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COMPARATIVE PERFORMANCE APPRAISAL METHODS—FORCED RANKING

Performance Management Series Part I

By Leslie A. Weatherly, SPHR, HR Content Expert

Definition

Forced ranking is a comparative performance appraisal method. This means that the appraiser compares the performance of each employee to be evaluated in relative terms to the contributions of other employees. This method is different from performance appraisal methods that require the evaluator to differentiate performance in absolute terms (i.e., compare performance to pre-established objective standards that are qualitative or quantitative in nature).

The Performance Appraisal Process

Performance appraisals will and can impact a host of critical human resource delivery systems and must be viewed within the context of the total performance management process. Based on their design, performance appraisals have the potential to influence career progression, succession planning, organizational training and development, retention, total compensation and other key human capital asset investment programs.

Background

As interest in forced-ranking systems has grown, so too has the controversy surrounding this performance appraisal method. Jack Welch, General Electric's former CEO, an enthusiastic supporter of forced ranking, has made this approach to performance management famous. His description of General Electric's "vitality ratings" is legendary, as shown in Figure 1. GE's success and profitability have managed to garner the interest of organizations, large and small, across the country. As a result, many companies are anxious to follow suit and reap the substantial rewards touted by GE from this highly publicized system. For companies interested in building a high-performing culture, rank-ing has become an everyday practice. Fortune estimates that a quarter of Fortune 500 companies have instituted forced-ranking programs in some form within their organizations. It is also important to note that several well-respected corporations have tried and rejected forced ranking due to charges of discrimination and subsequent lawsuits. The challenge for HR practice leaders then is to determine if the potential organizational benefits are substantive enough for them to pursue forced ranking as a performance appraisal process, or if the warning flares in relation to compliance and equity issues are sufficient enough for them to investigate a less controversial alternative to performance management.

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Figure 1 Jack Welch's description of GE's "vitality ratings"

[illegible]

The Debate

There are a considerable number of compelling arguments both in favor and against forced ranking. These arguments should be given careful thought and consideration before a decision is made, pro or con, in relation to forced ranking in your organization.

Arguments against forced ranking:

- *The statistics cannot be supported*-This theory is premised on a normal bell-shaped curve, as shown in Figure 2. Normal distributions consistently occur only when they involve random events and a large sample. A large sample for statistical purposes does not mean 10, 20, 50 or even 100, but rather hundreds or even thousands of individuals. Few teams or departments have this many employees and they rarely place them randomly (one would hope) when they do. For example, each individual is specifically recruited, selected and undergoes training for his or her particular position, and is expected to meet certain duties and responsibilities on behalf of the organization which are typically outlined in a position description.

- *The system invites legal challenges*-Quota systems, a hallmark of the majority of forced-ranking systems, are difficult to defend. Some departments may consist almost entirely of above-aver-age performers, while other departments may consist of employees with a wide range of performance patterns. A forced-ranking system will require each of these departments, regardless of employee performance or size, to still identify 10% of its population for elimination each year. This can lead to charges of unfair treatment, particularly by individuals who are part of a protected group because of their age, gender or ethnicity, who are fired because of their performance. In other words, if the company cannot prove that its performance appraisal system is able to accurately identify poor performance, it will in all likelihood lose its case in court. The system may also result in situations having a different and more inhibiting effect on women and minority groups (i.e., charges of adverse, or even disparate impact).

- *Adverse impact on teamwork*-Because a forced-ranking system can cause an unhealthy competition among peers who are competing with one another for ratings, especially those who are close to the bottom end of the ranking spectrum, a high level of fear and selfishness can exist in the workplace. As a result, co-workers are much less tolerant of each other, less likely to share information, train or help one another, and/or operate as an effective team.

- *Increased cost of turnover*-Turnover, whether forced or voluntary, is expensive. In fact, conservative estimates place the cost of turnover at one year's salary of the replaced employee. Bearing in mind that the new employee may be no better or only slightly better than the employee replaced, all the company has done is set in motion an expensive recycling process by dismissing its "lower 10%." In the worse case scenario, the incoming employee may even be less effective than the individual replaced.

- *Decreased focus on employee growth and development*- Employee growth and development opportunities are normally showered on the top 10 to 15%. The focus for employees in mid-level ranking categories tends to be on ensuring that they do not ultimately cycle down to the bottom 10% and become an organizational statistic.

- *Damage to employee morale*-If the cycle is to continue year after year, it is reasonable for employees to assume that it is only a matter of time before they too become an "at risk employee," (i.e., those who were previously identified as satisfactory become the new targets for elimination).

- *Ethics of forced-ranking system*-Finally, there are some detractors of forced-ranking systems who argue that rankings are not even performance appraisals. This is because appraisals in their correct form do not rank people, but instead compare the performance of an individual against the expectations of performance by that individual. The worst flaw of rankings, however, is that forced judgments are required, and forced judgments, because they are forced, will always have an arbitrary and unfair element to them. In many cases, "rank and yank" discussions are held in an informal manner with little more than post-it notes that have been "rank ordered" with employee names as the documentation.

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• *Reward practices and performance management system effectiveness*: It has become standard practice for organizations to establish a performance reward system that attracts, retains and motivates employees to achieve organizational goals. The system is more effective when there is a clear connection between the performance management system and the reward system of the organization. Recent research which compares those organizations that use forced distribution techniques in their appraisals and those that do not led to the conclusion that forced distribution systems were associated with lower organizational effectiveness. This study was conducted based on questionnaire data from 55 Fortune 500 companies on their performance management practices.[2]

• *Focus on high performance*: It is essential that an organization's performance appraisal system effectively differentiates performance gradations between employees. Companies are more likely to achieve the results they desire when they are conscientious about assessing the talent of their employees fairly and objectively in accordance with clearly defined standards of performance and/or in terms of relative contribution (i.e., essentially compared to the contribution of others). For this reason, the best performance management systems are designed around organizational business strategies with plans for managing and organizing work and rewarding top performers. Although forced distribution of ratings is controversial, research indicates that people (co-workers) generally agree on those employees who fall in the top and bottom performance groups. Reward systems that offer significant incentives to top performers reap the highest return on investment for employers. Conversely, these same systems are designed to require improvement or termination on the part of poor performers.[3]

• *Maintaining system effectiveness*: Research in the area of procedural justice suggests the fundamental criterion for all actions and decisions concerning employee performance, including the use of employee ratings, should be the fairness criterion. A significant indicator of performance appraisal system effectiveness is the quality of the standards used to appraise the job performance of the employees. The standards should be specific, realistic, dynamic and consistent with organizational goals; qualitative and/or quantitative measures should be assigned when feasible to do so. Although it is recognized that "rating inflation" can become a serious problem with perform-ance appraisal systems over time in some instances, an employer can take certain steps to control this phenomenon. For example, a rater tracking system should be established to monitor the overall effectiveness of the system and to check for rater bias. It should be noted that the "shortcomings" of one approach used to inhibit rating inflation, a *forced distribution rating technique*, was considered sufficiently compelling that the Civil Service Reform Act of 1978 includes the following statement: "An appraisal system must not include any controls, such as the requirement to rate on a bell curve, that prevents fair appraisals of performance in relation to the performance standards."[4]

In Brief

An organization's performance management process represents an essential element of its overall human capital value system and one of the most effective tools it has to influence personal behavior within the framework of the culture of the organization. As out-lined in the preceding paragraphs, there are proponents and opponents to forced ranking. Both sides feel very strongly about this system, either negatively or positively. In the event forced ranking surfaces for serious consideration, the HR practice leader will be expected to present both sides of the debate to the other senior members of management and should ultimately be prepared to make recommendations based on cultural fit. Issues related to parity, liability, whether the statistics can be supported (i.e., risk factors) in addition to factors related to the culture, ethics and overall performance of the organization within the context of the performance management system will need to be weighed thoughtfully by the senior management team before proceeding. It is recommended that outside expertise with the implementation of such a system be sought, to include advice from legal counsel.

Footnotes

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1 Vu,O. (2003). Marking staff on a bell curve. HR Canadian Reporter, 16, 13, 7.

2 Lawler, E. (2003). Reward practices and performance management system effectiveness. Organizational Dynamics, 32,4,396-404.

3 Risher, H. (2003). Refocusing performance management for high performance. Compensation & Benefits Review, September/October, 20-30.

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REPORT

PROS AND CONS OF FORCED RANKING AND OTHER RELATIVE PERFORMANCE RANKING SYSTEMS

Camille A. Olson
Gregory M. Davis

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Introduction

The most well-known form of relative performance ranking is forced ranking. Although forced ranking is a hot topic in upper-management circles, its promise of consistently increasing employee performance can fall tragically short and actually result in tremendous losses in terms of legal and employee morale costs. The purpose of this white paper is to introduce several different forms of relative performance ranking (of which forced ranking is only one) and to provide a balanced analysis of the pros and cons of each approach. Although successful implementation of a relative performance ranking system requires a profound understanding of the target company's processes and culture, we hope to provide the human resources professional with the basic tools to determine whether ranking can enhance the efficacy of their performance management system. This article concludes with a *recommended approach* toward relative performance ranking that is sufficiently malleable to fit most performance management environments.

What is Relative Performance Ranking?

Relative performance ranking describes any system or procedure in which individuals are ranked against one another based on performance.

The types of ranking systems used are diverse and include, but are not limited to:

- Giving employees pre-established performance ratings using a defined or "forced" distribution following a bell curve (e.g., 20 percent rated "most effective," 70 percent rated "effective" and 10 percent rated "needs *improvement*"). *This is the type of* system advocated by GE's former CEO, Jack Welch.

- Ranking all employees in a particular work group from best to worst—a "totem pole" approach.

- Placing employees in a work group into one of four quartiles or cells based on a fixed distribution (e.g., 25 percent per cell) and then ranking them further within each cell.

The label "forced ranking" is often used by employment professionals and the press to refer to all such ranking systems. However, "forced ranking," as we use the term in this paper, more properly describes a system, like that adopted by GE, where employees must be ranked in accordance with a forced or fixed-percentage distribution.

A Surge in Popularity Among Business Leaders

Some form of relative performance ranking is currently practiced in about 20 percent of businesses, including some of America's most respected corporations.[1] The popularity of forced ranking is on the rise for several reasons. In a tighter economy, there is less tolerance for inefficiencies and under-performance among business leaders and on Wall Street. Organizations must be able to quickly identify, retain and get the most from their top performers, and at the same time, identify and either develop or remove low performers if they want to be industry leaders.[2] As a result, performance review systems have come under greater scrutiny.

The dramatic number of RIFs over the past year has heightened the need for better performance data. Many businesses faced with having to reduce their work forces in 2001 and 2002 found that their performance review systems had not been appropriately managed, which led to dramatically inflated performance reviews and the creation of an "entitlement" mentality across work groups and entire organizations. These reviews are useless in identifying the lowest performers (and, as may become

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necessary, in defending layoff decisions). As a result, human resources and legal staffs spent a great deal of valuable time trying to develop criteria and gather data on which to base their layoff decisions, when this data could and should have been readily available.

At the other end of the spectrum, employee satisfaction surveys have revealed that many top performers feel unrecognized and inadequately distinguished from peers who are not performing at similarly high levels. A Hay *Employee Attitudes Survey* conducted at 335 companies worldwide found that 32 percent of employees agreed that poor performance is tolerated in their companies.[3] Thus, a poorly managed performance review system has the additional harmful impact of jeopardizing the motivation and retention of top performers.

All of these factors have contributed to a climate of frustration around performance management. Within this climate, Jack Welch has been conspicuous in the press, championing the forced ranking system at GE. Not surprisingly, the combination of these variables has led to a small explosion of interest in forced ranking. However, for the reasons discussed more fully below, forced ranking is not necessarily a solution to this frustration.

The Pros and Cons of Employee Ranking and Forced Ranking

Advantages

Any method of ranking employees as part of a performance management system, if properly implemented, has significant potential advantages. Typically, in a traditional individual performance appraisal system, managers assign a rating to the employees (e.g., a numerical rating like 1 to 5). Many companies have found that these ratings are inflated with a disproportionate percentage at the highest levels. For example, before Ford implemented its forced ranking system, 98 percent of its management employees were routinely ranked as "fully meeting expectations" under its former appraisal system. Inflated performance reviews are generally a product of one or a combination of the following: (a) cultures that are overly polite and avoid the potential conflict created by low performance ratings; (b) managers and supervisors who are inadequately trained on scoring systems and delivering tough messages to under-performers; (c) managers and supervisors who devote little time to their performance management systems because of beliefs that the systems are overly abstract and too distant from the business goals; and (d) upper-level managers "rubber-stamping" the performance reviews prepared by lower-level managers.

When a group of supervisors or managers are required to collaborate and rank all of their employees, they often find inconsistencies between employees' rank and their performance ratings. That is, if an individual's rating would place the employee among the highest-rated employees, but the employee's ranking puts him or her towards the bottom of the group, the probability of an inflated rating is exposed. Through this process, the managers who are doing their jobs as far as performance evaluation police the ones who are not.

The rigor of the ranking process helps overcome the problem of managers who are unable or unwilling to identify and deal with poor performers. Ranking provides upper-level managers a means to determine which lower-level managers/supervisors are most and least effective in accurately evaluating employee performance. For example, ranking can expose those managers who give inflated reviews who, in turn, can then be retrained.

Ranking employees across a large work group or business unit promotes more uniformity in the evaluation process. Because ranking helps identify the organization's top performers, the ranking process can help an organization determine the competencies that make successful employees at the organization (i.e., what the organization values most in its employees), and use that information to modify or refine its performance review criteria.

Moreover, ranking helps ensure a fairer distribution of pay and other rewards across the entire organization based on relative performance. Using a forced ranking system for pay distribution, i.e., requiring a fixed percentage at the top and bottom, ensures that the organization will have more money for the top performers and that poor performers are not over-rewarded. Following the GE model and terminating a fixed percentage of low-ranked employees theoretically leads to a progressively higher performing work force.

Disadvantages

Most of the potential disadvantages to ranking arise when an employer adopts a forced distribution ranking approach, i.e., a process that forces a fixed percentage of employees into each performance level, particularly at lower levels (e.g., requiring 10 percent to be given "needs improvement" ratings and 5 percent to be given "unacceptable" ratings). Low-rated employees will feel that they were arbitrarily given low ratings to satisfy the forced distribution. This problem is particularly acute where the forced distribution causes an employee's rating to drop from the rating he or she received under the previous system. If the objective is to eliminate a fixed percentage of the work force, employees will feel increasingly insecure about their employment. Even if that is not the objective, employees will feel increasingly insecure because of misperceptions arising from the adverse publicity surrounding "forced ranking." All of this will lead to an increased risk of lawsuits by those who feel that they have been treated unfairly.

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In addition to negative feelings among employees, managers who refuse to believe that they have 10 percent who fit "needs

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improvement" and 5 percent who fit "unacceptable" will resist the process. Or managers will hide behind the performance distribution guidelines. We have heard reports that when these managers are asked by employees why they received low ratings, the managers often tell the employees that the forced distribution made them give the low rating. The managers also often make remarks that the "system is not fair" with the result that everyone blames the system and litigation results. Thus, as discussed more fully below, there are significant cultural and legal challenges to using forced distribution ranking.

Furthermore, if forced ranking is used primarily for pay distribution purposes (and not to eliminate employees), employers will likely have to deal with possible inconsistency between employees' ratings and their rankings for purposes of determining pay. For example, an employee in a high-performing work group may receive an average performance rating, but be ranked at the bottom of his or her group and, thus, receive an insignificant or no pay increase. Additionally, some organizations have suffered from tying their ranking system too rigidly to compensation. When no discretion is left to managers, there is no way to distinguish between an employee who is ranked in the middle but is on the rise from another employee who is an average performer and shows little potential for advancement.[4]

Risks of Forced Ranking

The most risky type of ranking system is forced distribution ranking. As it has been more widely used in the corporate workplace, cultural, legal and implementation problems have emerged. The legal issues are at the forefront of concern for most businesses, particularly as employee reaction in the form of class action suits has dominated press coverage.

Legal Risks

Because forced ranking has a widely shared negative connotation, an organization that implements a forced ranking program—particularly if it is labeled "forced ranking" or looks like the GE model—can expect litigation. In an organization or work group that has a history of giving inflated reviews, we have seen that it is primarily long-tenured, older employees who have been given average reviews in the past, who receive the lower rankings. Those employees typically feel that they were "forced" by the system into lower rankings and believe that they are being pushed out of the company. These are the employees who file lawsuits, both individually and on a class-wide basis. And given the typical age demographic of those who receive the low rankings, companies that adopt a forced ranking system are most vulnerable to claims of age discrimination. There also have been accusations, for example in the Ford litigation, that forced ranking can have a disparate impact on minorities and females.

If an organization complements its traditional performance review process with a forced ranking component, it is very important to analyze each and every situation in which an employee drops from an average-level rating to a lower rating. As these are the situations that are likely to be challenged legally, senior managers and HR personnel should review the rating decline with the employee's manager/supervisor before it is finalized and ensure that there is proper documentation to support the rating change.

Cultural Fit

Companies that adopt forced ranking often underestimate the difficulty of fitting such a system into their corporate culture. There is a belief among business leaders that because forced ranking has worked well at other top performing companies, applying the same program to their organizations will cause their work forces to rise to the challenge. The opposite effect can occur when employees feel that the system is arbitrary or overly political, that it is intended to increase competition among them, and that they will be laid off if they rank poorly. These feelings are likely to diminish, not enhance, employee performance.

Few organizations have the type of fast-paced "go go" culture that can tolerate the type of regular turnover that occurs at GE. Many people enter companies like GE early in their careers with the expectation that they will move on within a few years and that their experience at those companies will make them very attractive in the employment market. Thus, even if forced out, they are generally able to secure employment elsewhere and are less inclined to sue. In this regard, it is also relevant that GE implemented its system during a time of economic prosperity. Employees feel much less secure and less confident of their ability to change jobs in the current economic climate.

The experience of a manufacturer of heavy industrial equipment is instructive. The culture of this organization was one in which people were rarely terminated, and compensation was much more tenure-based than performance-based. With little introduction, limited training, and a poor communication strategy, this company introduced a program of ranking all levels of management in accordance with a forced distribution. Pay increases were directly and rigidly tied to the distribution, with significant increases given to the highest-ranked employees. Little was said about whether the company would invest in developing those in the lower ranks, and the organization was vague about whether those in the bottom rank would be eliminated. The debilitating effect on the work force, as well as the discrimination claims that followed, were easy to predict.

Before implementing a ranking process, an organization must consider its particular culture. Most organizations, particularly those with a paternalistic or relationship-oriented culture that has traditionally been soft on performance measurement, cannot expect to be jump-started by applying forced ranking overnight. Organizations will need to cultivate cultural change for forced ranking to be successful. Thus, a forced ranking system has a better chance of succeeding in most companies if it is introduced gradually to the work force.[5] For instance, in the first year or two, an organization is often better off making necessary adjustments to the system (e.g., introducing distribution goals rather than fixed targets) and communicating to employees that the rankings are to

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be used primarily, though not exclusively, to guide development opportunities. This allows an appropriate time for cultural acceptance of the system, after which it is easier to begin introducing more aggressive distribution targets and linking compensation more directly to the distribution. An initial emphasis on development and performance also eases the fears of low performers that they are being moved out of the company.[6]

Even at companies that have employed forced ranking for years, there often can be significant problems with the acceptance and use of rankings. One HR professional at a major financial services company reported to us that, "99.9 percent of our people hate our forced ranking program, including the leaders. They don't understand it. They feel cheated. It destroys the whole performance management process of setting expectations, development planning, coaching and ongoing assessment. Now when people think of performance management they only think of the forced ranking performance distribution and where they are going to end up. It's akin to them studying how to do well on the standardized test as opposed to how to actually learn the material." Indeed, some of the most well-respected corporations, such as Xerox and PepsiCo, have tried and rejected forced ranking.

Given the legal and cultural implications of forced ranking, the implementation of any such system must be viewed as an investment decision. How much is the organization willing to pay (both in terms of legal costs and affects on employee morale) to create a demanding, fast-paced culture?

Technical Considerations in Using Relative Performance Ranking

Which Employees Should be Ranked and How Should They be Grouped?

In implementing any ranking scheme, an organization must decide who should be included in the ranking, i.e., whether it should include the entire work force, only management, or only above a specific level of management. In explaining the demise of its ranking system, Ford believes that it attempted to include too many employees—18,000 of its managers—in the system.[7] One solution, which may also foster better cultural acceptance, is to first apply the ranking system to top management. After two or three years, if the program succeeds, it can be applied to a larger population of managers.

Once the population is selected, a company must determine how the employees should be grouped for ranking purposes, e.g., by function, salary band and/or geographic area. These decisions vary from company to company, and there is no formula for how best to determine which employees should be compared to one another. As a practical matter, it is easiest to compare employees in jobs of similar complexity which require similar skills. For example, a large financial institution ranks employees within the same compensation band against other employees performing the same function (e.g., analysts in one specialty area only are compared to other analysts in the same specialty area).

Some companies require that the managers meet and reach a consensus on each employee's ranking. The groups should be defined so that larger numbers of managers are involved in the ranking process. This allows good managers to police bad managers and prevent the phenomenon described by one HR professional as "horse-trading." He reported that during the company's forced ranking meetings, there is a considerable amount of back room deal making whereby one manager may agree to support the ranking of an employee in exchange for another manager's agreement to support the ranking of another employee. This practice leads employees to question the integrity of the system and creates anxiety over whether their managers have sufficient influence, or have negotiated sufficiently to secure a high ranking for them.

What Ranking Method Should be Used?

The size of the population to be ranked and the groupings of employees influences what ranking method should be used. Because forced ranking is based on the notion that employee performance fits a normal distribution or bell curve, applying it to groups of fewer than 100 employees is statistically problematic. However, any number of candidates can be ranked using the totem pole approach. Quartile ranking systems are more flexible than forced ranking, but more rigid than totem pole ranking, i.e., they typically require some distribution, but not along the lines of a strict bell curve.

When Should Ranking be Done?

Some organizations review their employees' performance on a calendar-year basis. Others stagger the reviews based on employees' anniversary dates. The latter system of variable review dates raises significant problems for ranking employees based on relative performance. For example, under a variable system, supervisors and managers are not reviewing employees at the same time, making it difficult, if not impossible, to rank those employees on the basis of current evaluation information.

How Should the Ranking Program be Communicated to Employees?

We cannot overstate the need for accompanying a ranking system with a clear, strategic, thorough and ongoing communication or "sales" strategy. Given the negative press for forced ranking and the controversies inherent in the system, many people will approach a ranking program with preconceptions and concerns. For that reason, employers should never refer to their ranking program in any written or oral communications as "forced ranking," even if they adopt a forced distribution model. We recommend using terms like "relative rankings" and "relative performance assessment." 22

A communication strategy will be most effective if it is rooted in data gathered from the work force. The leadership of an organization can better sell a ranking program if it is responsive to the needs and desires of the people who will be ranked. Organizations should start by surveying their work force to assess whether employees will support the introduction of forced ranking. A work force that has concerns that top performers are not being recognized, concerns that there are inadequate systems in place to identify developmental opportunities for employees, and feelings that low performers go unrecognized and are allowed to demoralize others in the work force will be more accepting of a relative performance assessment system. A survey also can be used to discover issues that may make it difficult for forced ranking to be accepted. For example, research has shown that forced ranking has a negative impact on a culture that stresses collaboration and teamwork.[8] "It makes it very difficult for people to collaborate knowing that if they help this other person they are lowering their chances at the end of the year," noted one HR executive whose firm employs forced ranking.

The process and implications of forced ranking should be stated and restated in several different formats to ensure that incorrect assumptions about ranking are addressed. As stated earlier, many people assume that a ranking system is introduced to isolate the lowest-ranked employees and immediately move them out of the company ("rank and yank"). In fact, this is true only in a minority of forced ranking programs. If a company does not intend to immediately move a fixed percentage of bottom-ranked employees out of the company (we would rarely recommend such a plan), it must be very explicit in telling employees that is not the goal, and inform them what it will mean to receive a low ranking. The cost of not being clear about the implications for specific rankings can be, as one Fortune 50 company found, that people assume they are going to be fired and organize a class action lawsuit. Corporations need to be very clear about what actions (compensation, promotion, layoffs, development) will be correlated with what rankings, and in what time frame.

A Recommended Use of Ranking to Complement the Individual Performance Review System

Performance-based ranking without forcing a rigid distribution can be an effective complement to a traditional performance review system if it is implemented carefully and with skill. As described earlier, when managers are required to rank a group of employees, the rankings reveal inconsistencies between managers' reviews and their rankings. Requiring those managers who have given inflated ratings to reassess their employees against the performance review criteria in light of their lower rankings will result in higher quality, more accurate performance data. This will also require managers (particularly upper-level managers who may have been "rubber stamps" in the past) to become better trained in the performance review system and more accountable for performance management.

Requiring managers to also meet a forced distribution in the ranking process will lead to the identification of more under-performers, but it will do so at the risk of creating perceptions of arbitrariness and demoralizing managers and employees who do not buy-in to the system. To the extent an organization's real objective is to better reward top performers, it could set a percentage for high ratings only and thereby minimize the antagonism of low-ranked employees. But rather than requiring managers to hit fixed percentage targets, more flexible percentage goals might be established. Then, over time, it may be possible to force managers to identify an increasing number of poor performers and get closer to the GE model. But even a gradual introduction of a forced distribution ranking system is not without risk.

Summary

The human resource professional will need to consider the host of issues raised here in deciding whether the firm will adopt a ranking process and, if so, how it is best applied. Before a decision is made about ranking, we recommend that each employer determine whether its current performance management process has achieved its stated goals and to what extent. Only then can it make an informed decision about whether to implement a relative performance ranking system.

Thanks to Camille Olson and Gregory Davis for contributing this article. Camille A. Olson is a partner in the Chicago office of Seyfarth Shaw. She specializes in litigating employment disputes in federal court, including class action and EEOC pattern and practice claims. Ms. Olson is a member of SHRM's Employee and Labor Relations Committee. Gregory M. Davis is a senior associate in the Chicago office of Seyfarth Shaw. His practice consists of proactive counseling and litigation defense in the areas of labor and employment law. Mr. Davis is a member of SHRM's Workplace Diversity Committee.

March 2003

[1] Loren Gary, "The Controversial Practice of Forced Ranking," *Harvard Management Update* (June 10, 2001).

[2] Jim Collins, *Good to Great* (New York: Harper Collins Publishing Co., 2001). Research establishes that competitive advantage comes more from managing human resources than from technology, patents or strategic position. Jeffrey Pfeffer, *Competitive Advantage Through People* (Harvard Business School Press, 1994).

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[3] HayGroup, Working Paper: Achieving Outstanding Performance Through a "Culture of Dialogue" (HayGroup, 2002).

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[4] See Carol Hymowitz, "Readers Tell of Success, Failure of Performance Rating," *The Wall Street Journal* (2001).

[5] That is also the advice of Oliver Mitchell, an assistant general counsel at Ford: "I tell companies it's OK to do [forced ranking]. But proceed with care and prepare the culture for the change." BNA's 3/27/02 *Daily Labor Report* at 368.

[6] Notably, employers who implement a forced ranking process without requiring the termination of a fixed percentage of employees in the early years of the program are nonetheless likely to experience some desired employee turnover. For example, ICI Paints found that among employees in the bottom 20 percent of a forced ranking, there was a much higher percentage of voluntary terminations following frank feedback about their performance without any suggestion by the company that those employees leave.

[7] In comparison, GE applies its ranking program to 5,000 top-level executives worldwide.

[8] Diana Kunde, "Linking Salary to Worker Tanking Rankles Some," *The Milwaukee Journal Sentinel* (1999).

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