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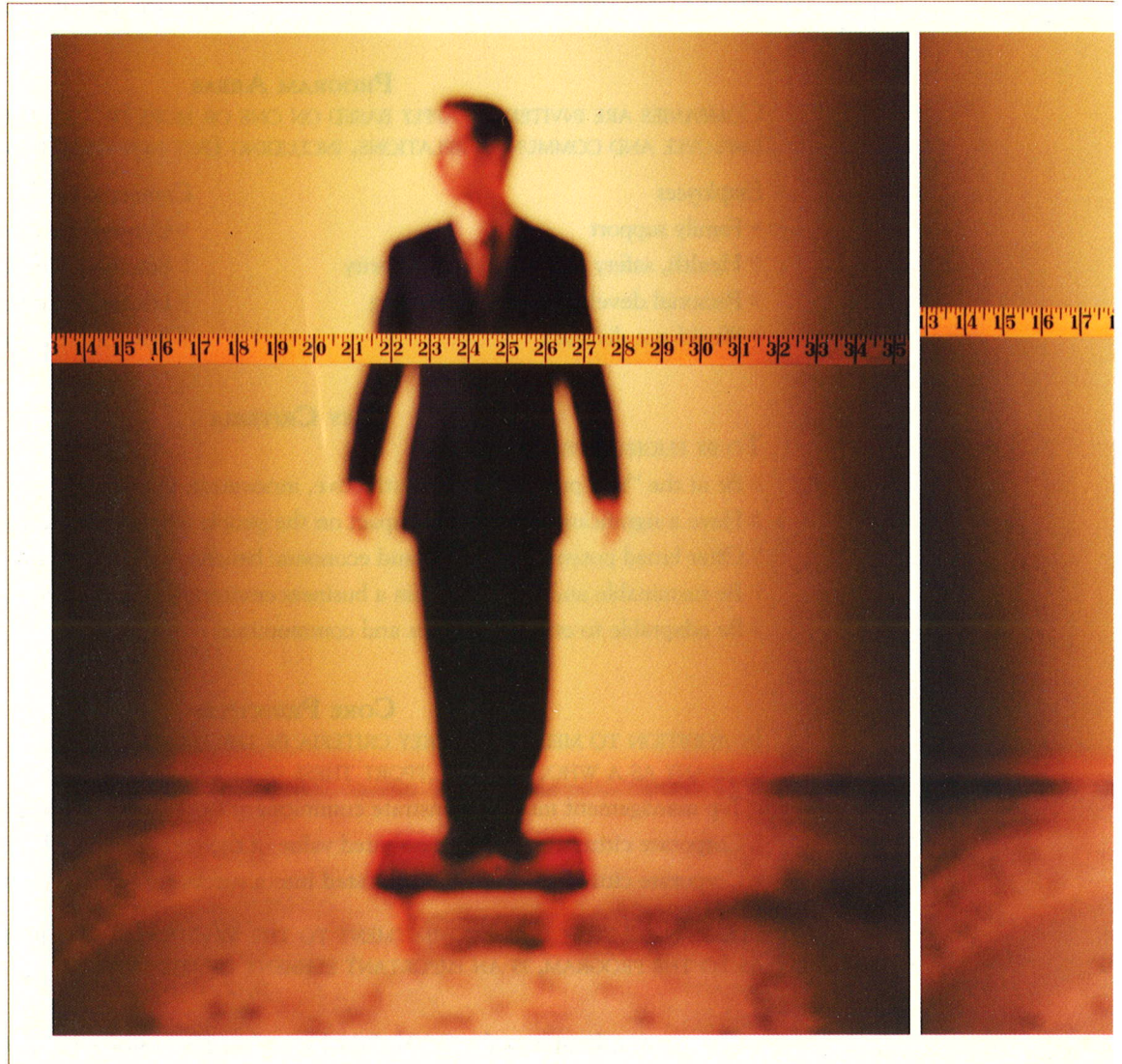
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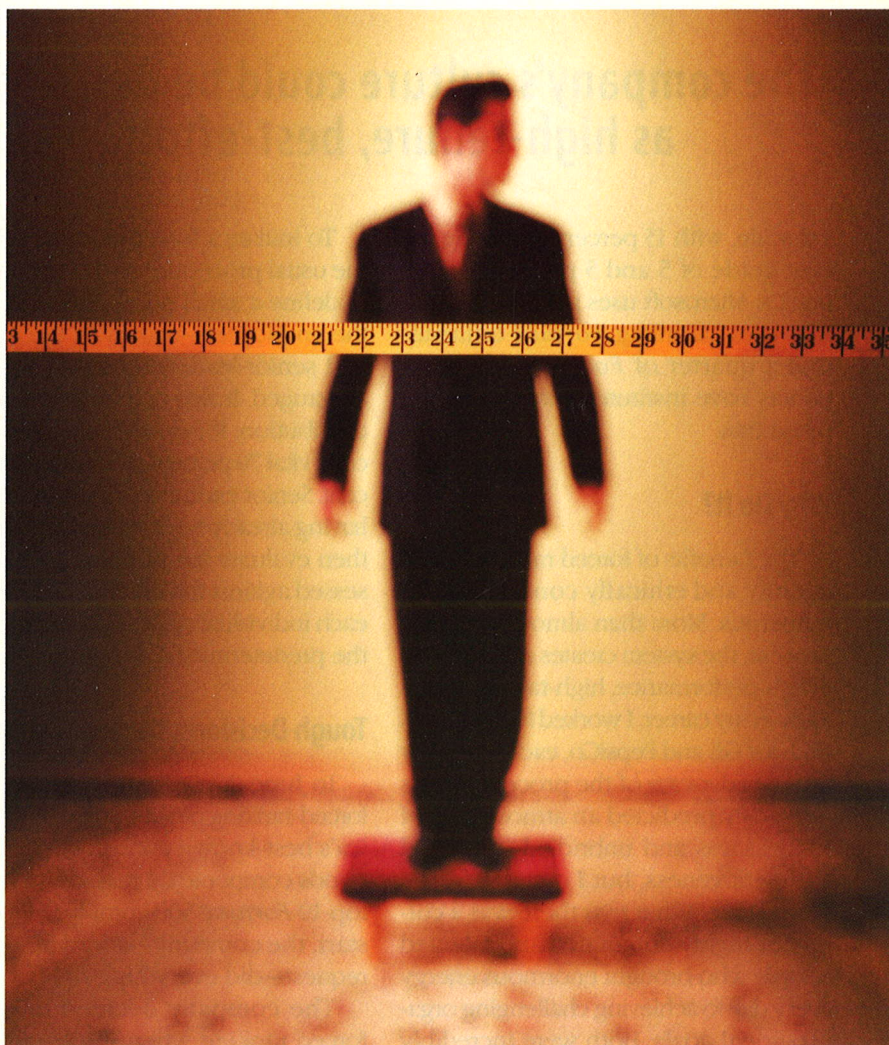
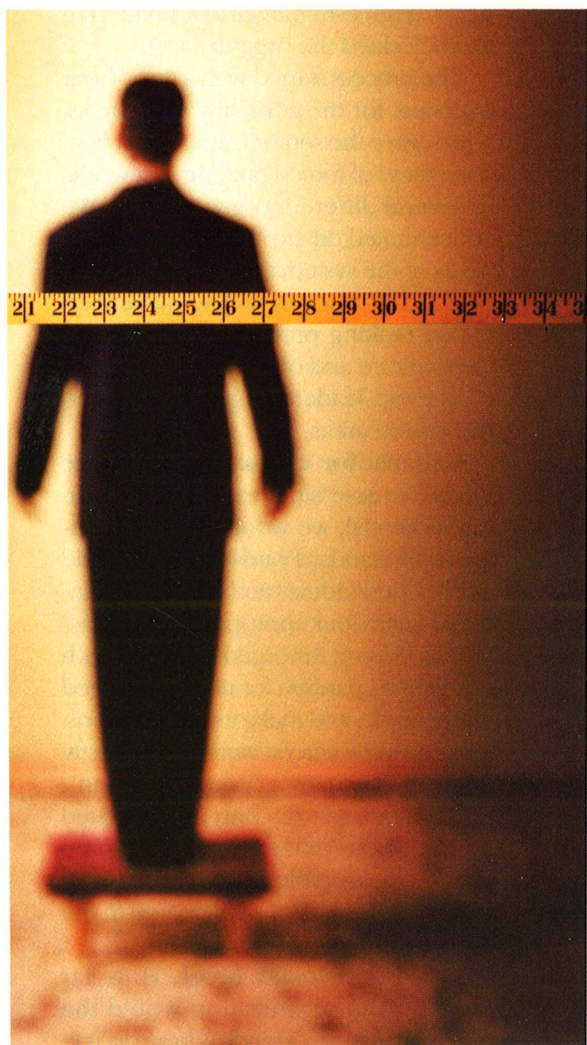
Forced Ranking: Behind the Scenes



What really happens when managers sit down to rate employees against each other.

By Dick Grote

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“Charlie’s better than Sam but not as good as Mary.” In a nutshell, that’s the operating dynamic behind forced ranking, the management practice that requires supervisors to assign employees into different categories based on both past performance and leadership potential.

At companies that don’t rank employees, almost every worker can come

away from a performance-appraisal discussion feeling, like the children of Lake Wobegon, that he is above average, particularly if a faint-hearted manager sets her standards low enough that even the village idiot can exceed them. But with a forced-ranking system, managers are *required* to bell-curve the troops.

General Electric, the firm with which the procedure is most closely associated,

sorts employees into three groups: a top 20 percent on whom rewards, promotions, and stock options are showered; a “high-performing middle” 70 percent with good futures; and a bottom 10 percent. “A company that bets its future on its people,” CEO Jack Welch wrote in his final stockholders’ letter, “must remove that lower 10 percent, and keep removing it every year—always raising

the bar of performance and increasing the quality of its leadership.”

GE isn't alone: Ranking employees is everyday practice at companies like Microsoft, Cisco Systems, Hewlett-Packard, Sun Microsystems, Conoco, Capital One Financial Corp., and Intel. Sun's system parallels that of GE: 20 percent are “superior,” 70 percent are “Sun Standard,” and 10 percent are “underperforming.” Hewlett-Packard uses a

leading it, both now and in the future. Managers placed in the lowest category (C players) are typically removed from the position or from the organization altogether. This separation process frees the organization of relatively lesser-performing contributors and allows these individuals to achieve a higher probability of career success by finding jobs and/or organizations that are more congruent with their skills.

The company's culture could be described as high-tenure, best-effort.

1-5 scale, with 15 percent receiving the best grade of 5 and 5 percent receiving 1's. Microsoft uses a 2.5-to-5 scale; EDS uses quintiling. *Fortune* estimates that a quarter of *Fortune* 500 companies have instituted forced-ranking programs.

Why Do It?

The benefits of forced ranking, intelligently and ethically conducted, are numerous. More than almost any other process, the system creates and sustains a high-performance, high-talent culture. Early in my career, I worked for five years each for GE and PepsiCo, each company a vocal advocate of the process. Critics nervously predicted an atmosphere of ruthlessness and unbridled individual competitiveness, but I never saw one materialize. What *was* there was a culture of highly committed and talented people who brought enormous energy every day to achieving challenging organizational goals. Both were incredibly healthy and satisfying places to work.

The great value of using a forced-ranking process doesn't result merely from plunking people into the different buckets: The payoff comes from the action that is taken with each person following the assessment sessions. Identified top performers (A players) are subject to aggressive development, grooming, and rapid promotion. This ensures that the company has the high-performing executive talent pool

To initiate a forced-ranking process, the usual procedure is for the company to define a small number of criteria for the employees—usually at the middle- and senior-leadership level—who will be gauged. It also determines a ranking distribution: for example, a top 20 percent, vital 70 percent, and bottom 10 percent. Senior executives (themselves often having already been ranked by the CEO) then evaluate the population being assessed against the criteria. They discuss each individual and assign her to one of the predetermined categories.

Tough Decisions, Unpleasant Choices

In June 2002, I completed a major forced-ranking project with one of America's best-known consumer packaged-goods companies, a major division of a top-10 *Fortune* 500 company. From the start, the company—anonymous at its request—did everything right.

The company decided to initiate forced ranking when the parent company brought in a new CEO for a turnaround. He uncovered some issues:

- While the company was highly profitable, market share had been flat for the past several years.
- The firm's culture could be described as high-tenure, best-effort.
- Performance appraisals were regular and routine, but leniency was common.
- The succession-planning process included all of the accepted stan-

dard features, but the same candidates were rated as highly promotable year after year—and key organizational slots were rarely filled by the candidate identified by the succession-planning list.

In addition, a recently appointed performance-improvement manager with two decades of field HR experience wanted to explore forced ranking as a way to overcome the functional silos and performance-management laxity that characterized the organization.

The process started with a three-hour overview for the company's top brass, which gave the senior leadership a first-hand view of forced ranking as it works in several different organizations. We concentrated on exploring the components of the system that, assuming they decided to proceed, would make their forced-ranking process appropriate to their culture and objectives.

The top-leadership group analyzed five critical areas:

Criteria for evaluation. Since we would be assessing leadership and future potential, we would need to identify some standard yardsticks that would apply to individuals across all organizational units. Four appropriate and measurable criteria emerged: execute with excellence, passion for results, succeed with people, and make tough decisions. The first three criteria were lifted directly from the company's “Values in Action”; the final one was not only incorporated in one of the other values but would also be measurable in part by the way in which the person participated in the process as an assessor.

Organizational level. How far down in the organization would the ranking process extend? Where do you reach the point of diminishing returns? And would this executive group also be included in the forced-ranking population? To ensure that the process would have the biggest impact, we decided that only the company's top executive and VP group (47 individuals) and their direct reports (180 individuals) would be included in the ranking process. This meant that the CEO and I would meet for him to rank his seven direct reports. This group would then meet with him

to assess the pool of VPs, and the VPs would meet to assess all of the remaining managers.

Confidentiality. To what extent would the company publicize the fact that it was adopting a forced-ranking system? Would assessees be told how they came out in the process? The group decided to publicize the program to all employees, even the ones who weren't included in the ranking process. "No secrets, no surprises" was the mantra.

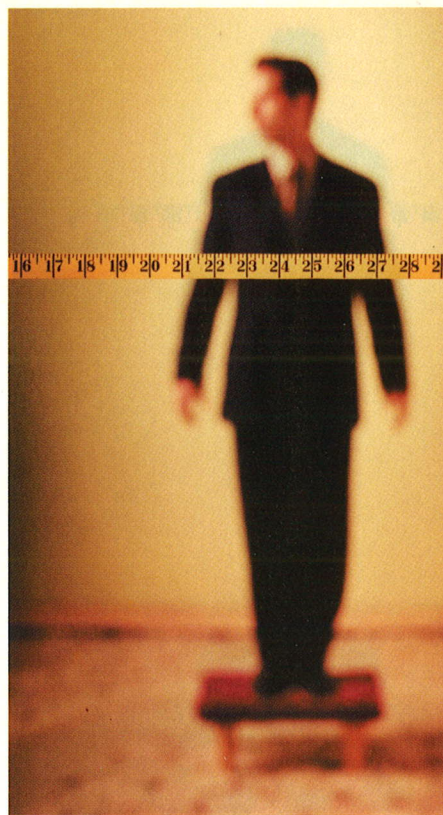
Procedure. How would the ranking sessions be run? How long would they last? What would be the roles and responsibilities of each participant? And how would assessors be prepared so that they could do their job knowledgeably and accurately? We decided to run two sessions a day—a bad decision, as it turned out, since we ended up spending less time identifying developmental ideas for the A players than we would have liked.

Outcomes and consequences. What would happen once the ranking process was complete? What would we do with those who were assessed to be the company's A players? More worrisome to the group: What would we do with those identified as C's?

A significant amount of discussion involved that last question: What would happen to the bottom-ranked individuals? The immediate assumption was that they would be involved in a development effort to move them up into the B-player ranks. I pointed out that, unfortunately, the effect of initiating development efforts with this group is merely to churn the larger population. People who are rated as C's are developed until they move up a bit and displace some bottom-end B's. These new entrants to the C ranks are then developed until they move up and displace others—a never-ending nasty cycle.

A better solution, I argued, was to do what everyone knew was right: to reserve development efforts for the A players who would enormously benefit both themselves and the company, and to remove C players from their jobs.

Did this mean summary terminations? No. But it meant that anyone identified in the bottom group would be either



moved to another job that he could handle in an outstanding way, or exited from the company in a dignified way.

Getting Started

The program was well-publicized to everyone who would be directly affected as an assessor or assessee. Each individual was assured that not only the final ranking itself but the strengths, weaknesses, and development needs (as well as conflicting opinions) that emerged in the group discussion would be shared.

Every assessor got a briefing book on the individuals being assessed, with a complete job history and demographic data along with the last one or two performance appraisals. Each one went through a three-hour training program that reviewed the spirit, intent, and mechanics of the program, along with skill-

boss and the worst. Now assess that boss against the four given leadership criteria. What made him an A player or a C?

Finally, in the two weeks before the meeting, the CEO sent two e-mails to everyone involved in the procedure. In the first, he said, "The purpose of this process is to identify the top 20 percent of our leaders whose career development should be accelerated, the middle 70 percent whose solid contributions are critical to our success, and the lower 10 percent whose talents are not fully leveraged here, and who could probably be better utilized elsewhere. This initiative will focus on employees in grade levels 14 and above, including my management team."

In the second e-mail, he offered a blunt message to all assessors: "The future of the company's leadership rests with the employees that you identify as the top 20 percent. Use care, be deliberate, be selective, and be 'executive' in these identifications. I want the best identified so that aggressive development can be created and implemented for them. We must also identify a full 10 percent of our lower performers. That said, I am prepared to work with you to ensure that all employee separations that become necessary through this process are accomplished in an orderly manner."

Behind Closed Doors

The assessment meetings took up most of a week, with each meeting running up to eight hours. At first, it seemed feasible to conduct two assessment sessions per day, morning and afternoon, for two different groups. But the intensity of the meetings, coupled with the large number of people to be assessed, caused

What would happen to the bottom-ranked individuals?

building activities. A sample: Write down the initials of every boss you've ever had in your career, from your first part-time job in high school up to the one you've got now. Pick the A and the C—the best

many sessions to run long. We made sure to never sacrifice the quality of discussion of any individual; only the extended discussions of development needs for A players and appropriate placement

for C players had to be shortened.

Meeting mechanics were simple: In each session, the name of each manager to be assessed was written on a 4x6 Post-It note and arranged in alphabetical order on blank flipchart pages posted on the wall. In the center of the room, facing the group of assessors, was a blank piece of graph paper, 5 feet high by 10 feet long. Lines divided this paper into three segments. The only words on it were "Top 20 percent," "Vital 70 percent," and "Bottom 10 percent" at the top of the appropriate section, together with another Post-It that showed the exact number of people who needed to be assigned to each category.

After a quick review of the mechanics for the session, the rationale, a few ground rules, and the key points from the training sessions came the final instructions about the meeting outcome: "Your job is to discuss each individual fully, then move each name from the alphabetical list to the appropriate position as an A, B, or C player."

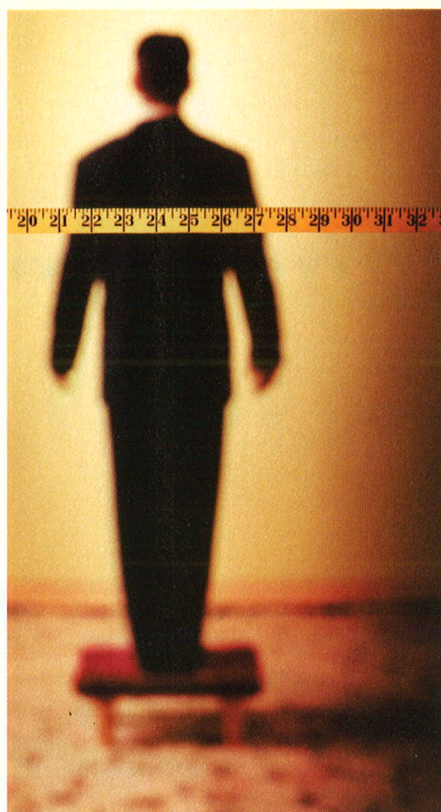
In the first session, after a minute or two of hesitation and shuffling, the assessors decided to move all of the names from the alphabetical list to the initial position at once rather than one at a time. Each boss went up to the flipchart, peeled off the names of his subordinates, and stuck them in the A, B, or C area.

There were 39 people to be evaluated. When the assessors sat down, the numbers weren't close to what they needed to be. Thirteen names had been placed in the A area, 26 were tagged as B's, and the C territory was empty. For the first of several times in the session, I reminded them of the outcome required: 7 A's, 28 B's, 4 C's.

"If this were my company, would I want this guy on my team?" the head of manufacturing asked of an apparent high-potential benchmark A player. "I'm going to throw the first turd on the table," he continued. "He doesn't belong in the top 20 percent. He's no A."

The sales head came in. "I want him on my team," he said. "On my B team."

The man's boss, after several others challenged the assumption that this individual, long considered a high-potential employee, actually had less stretch



than had been assumed, got up and moved his name out of the A ranks. "But he's a *high B*," he said as he moved the Post-It note to the other side of the line.

"There's no such thing as a 'high B!'" the manufacturing VP responded. "A B is a B is a B."

The first argument erupted. Quickly, the assessor group further refined the middle category into B-pluses, B-minuses, and the great majority of solid B performers. This made sense, since the conversations following the assessment meetings would be different depending on whether a B player had just missed being named an A or had barely escaped a C-player designation.

The discussions concentrated on the requirement that they make their judgments based on the four criteria that the executive group had selected: execute with excellence, passion for results, succeed with people, and make tough decisions. But other factors continually came in. One manager was new to a job, which, somebody argued, made him a B by default. "Not true," another said. "We are looking at an individual's innate skills, and they aren't going to change because of a new job."

Pruning the A-player list was tough, since all agreed that these managers were among the best in the organization. But the rules couldn't be changed.

"Look," somebody explained. "We've got a shelf that holds seven bottles. It doesn't matter how hard we work or how beautiful the bottles are. We can put only seven bottles on the shelf!"

Assigning people to the C category was equally difficult, even when there was common agreement that an individual did not measure up to the rest of the team. "I don't want to have to shoot myself in the foot and get rid of somebody that I don't have a replacement for," the head of IT said. "Does it mean we have to terminate?"

The CEO raised a key question. "Will this be a hollow exercise if we don't terminate?" he asked. The ensuing discussion revealed that departments that had moved quickly on marginal performers now stood at a disadvantage compared with those that had tolerated mediocrity. "But a C is a C, wherever he is," another said. The outcome was that one department that had never been seen as tough-minded ended up contributing almost all of the C players to the list.

Each individual was discussed fully, though some required far more time than others. The solid B players were usually identified and slotted with just a few minutes of review. The longest discussions centered around those who had generally been accepted as high-potential promotion candidates until the discussions around the table revealed that not everybody agreed with that view.

"I'll be straight," the CEO said about one individual who for years had been seen as the obvious replacement candidate for an executive's position. "She's not an A player, and she's not going to get your job. She's not proactive. She may be a strong manager, but she's not a leader. I'm not going to say *never*, but it's a long, uphill fight. She needs to work on her bedside manner. You have turned her into a very competent professional, but she's not on track for your job."

The sensitivities that surround personnel discussions throughout organizations showed up here, tempering the blunt frankness that characterized all of the sessions:

"Would you give her the Western region and the SBU job?"

"Yes, I probably would."

Sorry, You're Dispensable

The moment of truth in forced ranking comes when the manager, having fingered one of his troops as a C player, has to sit down with the individual and break the bad news. What's the typical reaction?

One cynical survivor of many years of the forced-ranking process put it bluntly: "The A's all think they're B's, the B's are scared they'll be ranked as C's, and all the C's are confident that they're unquestionably A players."

Only rarely, though, are C players massively deluded,

and total surprise is uncommon. More often, the individual knows that there's not a good match between the contribution she's been making and the company's expectations. But the fact that people may not be completely shocked doesn't take away the difficulty of actually breaking the bad news. Here are some tips that will make the task as pain-free as possible:

Don't put off the discussion. Immediately after the last ranking session, there will be some administrative business to be concluded before the conversations can begin, such as reviewing the possibility of internal placement or figuring out the severance pack-

ages. But the conversations need to happen right away. Everyone is eager to know how he came out.

Randomize your discussions. Don't start by talking with all of the people who were ranked as A players, then move to the B's, and then to the C's. People are sufficiently maze-bright to spot this kind of sequence.

Get right to the point. The best way to open the conversation is by saying, "Come in, George, sit down. I've got some bad news for you. We have concluded our ranking sessions, and I need to tell you that after significant discussion, you were ranked in our lowest category."

Be specific about what's next. Be prepared to discuss pay, benefits, unused vacation time, internal opportunities, references, outplacement, and the severance package in full detail.

Avoid inappropriate commiseration. Don't say, "I understand how you feel." You don't. Don't say, "I know that this hurts right now, but later on you'll realize that this is the best thing that could have happened." It isn't. It is a very bad thing for the individual, even though the process will ultimately result in a stronger organization when the C player moves to a different company—one where, perhaps, he can be an A. —D.G.

"If she were a white male, would you give her the job?"

"Well . . ."

"She is disorganized in her style of thought. If she were a white male, we wouldn't be having this conversation. She is a solid B. Promoting her is not the right thing for this organization." A pause. "Am I damning her too much?"

"No. She's a B."

Besides identifying the company's top talent, vital majority, and also-rans, the intense discussions also caused senior management to look at development in ways bigger than training seminars and executive-university programs. "Are there jobs at headquarters that we can use as development experiences for these guys in the field who we just don't see?" the VP of HR asked.

The head of operations responded. "We've got a couple of jobs that might be possible to use as 18-month rotation assignments."

"There's another issue," another participant said. "We've got some people who are doing a good job but aren't going anywhere and aren't going to move. These people are slot-blockers."

The name of a slot-blocker surfaced. One of the executives talked about him in a way that made him sound like a obvious C player, a man that needed to be replaced. "But telling him that he's a B will be a real shake-up for him," his boss replied, still convinced that his subordi-

nate was a candidate for an A ranking.

"So would telling him that he's a C and he's out," another responded.

The matter was settled. "I don't think it's healthy for anyone to be in that job forever," the VP of HR said. The individual would be told that while he was ranked as a B player, the organization would look for another assignment for him because his job was too important to have it permanently filled. Throughout the discussions, participants talked about temporary assignments and special projects that could stretch and test the corporation's high performers and bring them to the closer attention of the top-management group.

Finally, the rankings were complete; the sheet of paper had seven names in the A area, 28 in the B section, and four in the C. The job was done.

And Then What?

The immediate result was that the task was completed successfully: Each group of assessors assigned the appropriate percentage of individuals to the various groups. But more than that, in every case they achieved a genuine consensus on the leadership potential of each of the company's top 227 managers.

For each of the C players, assessors discussed whether there actually was an appropriate job match somewhere in the company or whether it would serve

everyone's interests best if the person sought opportunities elsewhere. For the A players, specific developmental assignments were discussed for some; for others, a development plan was figured out over the following weeks, with the individual's active participation.

Perhaps the greatest additional benefit resulting from the process came in the comments made by many of the managers and executives as, exhausted, they left the room at the close of the session: that they had for the first time truly understood the depth of the company's top-talent pool and recognized where peaks and valleys existed.

Forced ranking can't substitute for other organizational processes. An effective performance-appraisal process that focuses all organization members on key goals and competencies should be in place before a forced-ranking procedure is initiated. Because of forced ranking's sensitive and controversial reputation, wise decisions about tailoring the procedure to the organization's specific culture need to be made from the start. The process needs to be toughly managed, since the temptation to bend the rules—to put just one more bottle on the shelf—will be always be present. But if a company wants to jumpstart a genuine leadership-development process, and move quickly toward muscle-building the organization, forced ranking is the best tool around. ♦

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