

Forced Ranking in Performance Management

IT and Communications Sector Briefing

What is forced ranking?

Forced Ranking is a system of performance management where managers must identify a pre-determined proportion of its best and worst performers, regardless of how well or badly they are actually performing.

Why does it matter?

Forced ranking is often used to reward “top” performers with bonuses and development opportunities while firing the “worst” performers each year, or at least “managing them out of the business” or encouraging them to leave.

Forced ranking is a system of performance management which requires managers in an organisation to rank employees into a pre-determined statistical distribution of performance breakdown. This is alternatively called a 'rank and yank', 'up or out' at Accenture and 'differentiation' or a 'vitality curve' at GE. In its crudest form, the lowest category are then forced out and dismissed from the organisation each year.

Forced Ranking has been widespread in the USA, but now appears to be in decline due to the damage it has done to organisations and successful legal challenges arising from discrimination. Ironically, it appears to be attracting a lot of interest from employers in the UK at the moment.

In a typical Forced Ranking system, managers of every department have to compulsorily rank employees in a 20:70:10 ratio. The top 20 per cent are regarded as the high fliers to be retained at all costs, and the middle 70 per cent are the standard performers. At the bottom is a 10 per cent band regarded as under-performers who are forced to leave. This exercise must be followed every year. For example, even if a manager finds that all employees in their department have performed above par, they still follow the 20:70:10 ratio so that 10 per cent of the total staff are dismissed.

Another approach is that of a totem pole, ranking employees one on top of the other.

Background

Jack Welch, the former Chief Executive of US company GE introduced forced ranking of managers in the 1980s by requiring senior executives to decide every year which of their direct reports fell into each group, and weed out the bottom 10 per cent. This was effectively a redundancy selection process, but using performance as a way of avoiding the costs of redundancy. Welch said year after year, forcing managers to weed out their worst performers was the best antidote for bureaucracy.

As many as a third of US corporations have been using "forced ranking", according to some estimates. They included Enron, Microsoft, Ford, PepsiCo, Cisco and Sun Microsystems.

Enron, before imploding due to the actions of its own top performers, used a complicated system to "rank and yank" employees. The Enron connection could be one reason why this form of performance management seems to be falling out of favour in the US.

Another is a series of legal challenges brought by employees claiming they had been given low rankings because of their age rather than performance, amounting to age discrimination. Some US firms have now stopped using forced ranking altogether.

Ford settled a claim for \$10.6m in 2001 when employees fired under forced ranking system alleged age discrimination.

Motorola relied on forced ranking between 2001 and 2003 but has since discontinued using this performance management system.

UK Experience

A recent survey of 562 UK bosses by Hudson management consultancy found that

- more than three-quarters (77 per cent) believed sacking a fixed quota of underperforming staff every year would boost financial performance and productivity.
- Only 4 per cent currently do this, the rest being held back by worries about creating "a culture of fear" as well as the difficulty of replacing sacked staff.

A Henley Management College/Hay Group survey of 400 line managers in more than 200 organisations found that

- 45 per cent were expected to place predetermined quotas of their staff into different performance categories

Network Rail introduced forced ranking on the managers inherited from Railtrack to identify the "weakest performers" resulting in a 12 per cent cut in management in 2003.

Ranking has become widespread in government departments and other public bodies including the Department for Work and Pensions and the Treasury, as well as senior civil servants across Whitehall, who are assigned to one of a number of performance "tranches" every year. The claimed aim is to improve the quality of the performance management process, rather than to shed poor performers.

Line managers assess individuals' performance against agreed objectives, and compare this with that of colleagues in similar roles. Job holders are placed in one of three performance tranches - the top 25 per cent, the middle tranche of 65-70 per cent and the lowest tranche of 5-10 per cent; individual government departments are free to adopt distributions that differentiate further between different levels of performance. Pay and bonus payments are related to this.

As reported in the electronic newsletter 'Lean Manufacturing',⁵ IBM ended their 60-year "full employment practice" in the early 1990s when they adopted an employee ranking process. Management was directed to classify 10% of employees as "needing improvement". These employees were later targeted during IBM's first-ever involuntary layoffs in 2006. In 2008, IBM devised a Performance Business Commitment (PBC) system with ratings of 1 (highest) to 4 (lowest) to achieve an annual managed attrition rate of 3.5% by 2008. A presentation on this (and in particular slide 7) on this by the IBM Senior Vice President can be seen at http://www.endicottalliance.org/jrm2006hrwebcast_030206.pdf

Comments of Unite members in IBM

IBM1

"I have been on the receiving end of the PBC process, was PBC3 rated (arbitrarily in my opinion), was put on a PIP (Performance Improvement Plan) and was failed some months later. This resulted in a PBC4 rating and a warning letter and another PIP.

I appealed against the PIP failure and heard that I had been successful. The warning letter will be withdrawn but the appeal manager told me that he could not actually judge my performance so he has left it as PBC3, so he has reversed the failure but not passed me. It is left to my local management team to decide whether they will give me another PIP. Only another PIP would give me the chance of 'passing' and being "back on track". However I might still complete another PIP, reach the end and not fail but be left as a PBC3 because in my manager's opinion I have not improved sufficiently.

At the beginning of (date deleted for confidentiality purposes) he also plonked a termination notice on the table in front of me with the words "You're to leave before the (date deleted for confidentiality purposes)". He gave further encouragement by saying "Even if you pass the PIP you might still get a PBC3 rating at the end of the year", followed by "We've just had our half yearly assessment and you are in

the bottom 25% ". He would not of course have said "I am going to fail you, or you will be given a PBC3 rating" but the implication was there.

The agreement was incidentally dated the previous week and I was expected to sign it post dated. I took those papers with me but did nothing and did not react within their 3 week deadline."

IBM2

"I have been a victim of the rating culture pervading the company as I should have received according to my direct line manager a rating of 1 a couple of years ago but was not allowed to give me that rating due to the fact that my group was only allowed to give 1 rating of 1 out that year."

IBM3

I still believe that the process is inherently flawed and, based on my own case, would like the following to be passed to the union as I very strongly believe they should challenge the company on the whole way the PBC process is now being conducted.....

These are the areas I believe are flawed and warrant challenging:-

- I was not given any warning during year of the fact I was heading for a PBC 3 (in fact the only feedback I had was totally the opposite). This is a fundamental failing of the system. But, even if they were to give me that feedback, I am not sure it would be relevant as the PBC ratings are arrived at by comparison and a hierarchical grading across multiple teams **after the year end**, so how can they know in advance if you are heading for a PBC 3??
- The above mentioned ranking process has no transparency, making it impossible to challenge how any individual PBC rating is arrived at.
- The peer comparison and grading they do is not valid because one PBC grade i.e. 2, solid performer, has no mention of **"compared to your peers"** as do the other grades, so on that basis alone, anyone who is doing a satisfactory job should not be judged in comparison to peers.

HP in the UK has established suggested corporate distribution guidelines to support a high-performance culture. The company expects business units to adjust distributions from the suggested corporate distribution guidelines according to their business results: The company states that it does not have a corporate policy of forced distribution, although some in Unite question this.

Comments of Unite members in HP

HP1

In my own performance review, it was indicated to me that I had been placed in the "average" grading, because my manager had to place people to satisfy the "bell curve" that is part of the forced ranking. However, he implied that he felt that my grading should have been higher, and in fact I was given a bonus this year, which very few, if any, others on the "average" grading were. We heard through the grapevine that only people on the higher grades were supposed to be receiving any bonuses at all. In fact I know of one of my colleagues who was actually ranked in the grading above me, and received nothing by the way of bonus or pay rise this year.

HP2

I had an appraisal the year before last, and within the group I work in they was the 2nd highest performer - up the top of the bell curve. Then last year, although my performance actually exceeded that of the year before and the feedback was excellent, I was put on a Performance Improvement Plan - (completely unexpectedly, and with no actual reason given by management) found myself in the bottom of the bell curve.

HP3

I was told by management that although my performance was excellent, I was being marked down because there was 'a grading system' into which everyone has to be put. I have since left the company.

The Indian headquartered company TCS has 5 performance bands with distribution done at a business unit level. Employees who are ranked in the lowest category are given a performance improvement plan for 3 months. If there is not an improvement in performance after 3 months, there is what the company describes as a "parting of ways". The company has told Unite that it does not operate a forced ranking system.

In the former Xansa, since acquired by Steria, attempts to extend a version of forced ranking called Relative Ranking in some parts of the company where the union was well organised were foiled collectively by the threat of industrial action of Unite members:

Assurances were secured that:

- no one would go onto a personal improvement plan (PIP) because of Relative Ranking.
- The purpose of a PIP was to improve the performance of the employee such that they reach an acceptable level of performance. The purpose of a PIP was not to sack someone.

- An employee's Relative Ranking would only be visible to their leadership chain. If an employee applies for an internal post outside of their leadership chain, their Relative Ranking rating would not be visible for any job selection process.
- There was no intention to use Relative Ranking for redundancy selection criteria.
- Individuals could use the grievance procedure to challenge their Relative Ranking. If successful, the RR ranking would change accordingly.

The message from this is clear – a collective approach is essential. In fact, once acquired by Steria, the company dropped the ranking practice.

The case made for forced ranking

In a piece headed 'Why Employee Ranking Systems Lead To Disaster', the Wall Street Journal set out what it saw as the case for Forced Ranking systems.

"There are only a few arguments to support the use of rankings in any plausible way. The major argument appears to be that ranking employees versus each other creates a situation where competition can be encouraged-the assumption being that if staff compete with each other they will push each other to greater productivity.

The second argument is more administrative. Organizations that rely on merit assessments for decision-making on pay levels and promotions need to decide who will get what. Proponents of ranking systems suggest that rewards for productivity should go to the top performers as defined by comparison with their peers. So a ranking system allows organizations to decide to reward the "top 25%" or the "top 10%". On the surface this makes some sense. Given a limited pool of rewards, shouldn't the rewards go to the top performers in the organization?"¹

The case against forced ranking

1. The need for objective, transparent and measurable criteria

Any system to do with either redundancy selection, reward or performance management has to be

- objective
- transparent
- based on measurable criteria

Judging employees collectively assumes a level playing field that rarely exists. Managers in different parts of the organisation will set objectives that vary widely in terms of how difficult they are to achieve, and measurement is rarely standardised. An individual's ability to achieve their objectives is likely to be heavily influenced by factors outside their control.

Example

If two employees are told to improve their sales presentation skills, for example, one may be judged merely on how they were ranked in a training session, another on whether they delivered a predetermined number of live presentations and how the clients responded. Those are two different goals, and more importantly, two very different sets of measurement. One is a formalised training process, the other a live sales scenario.

The playing field is further distorted by market and geographic conditions. The relative performance of individuals operating within the same division can be affected by numerous regional factors. Expanded on a multinational scale and the differences are greater still. Those variables are necessarily taken into account by managers as they set objectives, bringing a degree of individual autonomy to a process that theoretically should be standardised.

2. Fairness

Forced ranking, by its very nature, means that some people end up at the bottom even though their performance may be perfectly satisfactory when judged in isolation. It is unfair and punitive, and becomes ever more so as the enforced performance distributions are cascaded down the organisation with smaller populations.

Continued employment may rest not on what people do in their own capacity, but on who supports them managerially and how well their manager can articulate and convey that support to their managers in turn.

3. Lack of evidence of contribution to improved performance

There is no objective evidence that forced ranking improves performance. A survey of more than 200 HR professionals by the Novations Group found that even though more than half of respondents worked in companies that used forced ranking, they reported a range of negative outcomes, including:

- reduced productivity
- reduced collaboration
- damage to morale
- damage to employee engagement

The FDA, the union for senior public servants says there is no objective evidence to say that the system outlined above is making any difference and the allocation of individuals to tranches often bears little relation to their actual performance levels.

4. Difficulty of successful appeals

It is virtually impossible to appeal successfully against assessment decisions.

According to the FDA:

"You are appealing not against your own performance assessment but against your assessment in relation to 20 other people's performance, so it's unchallengeable."

5. Subjectivity

An added problem in the civil service is that line managers' recommendations on tranche allocations have to be endorsed by departmental committees made up of people who don't necessarily have any first-hand knowledge of the individuals concerned or their performance. That introduces an enormous amount of subjectivity into an area that is already subjective according to the FDA.

6. Undermining of trust, teamwork and morale

The system feeds on favoritism, politics and undermines the building of strong relationships with those who are your direct competition for rankings and ultimately, jobs. The success of one employee is a lost opportunity for others, undermining and destroying teamwork, trust, and morale. Such systems may encourage hoarding of resources, withholding of information, reduction of team-work and helping others and generally self-centred and self-serving actions.

In addition, if new technology or competition emerges and there is a serious crisis, such companies are overwhelmed by the turn of events with few committed employees around to handle the situation.

According to the Wall Street Journal article quoted in reference (1),

"Because it is difficult to rank objectively, employees will almost always disagree with a ranking that places them anywhere but in the top percent in the organization. Employees often perceive the process as unfair and arbitrary. Research has shown that the large majority of people believe they are above average in job performance. Ranking guarantees disagreement."

Perhaps the most interesting comment is that of Edwards Deming, widely regarded as the inspiration behind Japanese management practices. He regarded performance rating as one of the seven Deadly Diseases of businesses.

*"Performance ratings build fear and leave people bitter, despondent, and beaten. The effects of these are devastating – teamwork is destroyed, rivalry is nurtured."*²

Example

"The rarely understood failing of these programs is the impact they have on the 70 percent in the middle.....

...Rank 10 employees in this scheme designating two stars, one bomb and seven Malcolms in the middle, and I guarantee you that out of those seven, at least three thought they should be a star. Among the four that are left, at least three were petrified that they would be labeled the non-performer. And of the two stars at the top, at least one of those feels undeserving, insecure and spends his time covering his butt, playing politics to stay on top and making other people look bad. Out of the 10, you have a happy superstar, soon to be promoted from

the group; a "suspect star" who becomes dysfunctional worrying about keeping his status; three angry folks that weren't picked and don't understand why; three more paranoid associates that just know next year will be their turn to get the axe and one poor soul soon to be dispatched. That leaves one guy who just comes to work every day, oblivious to the pressure, does his job, collects his pay and spends weekends pouring through back issues of 'Chip & Circuit World.' In other words, you just completely destroyed a team

Sedam, Scott, Rank and Yank: The curious legacy of Jack Welch

Most people do not feel they are working below standard or are poor performers. Even if someone knows they are having performance problems, they are unlikely to seek assistance or support if they feel that by doing so, it may make them more likely to be dismissed.

It is much more cost effective to diagnose why someone, especially someone with years of experience and expertise, is underperforming and to give that person a chance to correct and improve.

8. Diminishing returns

If forced ranking is repeated on an annual basis, in the long term the company could find that forced ranking is subject to the laws of diminishing returns. CIPD president Vicky Wright, a senior consultant at Watson Wyatt, points out that any organisation using this approach needs to have good processes for either dismissing underperformers or helping them to improve.

9. Impact on small teams and those made up of high performers

A common criticism of forced ranking is that by assuming a normal distribution curve, with a small number of people at the top and bottom and the majority in the middle, it penalises small teams or those made up mostly of high performers.

It may merely remove the 'worst of the best', rather than as espousers of ranking systems may suggest the 'worst', as the imperative is to fit the people to the system rather than the system to the population.

10. Impact on managers

Managers who are the rankers themselves are not always qualified to rank people in the first place. If there are a number of direct reports doing basically the same job, it is simpler. But what happens when there are numerous main job functions, half of which the manager is not familiar with, may not comprehend the full role of the job and could not do themselves?

According to one commentator³, many managers who are required to perform these rankings despise the process.

Another commentator⁴ cites horror stories of how employees abuse the forced ranking system. "Some managers hire low potential employees

from the start," he says. "I met a manager who hired someone he knew was not a top performer, but he needed to fill his quota of C-performers so he offered that employee up."

Managers may also – given that they are judged by the same system – game the system, for example by keeping employees around until the performance ranking period, to meet their quotas.

Under this system, the ultimate irony is that any manager who fails to identify people in the under-performing category will find themselves identified as a prime candidate for the axe.

Conclusion

Unite believes that if a company wants to use a performance management system then such a system should:

- include objectives agreed between manager and managed
- encourage open and honest feedback between employees at all levels
- nurture, support and encourage all employees to develop to the best of their potential
- be fair, open, transparent and encourage teamwork

A performance management system that reinforces a culture of involved and engaged employees can be a tremendous competitive advantage.

"While at least one-third of your competitors are alienating employees with some sort of dysfunctional ranking practice, you're creating a high-performance culture by leveraging your most valuable assets – the minds and hearts of your people."⁵

Perhaps the supreme indictment of the forced ranking system should be that any senior business leader or manager who hires, trains and develops people so poorly that every single year they need to fire 10 percent of them, is clearly failing in their own role and should be fired?

¹ Wall Street Journal; Why Employee Ranking Systems Lead To Disaster

² Mary Walton; "The Deming Management Method," Putnam Publishing, 1986.

³ Scott Sedam; Rank and Yank: The curious legacy of Jack Welch

⁴ Quoted in Gail Johnson; Forced Ranking: The Good, the Bad and the Ugly

⁵ Mark Edmondson; Lean Directions, The ABCs of Rank and Fire Management

Key points for Unite representatives

Individual

- ▶ Employers should act consistently.
- ▶ Employers should inform employees of the basis of the problem and give them an opportunity to put their case in response before any decisions are made.
- ▶ Employers should allow employees to be accompanied at any formal meeting
- ▶ Employers should allow an employee to appeal against any formal decision made.
- ▶ Any appeal should be dealt with impartially and by a manager who has not previously been involved in the case.
- ▶ Write up a record of every meeting and keep this away from the workplace
- ▶ If necessary, request a temporary or longer adjournment to take stock or provide a breathing space to review how any meeting is proceeding. Consideration should also be given to adjourning the meeting for any further investigation that may be necessary.
- ▶ If you need to appeal against a performance appraisal or assessment, seek representation through a Unite representative or at least be accompanied by someone who can take notes.

Collective

- ▶ Seek to obtain statistics on the distribution of performance rankings or ratings from the employer.

- ▶ If the employer refuses to provide this, consider use of
 - Disclosure of Information provisions under Sections 183-185 of the Trade Union and Labour Relations (Consolidation) Act 1992
 - ACAS Code of Practice on Disclosure of Information to Trade Unions for Collective Bargaining Purposes available at <http://www.acas.org.uk/CHttpHandler.ashx?id=273&p=0>
 - Right to make a claim for non-disclosure at the Central Arbitration Committee. Further information is available at <http://www.cac.gov.uk/CHttpHandler.ashx?id=1163&p=0>