THE FUTURE OF FORCED RANKING
By Lisa Sprenkle

Today’s business environment and the shortcomings of existing people processes are prompting companies to rethink performance management. With the on-going shortage of qualified knowledge workers, it is critical to identify the top performers and distinguish them from the under performers. Hence, many companies are revisiting an old tool: forced ranking.

Forced ranking systems, established years ago at companies such as GE, are increasingly being reassessed. In a nutshell, these systems typically either align people in pre-set “buckets” (such as the top 20%, middle 70%, and low performing 10%--the system used at GE) or rank employees by performance from best to worst.

I will address how organizations currently use forced rankings, consider how such rankings complement existing ways to manage performance, and identify which organizations, functions and cultures find them most appropriate.

How effective is performance management?

It wasn’t until post World War II that formal performance review approaches began to appear. In the 1980’s, performance appraisal became performance management, where the process started to become more than just a once-a-year event and began involving feedback, goal setting, and self reviews.

But, is performance management working? Numerous industry surveys suggest that it does not work. Recent surveys state that less than 5% of managers and employees are very satisfied with the process within their company. Some reasons for the dissatisfaction include:

- Managers receive little training
- Managers want to be liked
- Setting goals is difficult and imprecise
- There are few consequences to NOT conducting performance reviews
- Ratings are not consistent among raters
- Executives and managers do no set examples

Surveys also tell us that half of HR professions feel their performance management systems are outdated (unchanged or improved over the last 4-6 years). This seems to suggest that these systems have not kept up with changes in the workplace.

| TABLE 1 |
| PERFORMANCE MANAGEMENT OBJECTIVES |

4-key questions to ask as you identify gaps in your current system:

1. Are we measuring the right things?
2. Does the process produce consistent (repeatable results between raters?
3. Does the process differentiate between high and low performers?
4. Do we identify clear consequences (positive or negative) for low or high performers?

Forced Ranking

We know that performance appraisals are generally perceived as ineffective. For many organizations, forced ranking has put “teeth” back into the process. Forced ranking can be sub-divided into two practices - Forced distribution and Peer Ranking.

Forced Distribution aligns employees in accordance with pre-assigned performance distribution percentages (i.e. exceeds expectations, meets expectations, does not meet expectations). It is a person-to-standard comparison.
Peer Ranking, ranks employee performance from best to worst. This is a person-to-person comparison (i.e. Amy is 1, Bill is 2, Sherry is 46, etc.).

Whether you are a friend or foe of forced ranking, the approach does not remove the responsibility of having a well thought-out performance management process. Since it is an overlay to the existing structure, you must ensure the current process is effective by addressing these key points:

1. Are we measuring the right things?
2. Does the process produce consistent (repeatable) results between raters?
3. Does the process differentiate between high and low performers?
4. Do we identify clear consequences (positive or negative) for low or high performers?

Pros & Cons

Proponents and advocates of forced ranking have strong opinions for and against its use. Both sides identify key implications that must be addressed prior to implementation.

**PROS:**
- **Creates and sustains a high-performance culture.** Involuntary turnover is managed by eliminating weak performers and retaining high performers.
- **Correlates with total return to shareholders.** Recent research indicates a strong correlation between companies with effective performance management processes and 3 to 5 year total shareholder returns.
- **Establishes well-defined consequences.** Top-performing employees receive substantially larger rewards (i.e. base pay, bonus, options) that the average performers. Those falling at the lower end of the scale typically receive coaching and are on notice to improve performance.
- **Performance management becomes a corporate priority.** With real consequences, performance management takes on a renewed meaning.
- **Lets employees know where they stand.** One of the common complaints from employees is the lack of feedback on their performance. Forced ranking sends a clear message as to how people stand, or fall.

**CONS:**
- **Be detrimental to morale.** We want high performing work places, yet we also want people to enjoy coming to work. Can we have both?
- **Emphasize individual performance at the expense of team performance.** Employees will be less willing to “pitch in” and help others. Completing individual assignments becomes more important.
- **Promote competition.** If employees are ranked, will there be less cooperation?
- **Invite litigation.** An important concern that will be addressed later in the article.

Determining Organizational Fit

Each organization, through careful analysis, will need to determine the approach that is most beneficial for the company. The first two considerations should be:

- What are your performance management objectives?
- What does your culture value?

1. What are your performance management objectives?

<table>
<thead>
<tr>
<th>OBJECTIVE</th>
<th>NON-DIRECTED</th>
<th>FORCED DISTRIBUTION</th>
<th>PEER RANKING</th>
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O = Fully meets objective
X = Partially meets objective
- = Does not meet objective

*TABLE 2*
Table 2 provides an overview of the process objectives that any performance management system should address. Through the matrix, we identify if forced ranking or peer review fully meets, partially meets, or does not meet the stated objectives.

It is interesting to note that the first three objectives—alignment, objective, repeatable—do not automatically occur in any system, yet they are core to having an effective process. The remaining objectives—development, promotions, termination, pay, feedback, and workforce planning—begin to differentiate a forced ranking approach from a non-directed (no rating guidelines) approach.

It is possible to meet some of these objectives outside of the actual performance management process. For example: a financial-services firm recently implemented rigorous promotion criteria using a forced ranking approach. Although formal performance management processes were not in place, the forced ranking criteria became the foundation for officer selection.

2. What does your culture value?

Not all cultures will support forced rankings. As Table 3 illustrates, organizational cultures on the right side of the scale will more easily embrace forced rankings. Alternatively, if your organizational culture is towards the left end, resistance will be greater and it may take several years to implement, or it may simply be inconsistent with your business strategy.

- **1. Collectivism/Individualism**
  Forced ranking doesn’t work well for standing teams, where it is important to support each other. For example, a major European retailer’s strategy emphasizes teamwork on the sales floor. This enables the associates to fluidly move to where they are most needed. A forced ranking system would have a detrimental effect on this goal. Alternatively, project teams, where groups disband, re-form, and are results-oriented find forced ranking works extremely well. Product design teams and professional service teams also follow this model.

- **2. Reliability/Flexibility**
  If quality is the number one issue, consider driving performance through quality improvements instead of forced ranking. A flexible structure applies to project-driven approaches where it is critical that individuals take initiative. A global provider of information-services provides flexibility to their sales staff to customize offerings and provide high-touch service, making a forced ranking system a viable option.

- **3. Activity/Results**
  Results-based organizations create increased accountability and use defined performance measures.

- **4. Control/Empowerment**
  In a highly scripted, controlled environment, setting minimum criteria for performance may be the best approach. Call centers are a classic example of this—if you have 100 fully trained call center representatives, setting criteria, versus ranking each representative may be a wiser approach. Organizations that value empowerment also encourage the flexibility and initiative necessary in a high-performance environment.

- **5. Functional/Specialized**
  Forced ranking works best for companies with similar job positions. It will be more difficult for those with hierarchical, functional structures, a large number of positions and titles, small departments or limited number of employees.

**Litigation Impact**

There has been significant media attention paid to the legal ramifications of a forced ranking system. Individual discrimination, disparate impact, and class action lawsuits have all been cited. What can you do to mitigate the risks? According to Tom Wilde, an employment attorney at Vedder Price, there is no substitute for preparation. “Ensure that the process is clearly communicated and that training on setting performance goals, improvement plans, and feedback occurs,” says Wilde. Wilde also encourages HR managers to work with their legal counsel to:

- Update policies and handbooks
- Update job descriptions
- Monitor performance evaluations and discipline for consistency
- Monitor and assess potential EEO problems
Successful Implementation

So where do you start?

1. Take stock of your culture.
2. Understand and identify decisions to be driven by the performance management system.
3. Determine if a forced ranking overlay can apply to existing performance management process, or if redesign is necessary (remember the four key questions).
4. Drive it through senior leadership.

Business Results

Is forced ranking right for every company? Probably not. As we've discussed, much depends on your organization’s strategy, structure, and culture. There may be better alternatives, or a phased-in approach that will be more successful. The core issue is whether these processes provide the ability to make people and workforce decisions - who to develop, promote, re-deploy or terminate. In the end, these are the outcomes that move a process from administrative to strategic and make a difference to both individual and organizational performance.