising red flags about the practice, which has resulted in costly litigation, bad publicity and plunging morale at some firms where forced ranking has not worked well or has achieved a purpose at a steep price. Also known as forced distribution and, derisively, as "rank and yank," the practice was championed by former General Electric CEO Jack Welch, who insisted that GE identify and remove the bottom 10 percent of the workforce every year. In practice, it takes several forms. A group of 100 workers can be ranked one through 100. More commonly, employees are grouped into three, four or five "baskets," usually of unequal size, indicating the best workers, the worst and one or more classifications in between.

TERRY MIURA

Online Resources

For an SHRM "Legal Report" on forced ranking, see the online version of this article at www.shrm.org/hrmagazine.

Proponents say that forced ranking is the best way to identify the high-potential employees who should be given training, promotions and financial incentives. In addition, they claim it's a vital tool to identify the bottom performers who should be helped up or out. Some say forced ranking is not only the best method, but an essential practice to turn a struggling company into a market-dominating one.

Critics say the practice can be arbitrary, unfair, illegal, a morale killer and death to teamwork. They point out that one group of workers might have 20 percent dead wood while another might have nothing but stars, yet the process might mandate eliminating 10 percent from each group anyway.

"Sometimes managers are forced to identify poor performers even though they don't have data which indicate they exist," says Edward E. Lawler III, a professor, author and director of the Center for Effective Organizations at the Marshall School of Business at the University of Southern California.

Critics add that those who decide which employees rank high and which rank low often play favorites or make deals that warp the process. And they note that even if a forced ranking system can survive a potential barrage of lawsuits, it might not be worth the cost.

If there's one thing that proponents and opponents might agree on, it's the assertion by Dick Grote, president of Grote Consulting Corp. in Dallas and a longtime advocate of forced ranking, that "it's probably the most controversial issue in management" today.

Experts say there is no generally accepted research that gives either side clear superiority in the debate. However, forced ranking has most often been judged a success—or has been received favorably by many people in executive, mid-level and lower ranks—in companies with a high-pressure, results-oriented culture. Numerous companies have tried to emulate the GE example—often without laying the groundwork for such a major cultural change.

"Many people have just picked up the

Graph Paper and Post-it Notes

The assessors gathered in a conference room with briefing books containing job histories and demographic data on the people they were about to rank. In the center of the room was a display of graph paper, five feet high and 10 feet long. Lines divided the paper into segments labeled "Top 20%," "Vital 70%" and "Bottom 10%." On a wall were 37 Post-it notes, each containing the name of a person to be ranked.

The forced ranking meeting, one of many planned by the large consumer packaged-goods company over two weeks in June 2002, was being conducted with the assistance of Dick Grote, president of Grote Consulting Corp. in Dallas. Grote offers this account of the meeting at the firm, which does not want to be identified:

The plan was to discuss each individual, move each name to the appropriate position as an A, B or C player, and wind up with 7 A's, 26 B's and 4 C's to preserve the 20-70-10 percent distribution.

It was easier said than done. Initially, the assessors placed 13 Post-it notes in the A category, the others in the B category and none in the C category. Something had to give.

"If this were my company, would I want this guy on my team?" the head of manufacturing asked about someone slotted with the A's. "He doesn't belong in the top 20 percent. He's no A."

The sales director concurred. "I want him on my team—on my B team."

But other assessors weren't so sure. "He's a high B," said one, moving the Post-it close to the line dividing A's from B's.

"There's no such thing as a high B," the manufacturing official stated. "A B is a B is a B."

Assigning people to the C category was particularly difficult. "I don't want to have to shoot myself in the foot and get rid of somebody that I don't have a replacement for," said the head of IT. "Does it mean we have to terminate?"

Replied the CEO: "Will this be a hollow exercise if we don't terminate?"

Once the 7 A's, 26 B's and 4 C's were agreed on, evaluators discussed specific developmental assignments for the A players. And though "there was a general resistance to acting quickly" to purge C players, decisions were made to terminate them "in a dignified way with a generous separation package," says Grote.

Managers and executives left the room exhausted by the process, yet most realized that the exercise was necessary and beneficial, says Grote. "The richness of the discussion about people was far deeper than if they didn't have the rigor of the process."

—Steve Bates

Flexibility And 'A Loose Curve'

First Consulting Group, an IT health care consulting firm based in Long Beach, Calif., decided two years ago to phase in a strict forced ranking system. But some company leaders felt that this process was not a good fit for the firm, which has three divisions, each with its own collection of personalities and attitudes, says HR business partner Julie Frank, SPHR, who is based in First Consulting's Dallas office.

After "all kinds of philosophical discussions," says Frank, the firm moved ahead with five numerical grades and "a loose curve" that does not mandate the exact proportion of employees to be placed in the bottom category or what will happen to those workers. Rankings are combined with the results of traditional employee evaluations and project reviews to provide a comprehensive picture of each worker's strengths and weaknesses. Forced ranking "is absolutely a supplement," she emphasizes.

Managers and coaches discuss each employee's performance for about 10 minutes, and each evaluator gives each worker a numerical score. The scores for each employee are averaged.

In one recent session rating 11 employees on a scale of 1 (top performer) to 5 (bottom performer), almost every subject was bunched initially in the 2s and 3s. "Then we said: Does this look right to you?" recalls Frank.

One by one, the employees were spread out along the full spectrum. By the end of the session, there was one top performer and one bottom performer, with everyone else in between.

The system "is working well for us," says Frank. "We continue to develop it and customize it. The key is flexibility."

model and simply dropped it in. This never works," says Jim LaRocco, a consultant and managing director of Leadership Strategies in Newport Beach, Calif. "You can't do it without focusing on culture and communication."

And therein lies a crucial role for HR professionals in organizations that have or are considering forced ranking. "HR ought to be the advocate for it, the person who explains how to implement it and the consequences for not doing so," says LaRocco.

Byron Woolen, managing partner of New York-based Worklab Consulting, views HR professionals' duty with regard to forced ranking a little differently: "They need to raise red flags, to make sure it's being thought through."

Forced ranking opponent Robert Rogers, president of consulting firm Development Dimensions International, based in Bridgeville, Pa., goes even further: "HR needs to be proposing better alternatives."

Pressure on Managers

Organizations choose forced ranking for a variety of reasons. Often, a company imposes ranking because its managers fail to do tough, accurate performance assessments or shy away from telling employees where they really stand.

"Organizations do it because managers do not hold their workforce accountable," says Dick Beatty, a professor at Rutgers University and the University of Michigan.

Beatty views forced ranking as "an emergency tool, a wake-up call" used to try to shake up a workforce to squeeze more productivity out of it. Yet, he says, it can send the wrong message and drive out good people who fear they will be judged unfairly while mediocre workers hunker down or play political games to survive.

"It produces a workforce where you lose your winners and win your losers," he states. "It's a bankrupt strategy."

Not so, say forced ranking advocates. "Forced ranking can't substitute for other organizational processes," concedes Grote, but it forces a company to differentiate among employees. That essential process can guide a company's decisions about where to invest precious resources to create the next generation of leaders as well as to clear out dead wood.

"The great value of using a forced ranking process doesn't result merely from plunking people into different buckets," he says. "The payoff comes from the action that is taken with each person following the assessment sessions."

Critics say those who decide employees' ranking often play favorites or make deals that warp the process.

Consultants say that most companies do not immediately fire anyone judged to be in the bottom bracket of their office, division or corporation. Often, warnings are given to those at the bottom while promotions are dangled in front of those at the top of the rankings.

"If a company wants to jump-start a genuine leadership de-

'It's a tremendous developmental tool. It's not always about cutting people off at the knees.'

velopment process and move quickly toward muscle-building the organization, forced ranking is the best tool around," says Grote.

"It's a tremendous developmental tool," states LaRocco. "It's not always about cutting people off at the knees."

Complicating the task for HR professionals attempting to deal with forced ranking is the fact that it is implemented in varying ways. "I haven't found any two companies that do it exactly the same," says Woolen.

Some use it for top- and mid-level managers only, others for the entire organization. Some rank groups of employees as small as 10, others might rank 100 or more at a time. And while many use the GE model, which identifies the top 20 percent, the middle 70 percent and the bottom 10 percent, others will place workers in four equal groups or along a "bell curve."

Criteria for ranking employees also vary. Some use recent or current performance, while many project potential or likely performance. As for the logistics, even the raters themselves aren't always sure how they should be doing that job.

In one large company, Grote recalls, assessors wrote the names of people they were rating on Post-it notes and put the notes into squares labeled A, B and C on a large sheet of graph paper. (See "Graph Paper and Post-it Notes," p. 64.) In contrast, at First Consulting Group, an IT health care consulting firm based in Long Beach, Calif., each employee being assessed is given a numerical score by about 10 of the worker's supervisors and coaches. Each employee's scores are averaged, and the averages are used to help place them in five categories. (See "Flexibility and 'A Loose Curve,' " p. 65.)

Games People Play

No matter how hard organizations try to rate people fairly, forced ranking is subject to favoritism, trading and other forms of gamesmanship.

Rogers recalls the IT manager of a major financial services firm describing how he avoided having to assign the lowest grade to any of his people by trading employees beforehand with supervisors of other teams within the organization. "Another manager recently acknowledged that managers in his organization are carrying poor performers throughout the year so they can have someone to put in the 'fails to meet' bucket or, worse yet, hiring marginal performers toward the end of the evaluation period so they have someone to fire at the end of the year."

A manager told Rogers about one poor performer: "I held onto him for six months so I could offer him up as my C performer."

Such examples are not rare, critics say. Many employees know or suspect that these games are being played, and morale can suffer.

The result can be particularly damaging to teamwork.

"By its very nature, forced ranking encourages a 'survival of the fittest' culture," says Rogers. But if a team is to be ranked, it might not be in one employee's personal interest to make a suggestion that helps another member of the team raise his or her standing—possibly putting that colleague a crucial notch ahead. In organizations "where cooperation and teamwork are highly valued, forced ranking can be a cultural poison," comments Rogers.

So Then What?

After ranking employees, the next step can be the toughest: What do you do with the results?

Some use transfers for those not making the grade in a forced ranking, says Julie Frank, SPHR, an HR business partner in First Consulting's Dallas office. "We can cross-utilize people if we understand their strengths and skills," which is a direct result of the ranking process at her firm, she says. "We have used this to help budget: who are we going to promote over the next six months, and who's going to get the higher increase" in compensation.

However, some favor the strict rule that Welch used during his years at GE: Purge the bottom 10 percent. They cite research that shows that top employees outperform "average" workers by 40 percent to 100 percent and that bottom performers actually cut into productivity and profits. "If you're in the bottom rank, you should only be there for one cycle. A manager has a responsibility to develop that person or move them out," says LaRocco. "These people [in the bottom category] cause collateral damage. They lower standards, drive good people away, keep good people from joining."

Still, the concept of firing a fixed number of bottom performers each year troubles many managers and HR professionals. Says Beatty: "Once you've done it for a long time, if you still have 10 percent who are poor performers, why do you still have 10 percent?"

And the cost of this mandated turnover should not be ignored, adds Lawler. "Most analyses [by organizations] fail to take into account the cost of replacing somebody" who is fired, which can be as high as $100,000.

Enter the Lawyers

Regardless of how an organization identifies top and bottom performers, there can be significant unintended results. In many forced rankings, "the bottom bucket tends to fill up with minorities and women and people over 40," says Woolen.

Attorneys for workers ousted at Goodyear Tire & Rubber Co. and Ford Motor Co. filed lawsuits in federal court claiming that forced ranking discriminated against older workers at those firms. "We're going to see a lot more of those" cases against companies, says Woolen.

Goodyear abandoned forced ranking last fall, and its suits are pending. (See " 'Suddenly I Became a Non-Performer,' " at left.)

Ford abandoned the practice and settled two class-action cases for about $10.5 million in 2001, saying it hadn't been thrilled with forced ranking anyway. "We made some changes a year and a half after it was launched; we basically got rid of the numbers" for the roughly 18,000 managers who had been ranked, says corporate news manager Anne Marie Gattari. "It didn't fit in with our culture. We felt that our managers needed more flexibility."

Forced ranking is not illegal per se, according to lawyers who track the issue. "It's not unlawful; it can become unlawful," says Bob Nobile, a partner at the Seyfarth Shaw law firm in New York. "It's just like developing an employment test," he says. "If you go through the process and get a good validated instrument, you can defend it."

If forced ranking has a disparate impact—the effect of putting a disproportionately large number of persons of a protected class in low categories—it can be held illegal, say Nobile and other experts. However, the picture is murkier when it comes to age. "There's a judicial school of thought that disparate impact shouldn't matter in age discrimination cases. It's something that people ought to watch," says James Fett of the Pinckney, Mich., law firm Fett & Linderman, who represented workers suing Ford.

Whenever a forced ranking system could have an unequal effect on any group of workers, he says, "you're asking for trouble—legally, and more importantly, in workforce morale and productivity."

"A better way of dealing with performers starts with an appraisal system that goes beyond simply measuring performance to exposing the causes of poor performance," says Lawler. "It encourages managers to work hard to find solutions other than dismissal."

But forced ranking advocates say companies that articulate clear goals and specific criteria for a forced ranking system, train assessors well, merge rankings with other HR metrics and reward top performers should not be deterred by the threat of suits or claims that the process is unfair.

Says Grote: "Certainly the process is discriminatory. It discriminates in favor of the talented and energetic and against the lazy and dull. But that form of discrimination is not yet illegal." HR

STEVE BATES IS SENIOR WRITER FOR *HR MAGAZINE*.

'Suddenly I Became A Non-Performer'

Jim Sykora, a 56-year-old career employee of Ohio-based Goodyear Tire & Rubber Co., says he had nothing but "good/effective" performance evaluations for decades until two rounds of forced ranking sent him and many other older workers out the door last year.

Sykora, a tire engineer who lives in Uniontown, Ohio, and is one of several people suing Goodyear for age discrimination, says he has obtained six domestic patents related to tire manufacture and so many international patents that "I can't even count them." But after forced ranking was imposed at the company, "suddenly I became a non-performer. I should have received coaching" if his work was considered substandard, he says.

Steven D. Bell, a lawyer in Cleveland with the Simon Law Firm who is representing former Goodyear workers in the case, says the age bias is clear and the cases are "going to wind up having a devastating effect on the company" through depressed morale of remaining employees.

Keith Price, a Goodyear spokesman, says the company is confident that it will win the cases. However, he notes that "after feedback and assessment over a couple of years," the company decided last year to cease labeling of workers as A, B or C and to rate them as "exceeds expectations, meets expectations or unsatisfactory."

Forced ranking "had the desired effects" of identifying top and bottom performers, Price states. And even after elimination of the letters and the implication that workers in the bottom 10 percent had to improve or leave, "you still have the situation where someone is performing unsatisfactorily. If you don't have improvement, you look at reassignment, or discharge is possible."

Still, when Goodyear told workers that it was abandoning the system—about the time that the suits were filed last fall—"people seemed receptive to the change."