

Forced Ranking: Making Performance Management Work

HBSWK Pub. Date: Nov 14, 2005

Forced ranking may be the electrified third rail of human resource management. In an excerpt from a new book, author Dick Grote makes the case for the controversial employee-evaluation system—at least on an interim basis.

by Dick Grote

Editor's note: Forced ranking systems direct managers to evaluate their employees' performance against other employees, rather than the more common (and often grade inflated) measure of evaluating performance against pre-determined standards. The result of such a process is often brutally blunt: The top 20 percent of performers are amply rewarded, and the bottom 10 percent are shown the door.

Supporters such as former GE Chairman Jack Welch argue that forced ranking creates a true meritocracy, while critics charge that a "rank and yank" approach is unfair to people performing at an acceptable level and creates an unhealthy cult-of-star culture.

The new book *Forced Ranking: Making Performance Management Work* agrees that the procedure is not right for all companies, nor something that should be done every year. But in the right company at the right time, says author Dick Grote, forced ranking creates a more productive workforce where top talent is appreciated, rewarded, and retained. This excerpt lays out the business case for forced ranking.

The business case for forced ranking

Forced ranking is the antidote to the problems of inflated rating and the failure to differentiate that many organizations have installed to help bring the truth into the performance management process.

By implementing a forced ranking procedure, organizations guarantee that managers will differentiate talent. While conventional performance appraisal systems may allow managers to inflate ratings and award Superior ratings to all, a forced ranking system ensures that distribution requirements will be met. Assuming that the system is wisely constructed and effectively executed, a forced ranking system can provide information that conventional performance appraisal systems can't.

But just ensuring differentiation, while valuable in itself, isn't the whole reason companies have gone to using forced ranking systems. Creating a forced ranking system forces a company to articulate the criteria that are required for success in the organization. GE, for example, has identified its four Es: the set of criteria it uses to rank its managers and executives: high energy level, the ability to energize others around common goals, the edge to make tough yes/no decisions, and the ability to consistently execute and deliver on promises. These criteria were determined over a period of several

years and were the result of serious deliberation. Other companies have settled on different criteria. Some have used nothing more than "Good results, good behavior." Whatever the criteria the organization decides on, the deliberations that senior managers engage in in determining these criteria help them to define and understand what they believe genuinely is important for success in the organization. The discussion of criteria often sparks significant, even boisterous, arguments about exactly what the measures and factors should be. There is value in this process even if no further action is taken. And simply knowing the criteria that senior executives use to assess talent increases the probability that organization members will alter their behavior in order to demonstrate more of the attributes that they now know will lead to success.

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Another important business outcome that is often unrecognized is forced ranking's ability to provide the organization with useful data on the ability of managers to spot and champion talent. In one company I worked with, one of its criteria for its forced ranking system was the ability to make tough decisions. In the course of briefing the senior executive team, I pointed out that one of the best sources of data would be the way that the vice presidents, their direct reports, went about making the forced ranking decisions during the sessions where they would all be together. Who is able to come up with telling examples of a subordinate's strengths and weaknesses? How well do various managers really understand the major strengths and development needs of their subordinates? A forced ranking procedure forces managers to think in far greater depth about the quality of talent in their unit than conventional performance appraisal systems typically require, and their ability to describe and verbalize their assessments provides a good indicator of a critical aspect of their leadership ability.

Another important reason for proceeding with a forced ranking procedure flows from the frustrations surrounding the conventional performance appraisal systems in many organizations, since forced ranking can provide an independent verification of performance appraisal data. If there are significant variations in the talent data provided by the performance appraisal system and the data provided by the forced ranking process, that conflict is worth delving in to. In addition, forced ranking can provide something of great value that even the best performance appraisal systems can't—accurate cross-department comparisons. As larger groups are evaluated, and with criteria that can be applied equally across a variety of jobs, a forced ranking process may permit more accurate cross-department comparisons.

The business environment today is making the rationale for developing forced ranking procedures more important than it has been for the past few years. After a several-year period of slower growth marked by major layoffs in several sectors of the economy, the "war for talent" seems to be heating up again. The impetus for identifying and actively acting to retain top talent is more important in an economy that now allows that top talent greater employment options than it has had for several years.

Can forced ranking actually improve the quality of the workforce?

Finally, the results of a major research project published in the First Quarter 2005 issue of the academic journal *Personnel Psychology* appear to answer in the affirmative the question of whether a forced ranking process will actually improve the overall quality of a workforce. An objection that has always been raised to forced ranking is that one of its fundamental principles is flawed—it is simply not possible to continually improve the overall potential of a workforce by systematically removing the bottom 10 percent every year and replacing them with better employees from the available applicant pool.

Professor Steven E. Scullen and his colleagues constructed a complex and sophisticated mathematical simulation of a multicompany, multiyear forced ranking process that they labeled "FDRS." FDRS is their acronym for a forced ranking system that they referred to as a "forced distribution rating system." For clarity's sake, I will use the term forced ranking for their FDRS acronym in quoting from their study.

In their model, one hundred companies of one hundred employees each over a thirty-year period identified the bottom 10 percent of their workforce every year, fired them, and then replaced them with the best available candidates from the applicant pool. In their simulation they controlled for the impact of voluntary turnover, the quality of the applicant pool, and the validity and reliability of the ranking assessments that were made. The basic question they asked was this: "Is it reasonable to expect that an organization would be able to improve the performance potential of its workforce by firing the workers judged to be performing most poorly and replacing them with its most promising applicants? If so, how much gain might be expected, and how quickly might that gain be achieved?"¹

Their answer: "Results suggest that a forced ranking system could lead to noticeable improvement in workforce potential, that most of the improvement should be expected to occur over the first several years, and that improvement is largely a function of the percentage of workers to be fired and the level of voluntary turnover."² They did not mince words in stating that the basic hypothesis underlying the forced ranking, rank-and-yank methodology is solid: "Results showed that a forced ranking system can improve workforce potential, in the sense that, on average, lower-potential workers can be identified and replaced by workers with higher potential."³

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They discovered that firing more poor performers provided greater benefit to the organization than releasing a smaller number: "In each case, however, results for 10 percent fired were superior to those for 5 percent fired."⁴ While they examined the relative importance of improving selection procedures and enhancing the quality of applicant pools in increasing the overall effectiveness of the workforce, they discovered that the best results were produced by getting rid of poorer performers: "It is interesting,

however, that firing poor (i.e., low-ranked) performers was the quickest route to improvement, and that reducing voluntary turnover soon became important as well."⁵

Many critics of forced ranking have acknowledged that while the procedure may in fact improve the overall quality of a company's workforce, it may do so at a steep price, producing adverse consequences in such areas as employee morale, teamwork and collaboration, the unwillingness of applicants to sign on with an employer who uses a forced ranking process, and shareholder perceptions. In their discussion of their findings, the researchers examined the possible effects of implementing a forced ranking procedure on all of these areas. They found that the potential problems were in every case balanced by equally compelling benefits. For example, while they acknowledged that there could be a detrimental effect on morale if retained employees saw no compelling differences between employees who were terminated and those who were not, or if unjust treatment of coworkers was observed, they also noted, "It is not clear, however, that employees in general would see a forced ranking system in that negative light. In fact, many employees might applaud the organization's decision to eliminate underperformers."⁶ Concerning teamwork, they commented, "As with employee morale, however, it could be argued that the effects on teamwork and collaboration might actually be positive."⁷

Discussing the effects of installing a forced ranking system on the perceptions of the labor market, they noted that job seekers develop beliefs about an organization's culture while they are seeking employment. If an employment candidate becomes aware that an employer uses a forced ranking system and feels that the culture might therefore be too stressful or risky, the applicant might eliminate that company from consideration, causing the possible loss of some high-potential applicants. "It is certainly possible, however, that other high-quality applicants would see such a system as one where their contributions would be recognized and rewarded. These people would be eager to work in this type of environment. Thus, it is possible that a forced ranking system would improve the overall quality of an organization's applicant pools."⁸

Finally, they considered the impact on shareholder perceptions. While acknowledging that shareholders might have reservations about the company's use of a forced ranking system, because of potential lawsuits or other negative consequences, "investors might see the implementation of a forced ranking system as a clear signal that management is committed to accountability and to operating at an efficient staffing level. Perceptions of this sort should have a positive effect on stock prices."⁹

Finally, for many years I have argued that for most companies, forced ranking systems should be used for only a few years and then, once the obvious and immediate benefits have been achieved, replaced with other talent management initiatives. While some companies have been successful in using their forced ranking system for decades, I find that most organizations are better served by implementing a forced ranking system as a short-term initiative. Scullen and his fellow researchers confirm that advice. Early in their article they lay out clearly the basic problem of using forced ranking on an ongoing basis: "Despite the allure of having a continually improving workforce, we argue that each time a company improves its workforce by replacing an employee with a new hire, it becomes

more difficult to do so again. That is, the better the workforce is, the more difficult it must be to hire applicants who are superior to the current employees who would be fired."¹⁰ Their mathematical simulation demonstrated that the greatest benefits came in the first 3.5 to 4.5 years after initiating a forced ranking system. They discovered that organizations got their best results immediately, in the first few years after implementing a forced ranking system: "The other outcome variable of interest is the rate at which workforce potential improved after the implementation of the forced ranking system. It is clear . . . that the bulk of the improvement in all scenarios was achieved during the first several years."¹¹ Their summary: "Results suggest that a forced ranking system of the type we simulated could improve the performance potential of the typical organization's workforce and that the great majority of improvement should be expected to occur during the first several years."¹²

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