Is forced ranking working for you?

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Yogesh is working in a multinational bank. After what he considered a good year (based on his mid term review with his boss) he decided to take a break with his family in October. Consequently, he missed the monthly review meeting where managers showcase their monthly achievements. On his return he found his boss's behaviour had changed. His boss who was apparently happy during the mid term review, was suddenly finding lot of faults with his work. Yogesh confided this to a close colleague who shared that in the October monthly review the CEO had announced that the forced ranking system would be rigorously implemented this year. Putting two and two together Yogesh concluded that this year he is likely to be one of the "victims" of the forced distribution system of performance management.

As the performance year comes to an end there is a frantic search in many Organisations. Senior managers are on the prowl - looking for the bottom x percent - the actual percentage vary depending on the Organisation. Employees get busy showcasing their achievements relative to their colleagues – nobody wants to be in the bottom x percent, and there is room for only a few in the top bracket.

So what is this forced ranking? Or what its detractors call the "rank and yank" system?

Forced ranking is a talent management tool in which performance levels of individuals are plotted along a bell curve. The premise is that performance is always relative. For an Organisation to remain competitive the bottom performers needs to either significantly improve their performance or be "weeded out" of the Organisation. This is, after all, the law of evolution- survival of the fittest.

Forced ranking has been defined as "A workforce-management tool based on the premise that in order to develop and thrive, a corporation must identify its best and worst performers, then nurture the former and rehabilitate and/or discard the latter."
(Meisler, A., "Dead Man's Curve," Workforce Management, July 2003.)

Ever since Jack Welch who introduced it in GE popularized it, some of the most well known corporate names have jumped into this bandwagon, reportedly including ConocoPhillips, Hewlett-Packard, Intel, Microsoft and, ..well..Enron. This concept has been popularized by authors (Refer to Forced Ranking: Making Performance Management Work by Dick Grote.), and some of the leading global consulting companies.

Proponents of forced ranking list many advantages. It enables Organisations to identify its real high performers, recognises that performance of individual employees is not equal, forces managers to give performance feedback, particularly to the top and bottom performers, enables the Organisation to budget its compensation increases, and sends a clear signal to employees that the Organisation is serious about performance. Indeed, weeding out the bottom x percent is, according to some, an effective way of rejuvenating the Organisation. No wonder Jack Welch calls the forced distribution curve the "vitality curve".

The above is, however, only one side of the story. There is no clear evidence that forced ranking has really worked for other Organisations like it has worked for GE. Even in GE what proportion of their success is due to forced ranking, and what percentage due to their obsession with competency development, process orientation, risk taking ability, speed and internal review mechanisms?

One story from my days as a Total Quality Management (with its emphasis on Management by Facts) comes to mind. Flight instructors in the Israeli Air Force had learned from experience that reprimanding student pilots when their performance was poor almost always led to improved performance. On the other hand, complimenting good performance led to deterioration of the student's performance. A psychologist who studied this phenomenon for a year eventually discovered that both students and instructors were inadvertently responding to variation. When performance is at the high point in a system of common cause variation, performance cannot help but get worse. Similarly, performance at the low point cannot help but get better. And when does a manager compliment or reprimand? The flight instructors' reprimands for poor performance were the equivalent of superstition. Results are attributed to actions that, in fact, have no influence on the outcome.

So is GE’s success due to forced ranking or inspite of it? I do not have the answer. However, we do have some data.

Jeffrey Pfeffer and Robert Sutton in a HBR article (Evidence Based Management-January 2006) quotes a survey of more than 200 HR professionals from companies with more than 2500 employees reporting that forced ranking has consequences such as lower productivity, inequity, damage to morale, and mistrust in leadership. A study was sponsored by Novations Group Inc. and conducted by Equation Research in June 2004. The objectives were to ascertain the frequency of use, effectiveness, and impact of forced ranking performance management systems. The research documents indicate (from a sizable proportion of respondents) that forced ranking results in:

- Lower productivity
- Detrimental bottom-line impact
- Inequity and skepticism
- Negative effects on employee engagement

It is reported that several well-respected corporations, such as Ford, Xerox and PepsiCo, have tried and rejected forced ranking at some point.

The Indian experience?

I am yet to come across an Organisation which seems to have figured out how to make its forced ranking process work in the minds of all critical stakeholders, particularly management and employees.

Resistance to forced ranking:

One key challenge faced is the resistance from managers.

A large part of the resistance comes from senior and middle managers who have to implement the system and give feedback to their team members. And there are good reasons for this.

With the Indian economy growing well, most sectors are growing faster than ever. Talent shortage has given way to employee shortage as getting even employees with average competencies has become difficult. Employee turnovers in growing sectors like retail, telecom, IT, ITES, engineering, infrastructure …are at an all time high. Getting replacements is proving to be difficult. Under the circumstances few managers want to drive home relative non-performance, particularly when you do not want to lose the employee.

Many Organisations, particularly in manufacturing, have gone through previous cycles of downsizing and managers believe that forced ranking is now not just about reducing the flab. The muscles and bones are being impacted too. "How am I supposed to build employee engagement and a high performing team if I have to spend a significant time forcing people to accept that they are C category players?", asks an exasperated manager. "In any case with the current pressure on performance a non performer will not last long in my team," the same manager adds. What irks managers is that while they are being asked to deliver performance the tools they can use are often not in their hands.

" In my team which is a client facing team in US there is no one who is not pulling his weight. I had one case last year who left on his own after my feedback. Sure there are some who can do better and they will get lower bonuses and increments. They will also take a longer time to move to the next higher role. I have been trying hard to motivate them throughout the year and there have been some improvements in a few. All my efforts are going to go waste when I tell them categorically at the end of the performance year that they are in the bottom ten per cent. How can the same yardstick be applied to my team which is client facing and comprised of high performers as is being applied to say a team doing routine maintenance work in India?" The team leader of the routine maintenance team in India was unhappy because last year his quota of top performance ratings was reduced because the client facing teams had exceeded their quota. "It is easier for them to justify more numbers in the top performance bracket as per forced ranking. They are in the senior management's radar. We get noticed only if things go wrong. Given this situation most of my team members would like to move to client facing roles," he said.

In fact in Organisation after Organisation managers talk about this "quota system" as the single biggest employee demotivator. No matter how much top management tries to explain that in practice the “quota” is not rigid, managers keep referring to the “quota system” to explain why they are not able to engage more number of employees.

One key complaint that managers have is the impact of forced ranking on employee engagement. They feel that this system reduces the level of trust that an employee has on his manager. This is what an employee had to say. “This has been a good year for the Organisation. We exceeded our budget by a large margin. Most of my team members achieved their targets in their key result areas. However, as per the forced ranking scale only a few could be given high bonuses,” says one manager. Employees, particularly those who achieve their targets find it difficult to understand why they are not being paid more bonuses when the Organisation is making record profits. “Last year I was in the bottom 10 percent. While I was not convinced of the reasons, I did take up my areas of improvements seriously. Not only did I work on my development plan, I kept my boss informed about the extra effort I was putting in. I was shocked when my boss said that though I have shown some improvements my forced ranking rating was still in the bottom segment. He explained that it is not about how I performed but about relative performance. My boss could not look at me in my eyes while saying this. I got the impression that his hands are tied in this system. This is a system where you can never be sure of scoring because the goal post keeps shifting. You are powerless. You can only argue about what you have achieved. How can you argue about your relative achievement vis-a- vis your colleagues? You have to constantly manage impressions to show that you are one up on your peers. At the end of the day your future is dependent on how well your boss can advocate for you in the talent review meeting.”

Managers, including HR managers give anecdotal evidence of how the forced ranking system negatively impacts team work, creativity and risk taking. In an Organisation known for their publicly proclaimed list of high fliers, a business head refused to continue an initiative launched by his predecessor because the credit for that has already been given to his predecessor. To continue to be in this year’s list he has to search for new initiatives that he can launch. And these new initiatives should be in line of pilot projects where the chances of failure is less.

Perhaps a more philosophical case against forced ranking is that at the end of the day it reduces people to statistics. Normal distribution curve is an elegant concept in statistics. There is no evidence that forcing people to fit into the curve helps them to improve. One proven powerful concept in social sciences is that of the Pygmalion effect or the power of high expectations. When we look back at the people who inspired us to give our best, chances are these are people who believed in our potential, trusted us and clearly communicated their high expectations. Not people who tried to fit us into statistical boxes. Once branded as a bottom 10 per cent performer, the self-image and confidence of the person is likely to be shattered – two things required to take responsibility for change.

The other side of the story- why Organisations cannot do without forced ranking:

So why would intelligent people go in for forced ranking inspite of all its shortcomings?

There are seemingly good reasons.

1. It simplifies performance appraisal

In many Organisations getting people to complete the performance review process is a seemingly uphill task. Right from the CEO downwards managers have not spent time on clarifying expectations, making performance observations, providing coaching and feedback. But that does not stop them from having an opinion about an employee's performance. The forced ranking process is an effective way of understanding relative performance and using this understanding to effect compensation decisions.

2. It makes it easier to budget for compensation increases

When we know how many people will be in what level of performance rating in the beginning of the year instead of waiting till the end of the year, it is easier to budget for the same. Employee costs are now a significant part of the total costs, especially in service industries and forced ranking enables Organisations to keep this cost under better control.

3. It forces managers to differentiate on the basis of performers

Many writers and consultants have argued that Organisations which does not differentiate sharply between their high performers and others are at risk of losing their high performers. By different accounts a star performer can be 2 to 8 times more productive (effective) than an average performer. Competitive advantage is all about retaining this category. Forced ranking enables the limited compensation budget to be channelised towards retention of top talent. In my experience at least in manufacturing Organisations I have been told by several HR Heads that though the average performers complain a lot about forced ranking they seldom leave the company.

4. It avoids the general tendency for rating creep

Without the discipline of forced ranking managers tend to give higher ratings to people. On an average employees may have a higher perception of their performance. One study of a number of occupational groups and found that people tend to rate their performance higher than does management. Specifically, the study found that over 95 percent of his respondents rated their performance above average; and 68 percent thought they were in the top 25 percent in performance. Even in Organisation with forced rankings various department heads tend to give more number of people higher ratings and less number lower ratings than what the system allows.

5. It forces managers to handle poor performers

Unlike other system of performance appraisal in forced ranking non-performers cannot "slink away" into the background. Jack Welch, ex CEO of GE defines an Organisation with Integrity as one where the manager looks into the eye of the employee and gives him feedback.

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Is there a better way of managing performance?

It is not that organizations do not recognize the limitations of forced ranking. They do not know of any better way. Is there a better way of managing performance?

First, get rid of the fads, half-truths, consultant speak and bestsellers and focus on hard facts. Articulate what your performance management system is tasked to deliver and ask yourself is it doing so. How are you measuring it?

If managers do not complete the process of performance management well forced ranking is not a substitute. One large organization spent millions of rupees to train all its employees on the new performance management system. The CEO's personal message was played in all sessions. Unfortunately, the CEO showed no sign of completing the performance appraisal of his team in time. The message was clear.

Old-fashioned credibility of management is not a dead concept. If managers were to communicate their performance expectations clearly, review and coach their team members well, there would be no surprises in final rating. A performance distribution will still emerge, even if it is not a normal or a forced distribution. Organizations which have been successful in institutionalizing one on one coaching meetings between manager and team members have reported a positive correlation not only with employee retention, but also the employee's ability to take negative ratings and performance feedback well. My personal experience supports this as well.

Some organizations have communicated to employees that it is their right to ask for the above. Employees in these organizations are learning to co-manage this process of performance development rather than waiting for the boss to initiate and conclude the process. All managers of a large Indian multinational have been exposed to performance coaching. Managers who went through a Train the Trainer are cascading it to their team members. In these programs team members get an opportunity to ask their managers about how they will be coached and what the manager's expectation from them is.

All the above cannot wish away the core issue in employee's mind of "quota" in performance ratings. Some organizations have now communicated that they are not implementing forced ranking. However, there will be moderation of ratings to make sure that the ratings are in line with the overall organization performance. Personnel day or Talent Review days in organization focus a lot on ensuring that there is justice done to employees who are rated low. Rather than wait till end of performance year, some organizations have started reviewing the goals of employees during the year to ensure that they are sufficiently stretched, and are in line with the business strategy. A leading company in the IT industry is spending considerable time educating managers on the importance of performance expectation sharing, performance observation, diagnosis of performance, development plan and feedback. If performance goals are linked to Organisation goals with processes like hoshin kanri or policy deployment, and, Organisation structure and manning levels are appropriate, forced ranking is not essential for deciding performance ratings. Individual managers can be given some flexibility in variable compensation (within budget) and should be held fully accountable for employee retention. Most managers are smart enough to know how to use tangible and intangible methods to retain their employees, particularly their key talent. A manufacturing Organisation organized Employee Engagement workshops for all of their senior managers to sensitise them about their role in employee engagement and move them away from the disempowered “quota” mindset where managers blamed the forced ranking process and refused to take responsibility for engaging employees.

Many organizations in fast growing sectors like IT are not convinced if forced ranking will work for them. Organizations are trying to tighten their recruitment processes so that there will be fewer cases of non- performers. In any case, pressure of performance being high non- performers are counseled throughout the year and many leave if they are not able to take the pressure or perform. A leading IT company recently announced two sets of employee turnover figures- voluntary and performance related exits.

One organization in Electrical Engineering industry has linked its variable pay to achievement of variable pay goals. Employees get this money if they achieve their goals, regardless of where they might be in a forced ranking curve. In the last three years they have been able to budget this money and pay out the same. Helped by a growing economy they have exceeded their budget in all the years, so ability to pay has not been a problem. A diversified conglomerate has limited itself to specifying the principles of performance linkage with pay while allowing each business to define the level of pay differentiation. They recognize that each business has different pressures on talent acquisition and retention and one shoe may not fit all. An IT consulting company has implemented forced ranking in their leadership and competency development process which is based on a 360 feedback. They found employees were more willing to accept forced ranking if they know that it is for development. It helps that this company attaches senior managers as coaches and has a track record of helping 70 per cent of employees successfully achieve their development goals.

One thing common about all successful stories in performance management is the role modeling of senior management and emphasis on employee communication. A successful IT company which hopes to do what industry leaders like Infosys did in much lesser time is known for the credibility of its senior management. The performance goals and review of the CEO is in the intranet! This is a far cry from many Organizations where the performance management process is seemingly not applicable to the CEO, as long as he manages his Board.

Like any idea taken to its extreme, differentiation of top talent taken to its extreme fails. In fact, Jeffrey Pfeffer and Robert I. Sutton, professors of Stanford in their book “Hard Facts, dangerous half truths and total nonsense” argues that claims of managing an Organization’s performance by differentiating the top 10 per cent employees is rooted in a set of assumptions and empirical evidence that are “incomplete, misleading, and downright wrong.” Average profiles with large degree of pride can produce extraordinary results. The performance of organizations like Gujarat Cooperative Milk Marketing

Federation or Nirma was based perhaps more on their ability to inspire superior performance from average talent.

What some organizations are doing successfully is not losing sight of the vast majority of the solid citizens. While top talent (sometimes based on forced ranking and other methods) is tracked for career enhancing experience, contribution of solid citizens is recognized on achievement of their goals, not on basis of forced ranking. Business heads are being involved on how to spread the budget (which in turn is linked to company performance.) Business heads are spending considerable time educating managers on the necessity for a budget and the flexibility they have in using this budget to retain top talent, while upholding principle of pay for performance.

For long HR and organizations have been hostages to the concept of forced ranking. It might be the time to go back to basics. Organizations exist for a purpose. How they perform determine how employees can be rewarded. Rewards should be linked to performance. Performance is assessed based on how one performs against goals or clear expectations. While variable pay is normally linked to performance, performance is not the only factor in deciding all rewards – increments, promotions etc. All of this may still lead to a ranking (Who are the top contenders for a promotion?). To what extent it is “forced” will depend on the ability of organizations to involve its managers and their willingness to see what works for them.

Even Dick Grote, the unabashed proponent of forced ranking has this to say, “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.”

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