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CHAPTER 12

FORCED RANKINGS: PROS, CONS, AND PRACTICES

Peter G. Dominick

"The new law of evolution in corporate America seems to be survival of the unfittest. Well, in my book you either do it right or you get eliminated. . . ."
GORDON GECKO IN OLIVER STONE'S FILM, *WALL STREET*,

You can't eat the orange and throw the peel away—a man is not a piece of fruit.
WILLY LOMAN, IN ARTHUR MILLER'S PLAY, *THE DEATH OF A SALESMAN*

A 2005 survey conducted by the Society for Human Resource Management (SHRM) asked, "Does your organization utilize forced ranking (for example, a system whereby a specified percentage of those being evaluated must receive the highest and lowest ratings) to evaluate employees?" Of the 390 human resource professionals who responded, 276 (almost 84 percent) reported that their companies did not use forced ranking. Another eleven respondents reported that their companies used no form of performance appraisal (about 3.3 percent of the entire sample). Among the forty-three people who indicated their companies did use forced ranking, only two (less than 1 percent of the entire sample) reported that their forced ranking process always led to employee terminations. Another seventeen indicated that no employees were ever dismissed as a result of the process.[1]

Although the popularity of forced ranking may be on the rise, as these survey results suggest, it is hardly the prevailing approach to performance evaluation.[2] Arguably however, during the past several years, no other aspect of performance management has garnered as much attention in the popular press. Since 2000, articles about forced ranking have appeared in such prominent international media outlets as *Time* (Greenwald, 2001), *The New York Times* (Abelson, 2001; Anonymous, 2003; Holland, 2006), *BusinessWeek* (McGregor, 2006), *Financial Times* (Donkin, 2005, 2007), *The Chicago Tribune* (Osterman, 2003), and *USA Today* (Armour, 2003). This attention is due in part to the high profile of one of its major proponents, Jack Welch, but it also reflects the fact that forced ranking is a topic that elicits strong visceral reactions from laypersons, human resource (HR) professionals, and researchers alike.

On one hand, the process is used by many admired companies such as General Electric (GE), Sun-Micro Systems, and Hewlett-Packard (Grote, 2005). Its proponents laud the approach for its abilities to promote more accurate ratings, identify high-potential employees, and hold poor performers accountable. On the other hand, forced ranking has been tried and rejected by other notable companies like Xerox and PepsiCo (Olson & Davis, 2003). Still others like Goodyear and Ford have backed away from forced ranking, at least in part because of the legal land mines they found themselves confronting. The process also has the dubious distinction of being linked to Enron (Greenwald, 2001), with some characterizing it as emblematic of the cutthroat, backroom deal-making culture that led to the company's demise (Skerner, 2008).

This chapter reviews the rationale underlying the use of forced rankings in performance management and explores why it is so controversial. Drawing upon research and the experiences of organizations that have adopted the approach, it describes what we know about its effectiveness overall and in relation to other performance appraisal techniques. Is the process, for example, as demoralizing as many of its detractors assert? Can one ever say, as do some of its advocates, that forced ranking is superior to other well-designed and executed approaches to managing performance? This chapter also discusses important situational and legal considerations that must be taken into account and stresses important steps to keep in mind when trying to implement forced ranking. It concludes with some thoughts about how forced ranking should be considered in relation to several emerging trends, perspectives, and challenges shaping human resource practices today.

Defining Forced Ranking

Virtually all performance rating systems can be grouped into one of two general categories: *absolute* and *relative* (Cascio, 1991). Absolute systems such as behaviorally anchored rating scales (BARS), weighted checklists, and behavioral observation scales (BOS) involve making judgments about people in relation to descriptions of job-related behaviors and/or traits. Under such systems, all individuals are independently assessed against the same standards, and it is conceivable that multiple individuals could attain essentially the same rating in relation to either specific behaviors and traits or overall performance.

Relative rating and forced ranking are synonymous terms. Such approaches require raters to assess individuals in relation to one another. The criteria used for making those comparisons might (and typically does) include job-related behaviors and traits, but rates' assessment results are determined by where they are positioned in relation to others in a given peer group. In other words, the main objective is not *just* to determine whether a particular person is a highly effective, adequate, or poor performer but to be able to say who is best, who is next best, right on down, in some cases, to who is worst.

The term "forced ranking" is frequently used by the popular press, employment professionals, and researchers to describe all forced ranking systems (Olson & Davis, 2003). There are, however, various forms of forced rankings. This fact should be kept in mind when considering the relevance of pros and cons espoused by supporters and critics of the systems. One should also note that different writers have used different terms to describe the same variation of forced ranking. For instance, that which management consultant Dick Grote calls "forced ranking" in his 2005 book, *Forced Ranking*, others have called "forced distribution."

At the same time, Grote uses the term forced distribution to describe another variant. For the purposes of this chapter, I will describe some common variations drawing where appropriate on the labels used by Grote.

The most basic approach is sometimes referred to as a "totem pole" approach because it involves ranking all employees in a particular work group from best to worst.

Forced or fixed distribution methods come in several sub-variants. The most controversial tends to use a normal distribution in which employees are slotted into the bell curve of a normal distribution and then described by the percentage group they represent (for example, the top 10 percent). The use of quartile distinctions (such as top 25 percent, top 50 percent, bottom 50 percent, and bottom 25 percent) is another variant. In many cases, once an individual is assigned to a quartile, he or she is typically further ranked against others in the same quartile (Olson & Davis, 2003). Still, in other cases organizations might only use the distribution method to identify those people who are among the very best or very worst (perhaps the top 10 percent of a work-force or the bottom 10 percent) performers. According to Grote (2005), another distinguishing characteristic of a forced distribution system is that an organization's performance appraisal criteria are the basis for locating people within the distribution. He also includes under this label any rating distribution scheme regardless of whether it is required (forced) or recommended (guidelines) (Grote, 2005, p. 140).

According to Grote, the term "forced ranking" applies to those systems that operate independent of and in addition to an organization's performance appraisal process. It is this variant that was made famous (or infamous, depending on your point of view) by Jack Welch and General Electric. While the assessment criteria still need to be job-related, they are usually different from those used in the formal appraisal process. The approach still requires some sort of ranking distribution scheme (for example, General Electric's top 20 percent, vital 70 percent; bottom 10 percent), but by being independent of the appraisal process it serves to further highlight comparisons between individuals (Grote, 2005, p. 140). Table 12.1 provides examples of several rating distribution schemes.

Table 12.1 Rating Distribution Examples.

Sun Micro Systems*	General Electric*	Ford* (abandoned process)	Dick Grote's Recommended Approach**
Superior: 20 percent	Top: 20 percent	A performers: 10 percent	Distinguished/Superior (20 to 30 percent)
Sun Standard: 70 percent	Vital: 70 percent	B performers: 80 percent	Fully successful (60 percent or more)
Under-performing: 5 percent	Bottom: 10 percent	C performers: 10 percent	Need improvement (10 to 15 percent)
			Unsatisfactory (less than 5 percent)

* Greenwald, 2001; ** Grote, 2005, p. 148

Finally, before turning to a discussion of the positions for and against forced ranking, it is important to realize that, in addition to the distinctions described above, forced ranking systems also vary based on design features and policies unique to a particular organization. Even forced ranking supporters acknowledge that their fairness and usefulness depend largely on how they are implemented and whether or not they are accompanied by other changes in the overall performance management system. For example, General Electric initially assigned employees to one of five grades but streamlined that into three grades. "We had a system where 90 percent of employees felt demoralized," says Bill Conaty, senior vice president of human relations (Grote, 2005).

It is perhaps within the details of such policies that much of the controversy regarding forced ranking ultimately resides. For instance, Blume, Baldwin, and Rubin (2007) identified four program design elements that could affect fairness perceptions and influence applicant attraction perceptions: (a) the consequences for low performers (for example, termination versus development), (b) the differentiation of rewards among high and low performers, (c) comparison group size, and (d) the frequency and consistency of feedback. Earlier, Folger and Cropenzano (1998) stressed that for any type of rating format to be viewed as fair it should provide for performance and developmental goals, be based on behaviors, and be based on detailed information. While these features are more readily associated with absolute rating systems, they can and sometimes are integrated with forced ranking systems.

The Pros and Cons of Forced Ranking Systems

Most arguments for and against the process can be grouped in relation to four general concerns that are important to people on both sides of the debate. These are concerns for fairness and accuracy; performance; morale; and legal compliance. For each of these areas, I'll first describe the general positions taken by advocates and opponents of forced ranking. Next, I'll consider what relevant research does and does not say about the positions taken.

Fairness and Accuracy

Forced choice advocates argue that the process combats the problem of artificially inflated ratings. While there is little

empirical evidence to characterize the extent to which appraisal ratings are inflated, there is plenty of anecdotal support (Grote, 2005). For example, before Ford chose to implement a forced ranking process (that it later abandoned), 98 percent of its managers had been rated as "fully meeting expectations" (Olson & Davis, 2003). Many managers, they argue, are reluctant to single people out as being less than satisfactory, and this tendency is likely to be even more prevalent in environments that discourage open conflict and when managers are not regularly trained on how to rate and to deliver tough messages about performance (Olson & Davis, 2003). Specifying fixed percentages at the top and bottom of a ranking system, they assert, ensures a fairer distribution of pay, ensuring that organizations have funds to award top performers and that they don't over-reward poor performers.

Some proponents further stress that most absolute rating systems remain unfair, even if managers are already doing a good job of making judgments and at providing feedback to individuals. This is because the failure to differentiate alienates top performers and prevents them from getting the rewards and recognition they deserve (Grote, 2005).

Still others argue that ranking is also fairer to poor performers. The candid nature of the process, they assert, at least lets people know where they stand so that they might have an opportunity to do something about it. Grote, for instance, quotes one manager who advocated the process: "In non-ranking organizations, you will probably never know where you stand until you are passed over for promotion, not given a key assignment, or laid off" (Grote, 2005, p. 32). Jack Welch, in defending GE's policy to terminate the bottom 10 percent, asserts that doing so enables those individuals to move on into environments in which they can succeed. As he explained in an annual letter to shareholders, "Not removing that bottom 10 percent early in their careers is . . . a form of cruelty because inevitably a new leader will come along and take out that bottom 10 percent right away, leaving them, sometimes midway through their careers, stranded" (Hymowitz, 2001).

Critics of forced ranking argue that fitting employees into predetermined performance distributions can never be fair. They are most strongly opposed to the use of normal distributions. In order for normal distributions to occur, they point out, one must have randomly occurring events, but in organizations people are

specifically recruited, selected, and trained for their jobs and are then expected to fulfill unique job responsibilities. While those processes may not be perfect, they are far from random.

In addition to the problem of randomness, applying the process to groups of fewer than one hundred is statistically problematic (Olson & Davis, 2004). In fact, attaining a normal distribution requires sample sizes in the hundreds or even thousands (Weatherly, 2004).

This fact presents a double-edged sword. Many organizations using forced ranking do in fact include large numbers of employees in the process. GE applies the process to its roughly five thousand managerial employees (Olson & Davis, 2004), and Sun Microsystems applies the process to all of its more than forty thousand employees (Greenwald, 2001). When Ford was attempting to use the process, they included eighteen thousand (Grote, 2005). However, initial comparisons typically occur within smaller work groups before being "rolled up" for comparisons with employees from other groups. Few organizational departments or teams have the kinds of numbers that would justify the sorts of distributions sought and, in those instances where they do, critics note, it seems implausible that raters could have sufficient knowledge of each person's performance such that they could make accurate comparisons between them. Thus, while extending comparison groups beyond the span of control of individual managers enhances the probability of a normal distribution, it also inevitably creates an evaluation context in which raters are less likely to be familiar with ratee performance. Since most managers have only five to fifteen direct reports (Davison, 2003), one must ask how far beyond the average manager's span of control it is reasonable to go to attain a large comparison group (Blume, Baldwin, & Rubin, 2007).

Other criticisms have been targeted toward the rating criterion used. Too often, say critics, rankings are based on subjective judgments tied to standards that are interpreted inconsistently. It is worth noting that some forced ranking proponents actually advocate the use of broader standards, but they don't view them as being vague. In his book, Grote quotes one HR manager who said, "Our criteria [for forced ranking comparisons] used to be 'flexible, curious, and collaborative, now it's just 'right results,

right behaviors" (Grote, 2005, p. 78). While acknowledging that it can help to give managers more specific criteria, especially the first time through a ranking process, Grote also tends to support this HR manager's position. He goes on to write: "In the final analysis all that rankers are being asked to determine is who delivers the best results and has the most potential, and who delivers the least" (Grote, 2005, p. 79).

Critics like Tom Coens and Mary Jenkins (advocates for abolishing performance appraisals in general) challenge this line of reasoning. As Coens explains, "There's an assumption that a manager can know the precise performance level of an employee, when this sort of ranking is really a very subjective judgment that depends on many factors" (Hymowitz, 2001). For instance, employees who belong to a particularly talented or productive unit may receive poorer rankings than they would if being considered in relation to those in a less talented group. Ed Lawler regards the forced distribution approach as a bureaucratic solution to a serious leadership failure. "It ignores," he says, "the reality that in some work groups there are no poor performers and in others there are no good performers. It causes managers to disown the appraisal event and to essentially say, I was just following the rules" (Lawler, 2003a). Others note that, while employees who are either outstanding or weak may stand out, trying to distinguish among the vast majority of employees in the middle can be difficult if not impossible.

Still another set of criticisms stems from the argument that forced ranking is just as susceptible to favoritism, manipulation, and organizational politics as any other process. In calling forced ranking a "bankrupt strategy," Dick Beatty has said, "it can send the wrong message and drive good people out who fear they will be judged unfairly, while mediocre workers hunker down or play political games to survive" (Bates, 2003). The same article that quoted Beatty later went on to provide examples from another critic of the ways in which the process can be manipulated. These include managers who avoid having to assign low grades to any of their people by trading them with supervisors of other groups. Others may even carry poor performers throughout the year, just so they can have someone to rank at the bottom (Bates, 2003). Additional tactics include making deals with other managers to

ensure one's own employees are sufficiently supported in ranking meetings. Still others simply note that forced ranking processes typically depend too much on the willingness of managers to fight for valued employees "during what can become a brutal horse trading session" (Greenwald, 2001). In a recent essay, Shermer (2008) quotes former Enron managers who described how the process was frequently manipulated there. He writes:

Here is one typical conversation recounted by an unnamed manager: "I was wondering if you had a few minutes to talk some PRC [performance ranking committee]." She replied, "Why—you want to cut a deal?" "Done," I said—and just like that we cut our deal." Another manager described the PRC system as creating "an environment where employees were afraid to express their opinions or to question unethical and potentially illegal business practices. Because the Rank and Yank system was both arbitrary and subjective, it was easily used by managers to reward blind loyalty and quash brewing dissent.

It is important to stress that such manipulation need not be the case. They are certainly not built into the premise of how forced ranking systems should work and, to the extent such conversations characterize the process at Enron, they were symptomatic of broader deficiencies in its leadership and corporate culture. Nonetheless, anyone even considering the use of forced ranking should be mindful of how politics and social influence can play a role.

Research Perspectives on Forced Ranking Fairness and Accuracy

When operating free from biases, be they based in overt political manipulations or the result of more subtle cues, relative rating formats have been shown to offer psychometric advantages over absolute approaches. Two meta-analyses (Heneman, 1986; Nathan & Alexander, 1988) examining the differences between the two approaches have found that relative formats have stronger correlations with results-oriented criteria like production quantity and sales volume. They also did a better job in relation to the assessment of certain underlying skills like general cognitive ability, verbal and quantitative ability, perceptual speed, and spatial/mechanical ability. Their superiority, however, is not so clearly established when it comes to assessing leadership skills or when trying to judge individual effectiveness when outcomes are team-based.

It is also important to recognize that fairness is as much a matter of perception as it is one of fact. In one recent study, Roch, Sternburgh, and Caputo (2007) demonstrated that people perceived each of the absolute rating systems described to them in a survey as being fairer than any of the relative rating systems described in the same survey. It should be noted that theirs was a policy-capturing study and was not based on subjects actually using these systems, although they did control for whether or not people had prior experience as performance appraisal raters or ratees.

Murphy and Cleveland (1991), in particular, have argued that relative ratings produce negative reactions principally because they are not consistent with two objectives important to many people being rated: to obtain feedback and to convey information. They note, for instance, that feedback obtained from a relative process is also dependent on what others in the comparison group have done, potentially making it a less objective source of information.

Practitioners interested in using forced ranking need to at least be mindful of results like those discussed above because they help to highlight the kinds of concerns employees will have about the process. Forced ranking proponents also stress, however, that it is possible to address many of the concerns through the ways in which they design their forced ranking and integrate them with other aspects of performance management.

In addition, it further helps to consider how people form fairness perceptions based on their reactions to the way decisions are made (procedural justice) and their reactions to the outcomes of those decisions (distributive justice). Most research suggests that perceptions of procedural justice become increasingly important when the outcomes (distributive justice) are perceived to be unfair (Brockner & Wiesenfeld, 1996; Folger & Cropenzano, 1998). Moreover, the reverse also tends to be true. Distributive justice generally matters more when procedural justice is low. These relationships can be important to how forced rankings are

perceived. Specifically, expect people's final rankings to influence their perceptions of the process. It may be reasonable for some organizations to take the position that the perceptions of their top-ranked performers are what matter most, and because the outcomes are positive for those individuals, they are more likely to view the process favorably. However, most organizations also need to value and rely on the larger segment of their workforce not ranked at the top. Many of these people, by virtue of their rankings, will have lower perceptions of the process's distributive justice, therefore leading them to also discount its procedural justice.

One practical implication is that forced ranking processes should be as transparent as possible in order to combat the very natural negative reactions many employees are likely to experience. This should include clarity about the criteria for ranking decisions and the people involved in making those decisions (examples of what some researchers would describe as informational justice). It should also include careful consideration of the ways in which ranking results are communicated back to employees (what some researchers would term interpersonal justice). In addition, our understanding of justice perceptions helps explain why organizations need to think carefully about the consequences associated with one's rankings, examples of which include whether or not to terminate lowest-ranked personnel, the kinds of coaching and development support provided in relation to one's ranking, opportunities to find new positions, get promoted, and so on. They also help to highlight the value of gradually introducing forced ranking systems and their consequences. For instance, many proponents advocate rolling the process out first for top managers and including a moratorium before beginning to use the process to terminate.

The point is that fairness perceptions of forced ranking are also a function of related policy and implementation practices. Operating on the premise that fairness is a key determinant of how attractive people find performance appraisal systems, Blume, Baldwin, and Rubin (2007) looked at the ways in which certain design characteristics affected the perceived attractiveness of forced distribution rating systems. They found that forced distribution rating systems with less stringent consequences

(for example, where poorly ranked employees are not terminated) are viewed more favorably. The other factors that enhanced perceived favorability were using a sufficiently large comparison group and ensuring that the process provided for frequent feedback. They also found some important individual differences that tended to shape reactions. Females were less attracted than males to forced distribution systems when the consequences of poor performance were more stringent. Not surprisingly, people with higher cognitive ability tended to value systems that highly differentiated rewards in relation to ranking.

These results reinforce the fact that system design features do matter and that organizations should carefully consider the unique characteristics of their workforce and the traits they wish to attract. At the same time, keep in mind that this was a policy-capturing study using college students as subjects. While they are representative of an important recruiting target for many organizations, they are not necessarily representative of a more experienced workforce that may be taking other factors into account when making judgments related to fairness (Blume, Baldwin, & Rubin, 2007).

Another recent set of studies by Schleicher, Bull, and Green (2007) looked at rater reactions to using a forced distribution rating system. They examined how fairness and perceived difficulty with the ranking task were influenced by (1) the consequences associated with having to rank others and (2) whether or not there was a high degree of variability in the performance of those being rated. Results for the two studies were quite similar. Subjects were less likely to perceive the procedure to be fair and more likely to describe it as difficult when it had administrative consequences for those being rated (grades in Study 1 and termination, promotions, and pay in Study 2) and when there was little variability in the performance of those being rated/ranked. In addition, the researchers found in both studies that having a high need for affiliation led people to perceive the task as being more difficult.

The studies demonstrate that manager reactions and personal characteristics need to be taken into account when deciding whether or how to introduce forced ranking. The researchers also suggest that their results argue for moving slowly, allowing

managers and employees time to get used to a forced ranking approach before attaching administrative consequences (such as terminations, promotions, pay). Not doing so could have significant implications for morale and other outcomes. They further note that their findings would support the view that forced ranking approaches should not be used unless there is good reason to believe that there is considerable performance variability among those to be ranked (Schleicher, Bull, & Green, 2007).

In closing, there still remain many open questions regarding how forced ranking affects accuracy and fairness perceptions. One such set of questions may pertain to the ways in which assimilation and contrast effects influence subsequent rankings of ratees. Open research questions notwithstanding, clearly, fairness matters to people on both sides of the forced ranking debate. While the above discussion does not provide definitive answers, it does highlight key fairness considerations that organizations need to be thinking about when exploring the use of forced ranking systems. Some of those considerations are summarized in the exhibit below.

Exhibit 12.1 Forced Ranking Fairness and Accuracy: Strategic Considerations.

- Carefully assess the accuracy of existing appraisal processes. Determine whether rater inflation or other inaccuracies are pervasive problems. Also assess why other efforts to correct them may have failed.
- Take stock of employee and manager perceptions.
- Know what they value about existing performance management processes and employee development programs.
- Also understand what they find to be most troubling.
- Carefully consider fairness perceptions with regard to existing practices.
- Consider the corporate culture and what might need to change for it to better support candid feedback and constructive conflict.
- Make sure the workforce to be ranked is large enough and that there is sufficient variability in performance to justify using forced ranking.
- Make sure your management team can agree on the criteria for ranking employee performance.
- Develop plans for training people and monitoring the use of forced ranking.
- Consider how forced ranking will likely be perceived by the kinds of people you want to attract to your organization.

Performance Improvement

According to its proponents, forced ranking processes contribute to improved performance in several important ways. At its heart the process is about differentiating between talent levels (between individuals, but also between groups and departments) in ways that absolute performance appraisals cannot. When done correctly, this differentiation ensures that company resources are directed toward those who contribute the most and/or have the potential to make a positive difference. These resources include compensation and other rewards like promotions, leadership development, and training support in the form of resources to get a job done.

Overall, they argue the process better ensures that a company can get an optimal return on its investments in human capital. As Jack Welch has explained, "A company that bets its future on its people must remove the lower 10 percent, and keep moving it every year—always raising the bar of performance and increasing the quality of its leadership" (General Electric Company, 2000).

In making the business case for forced ranking, proponents go further by elaborating on other important contributions. The process, they argue, requires a company to clarify what it really values and the criteria for defining success for individuals and the organization overall. In other words, forced ranking systems offer clarity that helps people focus their efforts. Along the way, it reinforces the values of a merit-based culture and is likely to attract individuals who themselves value achievement and performance. In making the case for forced ranking, Dick Grote goes even further by arguing that another important business outcome includes the process's potential to provide valuable

information about managers' abilities to identify and champion talent, a critical aspect of their leadership ability (Grote, 2005).

Not surprisingly, those opposing the process challenge many of the performance assertions made by proponents. For one thing, they question the sustainability of policies that call for replacing the bottom 10 percent (or any percent) every year. At some point, they stress, organizations begin terminating people who are quite capable. The financial and emotional costs of replacing the kind of regular turnover that occurs... will exceed any performance gains one might attain (Weatherly, 2004). Even Dick Grote agrees that few companies can tolerate the kind of regular turnover that occurs at companies like GE and that using the process to terminate employees should be a short-term measure until other processes are in place (Grote, 2005).

They also take issue with claims regarding employee development. They agree that the systems will influence how development is pursued, but not always in ways that are in the interests of the organization or its employees. As Ed Lawler has observed, the process can make it difficult to devote attention toward developing future talent. "It hardly makes sense for managers to invest in developing individuals who are marginal performers when they believe that in a very short time they will have to eliminate the employees whom they develop" (Lawler, 2003a). Other critics note that under such systems, those in the middle ranks (the bulk of an organization's workforce) frequently receive the least developmental attention. In many cases, those at the bottom may receive coaching or the benefit of other interventions to help them redeem their performance (Weatherly, 2004). Likewise, those at the top are also supported, while those in the middle are left to contemplate the fact that they are just considered to be average (Greenwald, 2001).

At the same time, others point out that the process diverts attention away from the kinds of behavior and performance that really contribute to success in today's organizations (Kluger & Nir, 2007). Some suggest that forced ranking can discourage risk taking and is likely to encourage people to cover up mistakes at the expense of organizational learning. Moreover, they say the process penalizes those managers and departments that already set high performance standards, with the result being an eventual downturn in the standards and expectations they establish.

Some of the biggest criticisms are reserved for the ways in which forced ranking can undermine collaboration and other contextual behaviors known to contribute to performance. Instead, they assert that forced ranking systems pit employees against each other, undermining teams, which are often intentionally put together with varying talents in mind. As one former Enron manager noted about using the process within his team, "It was agonizing because everyone played a unique role . . . all the relationships instantly became strained" (Greenwald, 2001). There are also numerous reports of employees who, believing they have been graded unfairly, feel angry and unappreciated and as a result don't want to collaborate with colleagues who received higher rankings (Hymowitz, 2001).

To be fair, many of the arguments regarding the misdirection of behavior have been applied to performance appraisal in general. In their book, *Abolishing Performance Appraisal*, Coens and Jenkins quote Peter Scholtes, who said, "We live our lives in webs of interdependence and yet we keep telling ourselves the story that we are independent" (Coens & Jenkins, 2003, p. 33; Kluger & Nir, 2008). Their point is, in part, that performance appraisal systems put a focus on evaluating individuals rather than on teams. In their view, this fact demonstrates the deeply embedded and erroneous assumption that individuals' behavior, and not team performance, principally determines organizational success (Kluger & Nir, 2008). Even still, there are also many performance appraisal proponents (such as Ed Lawler and Richard Beatty) who agree that forced ranking systems go too far and make it difficult, if not impossible, to sustain a collaborative culture.

Many of the critiques pertaining to how forced ranking systems affect performance also relate to broader arguments suggesting that Corporate America has at its peril overemphasized individual talent and achievement as keys to success. For instance, in discussing potential risks from the use of forced ranking systems, Dick Grote acknowledges prescient points from Malcolm Gladwell's 2002 *New Yorker* essay entitled "The Talent Myth." Gladwell (2002) writes, "Groups don't write great novels and a committee didn't come up with the theory of relativity. But companies work by different rules. They don't just create, they execute and compete and coordinate the efforts of many different people, and the

organizations that are most successful at that task are the ones where the system (not individuals) is the star."

Forced ranking proponents do not dismiss such criticisms as irrelevant. Grote (2005), for instance, acknowledges that forced ranking systems can lead to cultures that over-emphasize individual accomplishment. But he argues that such a risk can be mitigated by the ways in which ranking criteria are defined and the ways in which other aspects of performance management also support and reward collaboration.

Research Perspectives on Forced Ranking and Performance

When it comes to performance improvement, proponents and critics of forced ranking have both found support for their positions within the limited research that does exist. One study demonstrating the efficacy of forced ranking approaches was conducted by Scullen, Bergey, and Aiman-Smith (2005). Using a well-crafted simulation that took into account reasonable estimates for factors like selection validity, selection ratios, and voluntary turnover, these researchers were able to demonstrate that by repeatedly removing those ranked in the bottom percentage of a given workforce, organizations could potentially attain significant gains in overall performance and productivity. The researchers demonstrated continual (albeit at decreasing rates) improvements over a ten-year period, with most of the gains occurring within the first 3.5 to 4.5 years.

The study's authors, however, note several important limitations. These include not being able to model how existence of the process influences abilities to attract talent in the first place. The authors also point out that, in their simulation, correlations between turnover and performance were zero, while in practice the nature of that relationship is more variable. In addition, they did not factor in hiring and training costs, compensation policies or morale factors, and other affective outcomes. Nor could their simulation fully model implications for teamwork and collaboration or the potential for adverse impact.

In terms of field research, at least one survey suggests that forced ranking is favored by top-performing firms. A 2004 Sibson

Consulting Group study found that among those firms in the top 40 percent with respect to total return to shareholders, 20 percent used forced ranking. Only 14 percent of those in the bottom 40 percent for return to shareholders used the approach (Grote, 2005; Kochanski, Alderson, & Sorenson, 2004). These results, while intriguing, could hardly be considered confirmation of causality.

Moreover, at least one other field study suggests that the improvements reported in Scullen, Bergey, and Aiman-Smith's simulation do not always occur. Lawler (2003b) surveyed senior-level HR professionals from fifty-five Fortune 500 companies and reported on respondents' judgments of the effectiveness of their firms' performance management systems. Sixteen of the fifty-five organizations used forced distribution systems as part of their performance management process. He found that, when it came to their system's ability to differentiate between levels of performance (identify and reward top talent, identify and manage out poor performers), the average response from those firms using forced distribution systems was higher than the average derived from those firms that did not use it. However, when it came to impressions of their system's overall effectiveness (its capacity to help the business be successful, support business strategy, develop talent, and link individual performance to unit performance), the average responses from those firms that did not use forced distributions were higher. In particular, the biggest differences were obtained for perceptions of their systems' capacity to develop individuals' skills and ability.

Lawler also looked specifically at those firms that tied terminations to their performance management systems. Of those, twelve used forced distributions and twenty-one did not. In these cases he found that the averages with respect to a system's capacity to differentiate were virtually the same for those using forced distribution and those not using it. When it came to overall effectiveness of their appraisal systems, those not using forced distributions had a higher average overall, and for twelve of the fourteen items comprising this dimension of the survey.

Lawler suggests reasons for his findings that may include the fact that using forced distributions makes managers uncomfortable, leading them to make bad judgments. They may also feel less committed to the process, which then sends mixed messages to

employees. He also noted the ways in which forced distributions can promote competition among employees. His explanations, while plausible and consistent with the views of other critics, cannot be substantiated by the data he presented. In addition, while there were clear trends in the data he summarized, none of the differences was statistically significant. One might also wonder whether or not line managers and senior management share the same impressions as the HR professionals surveyed.

However, studies regarding the effects of social comparison processes do add credence to Lawler's (and others') contention that forced ranking systems can have a negative effect on teamwork and collaboration. This line of research has consistently shown that competitive behavior is likely to result from any comparison process when the dimension that is the basis for comparison is one that relates to an individual's self-identity (Tesser, 1988). Further, the intensity of that competitive response is likely to increase when the person or persons against whom one is being compared are considered commensurate (that is, part of one's peer group) (Goethals, 1986) and to the extent that individuals are more familiar with each other (friends or co-workers versus strangers) (Jones & Rachlin, 2006). All of these factors easily characterize the context in which most forced ranking comparisons are typically made.

Another contributing factor is a person's perception of his or her current ranking in relation to others' rankings. Some studies have shown that people are less inclined to cooperate with another person when that person is closely ranked to them and when cooperating has the potential to advance the other person's standing (Garcia & Tor, 2007; Garcia, Tor, & Gonzalez, 2006). This effect intensifies when both individuals are more highly ranked. Moreover, the reluctance to cooperate persists even when doing so would improve an individual's performance in an absolute sense. These conclusions, however, are largely based on experimental studies and do not take into account other factors that might shape actual workplace behaviors such as the way jobs are designed, leadership, and organizational values and norms.

There is clearly room for additional research exploring relationships between forced ranking and performance. It would help, for instance, to know more about how forced ranking systems' influence on performance is related to contextual considerations

like organizational culture and individuals' values. It would also help to better understand whether forced ranking has a more positive effect on the performance of some jobs as opposed to others. One might also explore whether other organizational policies and practices can offset any negative effect forced ranking has on cooperative behavior. Ultimately, there are good performance-related arguments to be found among both those who oppose and those who support the forced ranking processes. While these arguments and related research are not definitive, they do help to highlight the issues that any organization needs to consider when making choices about whether or how to use forced ranking. Several of those issues are summarized in Exhibit 12.2.

Employee Morale

As has been the case regarding fairness, accuracy, and performance, forced ranking supporters and critics both have reasonable

points to make when it comes to the ways in which the systems can influence employee attitudes and morale. On one hand, proponents often focus on the perspectives of top performers who, they assert, are finally able to get the rewards and recognition they deserve.

Grote (2005) cites several different surveys demonstrating that many employees are less than satisfied with their company's abilities to differentiate between talent. He cites a 2002 Hay Group employee attitude survey reporting that 32 percent of the employees surveyed from 335 companies agreed that poor performance was tolerated. He also notes a Watson-Wyatt Worldwide Study reporting that fewer than 40 percent of the organizations in their study felt the existing performance management system failed to establish clear goals or provide candid feedback (p. 14). He further notes that, according to Hewlett-Packard's former CEO Carly Fiorina (p. 15), prior to implementing their forced ranking process, more than 80 percent of employees felt the company dealt poorly with poor performers (no data, however, is available to describe their feelings about their current forced ranking system). A similar trend was stressed by Woolen (2003), who reported that 96 percent of the managers they polled want their companies to move more aggressively against poor performers.

Forced ranking critics focus some of their concerns on the ways in which the process affects the morale and attitudes of those not rated among the top. They stress that too often the process leaves lower-ranked personnel angry and bewildered, unable to reconcile the forced ranking outcome with the fact that they had been receiving good to effective performance ratings throughout their careers. In many cases an employee can wind up being ranked at the bottom, even though he or she has performed well and met his or her objectives over a given period of time (Guralnik & Weatherly, 2003).

Some go further by pointing out that putting people into buckets frequently becomes a self-fulfilling prophecy by shaping self-efficacy perceptions (Kluger & Nir, 2008) and in accordance with cognitive resource perspectives may direct a person's attention away from the tasks at hand by putting him or her on the defensive, encouraging the person instead to focus on preserving self-esteem and identity. Still others stress that too often choosing

to use the process undermines the role of effective leadership in shaping morale and driving performance (Bates, 2003; Lawler, 2003a). The process, they argue, creates a culture that downplays managers' responsibilities for developing their talent and being accountable for how their personnel perform.

Forced ranking supporters do acknowledge the need to treat people with dignity, regardless of where they are ranked. They stress that most companies do not immediately fire those ranked at the bottom and that many well-designed forced ranking systems incorporate coaching and development into the ways in which low-ranked employees are handled. They are also, however, quick to point out that keeping poor performers around for too long (for example, more than one cycle of rankings) can lower standards and drive good people away (Bates, 2003).

As noted previously, critics also express concerns for the ways in which the processes shape attitudes toward cooperation and other helping behaviors. They further suggest that using the process can seriously undermine trust between managers and their workforce, as well as the sense of overall organizational commitment (Guralnik & Wardi, 2003). At the same time, it seems overreaching to say that forced ranking systems definitively reduce or increase levels of trust between workers and managers. Among other things, the effects will likely depend on the nature of trust relationships when the system is implemented, the quality of existing appraisal practices, and the ways in which the system aligns with company values and actions.

As a result, forced ranking proponents stress the need to be flexible when implementing the process. This includes fully engaging managers in discussions about design criteria and consequences from using the system. It also includes being willing to adopt an incremental approach to implementation.

Along the same lines, both sides agree that existing cultural norms and values play an important role in how people react to forced ranking. While there are no hard and fast statistics regarding which companies have succeeded with the process and which have not, most observers agree that forced ranking is more favorably received in companies with a high-pressure, results-oriented culture (Bates, 2003). Others have also noted that forced ranking systems seem to be more acceptable at high-tech, manufacturing,

and financial service organizations, rather than in the public sector and retail sector (Todd & Ramachandran, 2007). In fact, poor cultural fit is frequently given as the reason for why some companies have tried the process and subsequently abandoned it. These were the ostensible positions taken by both Ford and Goodyear when they dropped the process after trying it, although both were also being challenged in court over their use of the process when they chose to abandon it.

Research Perspectives on Forced Ranking and Morale

Although the debate over how forced ranking shapes morale is impassioned, research on the relationships between them is limited. Nonetheless, that which does exist can help inform practitioner choices and approaches to forced ranking. Certainly the previously discussed research regarding fairness perceptions is relevant, as is research pertaining to social comparison processes. For example, to the extent that such processes discourage collaboration and promote self-interest, we might also expect that they have implications for other contextual dimensions of performance such as organizational commitment and citizenship behaviors.

In their study of how a performance appraisal process affects trust, Mayer and Davis (1999) demonstrated that trust perceptions of top management improved for those employees who had the opportunity to participate in a new appraisal process designed to enhance perceived accuracy and instrumentality (recognizing and rewarding employee contributions). Although their study did not involve the use of forced ranking, its results reinforce the importance of taking ratee reactions into account (Murphy & Cleveland, 1991). To the extent that trust perceptions can influence employee satisfaction, behavior, and performance, those contemplating the use of forced ranking need to understand employees' perceptions of any existing appraisal processes on one hand and, on the other, should work to ensure that any new system is perceived to be accurate and instrumental. Management must be able to convey how the forced ranking process and/or aspects of the performance management system will ensure that judgments are based on detailed information, allow

for constructive feedback, and offer developmental opportunities (Blume, Baldwin, & Rubin, 2007; Folger & Cropenzano, 1998).

Going forward there remain many opportunities to further examine how forced ranking processes affect morale and related affective outcomes. One important question will center on the differences between how the process influences the attitudes of highly rated versus lower rated performers. Based on the arguments put forth by supporters, we might expect that morale for top performers can be enhanced. Other investigations might help us to better understand the extent to which having support systems (such as coaching or development planning) can mitigate negative reactions that might otherwise occur. Still others might want to consider longitudinal effects on morale or the ways in which organizational culture determines reactions to the use of forced ranking. In addition, it would help to know more about how the use of forced ranking affects leader–member relationships via trust perceptions or perceptions of a leader's personal power.

Although the existing research is indeed scant, when taken together with the arguments put forth by forced ranking advocates and critics, it is still possible to highlight morale-related strategic considerations and questions that practitioners will want to keep in mind. They are summarized in Exhibit 12.3.

Legal Considerations

Like all employment practices, forced ranking processes are subject to laws protecting employees against discrimination (for example, Title VII, Civil Rights Act of 1991, Age Discrimination in Employment Act, and The Americans with Disabilities Act). Moreover, it is important to keep in mind that, in addition to federal laws, state laws also apply, which in some cases give greater latitude when it comes to both bringing and proving claims of discrimination.

Among the various kinds of discrimination that occur in the workplace, forced ranking has been most susceptible to claims of age discrimination under the federal government's Age Discrimination in Employment Act (ADEA) and similar state laws. Virtually all of these cases have centered on claims of adverse impact (scenarios in

Exhibit 12.3 Forced Ranking and Morale: Strategic Considerations.

- Develop plans to communicate:
  - How the process was designed
  - How the forced ranking process will work
  - What employees can expect of the managers rating them
  - What will be expected of them in the process
- Don't let forced ranking become an excuse that reinforces bad development practices.
- Again, consider organizational culture, especially in terms of trust and openness.
- Understand what your organization currently does to recognize and nurture contextual behaviors and teamwork. Be mindful of how forced ranking might affect those efforts.
- Understand what morale is currently like for top performers and also other employees.
- Look for opportunities to provide employees with a voice in the process:
  - Appeal processes
  - Self-assessments
- Develop plans to integrate forced ranking with development initiatives and other programs that support employee efforts to improve.
- If forced ranking is not being used for development, make sure employees understand how development is supported by other performance management systems.

which an employment practice, while not designed to intentionally discriminate, nonetheless has a discriminatory effect on members of a protected group, which in the case of the ADEA are employees over age forty).

Generally speaking, adverse impact claims under the federal ADEA have met with limited success. Although plaintiffs may be able to demonstrate a discriminatory effect for a given practice, employers have still been able to defend themselves by demonstrating that the practice in question is based on reasonable factors other than age (RFOA). Some state courts, however, have

been more receptive to adverse impact claims based on age (Anonymous, 2005).

In recent years many prominent organizations have been involved in adverse impact cases over their use of forced ranking (for example, Ford, Goodyear, Microsoft, and Sprint). In most instances the AARP has assisted the aggrieved employees in bringing their cases to court, and all have centered on the fact that a disproportionate number of older workers receive lower rankings. To date, almost all of these cases have been settled out of court. Exxon, though, has won two cases regarding the use of its forced ranking system (Grote, 2005, p. 215).

Taken together, the results of these cases suggest that forced ranking is a clearly defensible practice when implemented with care. At the same time, those considering forced ranking should recognize that the process may expose them to the potential costs and bad press that accompanies discrimination lawsuits. Exhibit 12.4 highlights some key steps organizations should take to better ensure the defensibility of any forced ranking process they implement. These summary points are derived from more elaborate discussions provided by Grote (2005), Woolen (2003), and Bates (2003).

Key Implementation Steps

An important theme in this chapter has been that part of the controversy surrounding forced ranking is also a function of how it is implemented. For a detailed discussion of how to implement a forced ranking process, I would direct readers to Grote's book on the topic. Nonetheless, the following paragraphs briefly highlight some important design and implementation steps.

System Design

1. Decide how you are going to use ranking. Keep in mind that some organizations have chosen to use forced distributions as a tool to regulate ratings within their existing performance appraisal process. Others (for example, GE) use forced ranking as a process that is independent of but complementary to the

appraisal process. Grote (2005), for instance, stresses that if you plan to use forced ranking, you should first make sure you have improved the content and mechanics of your appraisal process.

2. Determine the consequences you'll want to associate with ranking results (terminations, promotions, development planning, or others) and when those consequences will start to take effect. Many organizations have elected to implement the process gradually, either by using it first for senior personnel or by incrementally introducing consequences. You'll also want to think about how frequently you'll conduct rankings. Most organizations do it on an annual basis. Other decisions will include defining the ranking pool. Comparability is important, with some organizations using titles or salary grades as the basis for making that decision. Those doing the ranking should include managers who have direct responsibility for the people being ranked.

3. Ensuring that the criteria used for ranking decisions are clearly job related is critical. Some organizations rank employees in relation to discrete competencies that may be weighted in order to obtain an overall rank. As mentioned earlier, others rely on relatively few broader criteria that reflect important organizational values and standards. One common approach is similar to that used by Amgen, a financial services organization (Pyles, 2008). They use a nine-box behavior/results matrix. Employees are placed into a grid based on how they are ranked in relation to (a) whether their behavior exceeds, meets, or fails to meet standards and (b) whether their results exceed, meet, or fail to meet standards. Others also factor in potential for development as an important ranking criterion.

4. As previously discussed, decisions about communication have important implications for how the system will be accepted and can have legal implications. It will be important to let people know why and how the system was designed, who will be affected, and what the consequences are.

System Implementation

1. Raters should be trained on how to interpret rating criteria, on how to make accurate behavioral observations, and on the mechanics of participating in ranking discussions. This training is especially important when part of the rationale for introducing the process is to reduce rating inflation and other biases.

2. The ranking sessions themselves need to be well designed. Using a facilitator is highly recommended, and the sessions should be constructed to ensure that the discussions about each employee are highly specific and descriptive in relation to

ranking criteria. Some organizations provide rankers with brief ranking books to be used as starting points. Expect ranking sessions to be lengthy and impassioned discussions.

3. Organizations need to have clear and somewhat standardized procedures that define the discussions they will have with employees after they have been ranked. Depending on the consequences associated with ranking outcomes, the discussions will have to be clear about implications for termination, future development, and ongoing responsibilities.

Concluding Comments

The purpose of this chapter has not been to argue definitively for or against using forced ranking. Instead, by describing challenges and opportunities, the goal has been to help interested parties understand the forced ranking debate before settling on a course of action for their own organizations. Clearly, there are many successful companies using the process and also many successful companies that do not. There remains much more to learn. We know little, for instance, about how cultural differences influence the effectiveness of forced ranking. Given the global nature of today's economy, practitioners and researchers would benefit from a deeper appreciation for how the process aligns with cultural values and legal frameworks that exist outside of the United States (Blume, Baldwin, & Rubin, 2007).

Ultimately, for any given enterprise, decisions about whether or how to use forced ranking will likely come down to one of cultural fit and/or commitment to change. To that end, it can help to consider the kinds of issues and questions posed in Exhibit 12.4. It can also help to reflect again on the two quotes that opened this chapter. Surely there is middle ground somewhere between the demands of Gordon Gecko and the laments of Willy Loman. That is to say, the forced ranking debate exemplifies how the practice of performance management challenges us to balance organizational performance requirements with concerns for personal dignity and development. Even as they pertain to forced ranking, these two issues need not be at odds, but maintaining that balance certainly requires forethought and hard work.

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Notes

1. These results were virtually identical to a similar survey SHRM conducted in 2003.
2. In his book *Forced Ranking* (2005, p. 23) Dick Grote estimates, based on his experience, that 25 percent of all companies use forced ranking. Others have estimated about 20 percent.