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Forced Ranking

Jumpstart your development process.



by Dick Grote

CHARLIE'S BETTER THAN Sam but not as good as Mary—that is the

operating dynamic behind forced ranking. Companies using a forced-ranking system require managers to assign people into categories based on past performance and leadership potential.

General Electric 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 futures, and a bottom 10 percent who are not likely to stay. "A company that bets its future on its people," GE's former CEO Jack Welch wrote, "must remove that lower 10 percent every year—always raising the bar of performance."

Ranking employees is everyday practice at Microsoft, Cisco Systems, Hewlett Packard, and Sun Microsystems. Sun's system parallels GE. HP uses a 1 to 5 scale with 15 percent receiving the best grade of 5, and 5 percent receiving 1. Microsoft uses a 2.5 to 5 scale. At PepsiCo, managers allocate people into four quartiles; EDS uses five.

All these systems require managers, in addition to evaluating how well Anita meets her objectives and how well Harry performs his job, to rank people against each other, placing each person into one of a few categories with a fixed percentage assigned to each bin.

At companies that don't rank employees, almost everyone can come away from a performance appraisal feeling that he or she is above average, particularly if a faint-hearted manager sets his standards low enough that the even the village idiot can exceed them. But with a forced-ranking system, managers are required to bell-curve the troops.

Annual performance appraisal, done right, encourages people to set meaningful goals, educates all members about desired competencies, and helps them see how their performance

contributes to achieving the mission. It also identifies outcomes those goals must produce, key job responsibilities, and the standards and measures used to assess performance. It's a *person-to-standard* comparison.

Forced ranking, however, is *person-to-person* comparison. While all member should know what's expected of them and set meaningful goals, the payoff for assigning talent into A, B and C pools is greatest with those at the top.

Performance appraisal necessarily focuses on the past year. Forced ranking, on the other hand, focuses exclusively on the future. The issue for assessment in forced-ranking sessions is the amount of stretch the person has to lead people into the future.

Critics of forced ranking say that it is discriminatory, subjective, divisive, arbitrary, and unfair. Certainly the process is discriminatory: it discriminates in favor of the talented and energetic and against the lazy and dull. Such discrimination is not illegal.

People tend to believe that they are better than they actually are. Workers ranked at the bottom will never like it or accept it. Everyone wants the answer to the question, "Where do I stand?" Forced ranking gives them the answer. Unfortunately, some people will not like the answer they get. If they are members of a protected class, they can easily transform their disappointment into an accusation that the ranking was a function of their age, color, or gender, and not of their poor performance.

The argument that forced ranking is illegally discriminatory seems specious. But what if a company's forced ranking procedure, done honestly and objectively, reveals that some people just aren't as talented as others? Should they engage in race-norming to boost the scores of low-rated performers? It's counterproductive to keep less qualified employees and lay off better employees.

Is forced ranking arbitrary and subjective? Of course it is arbitrary: managers are required to assign employees

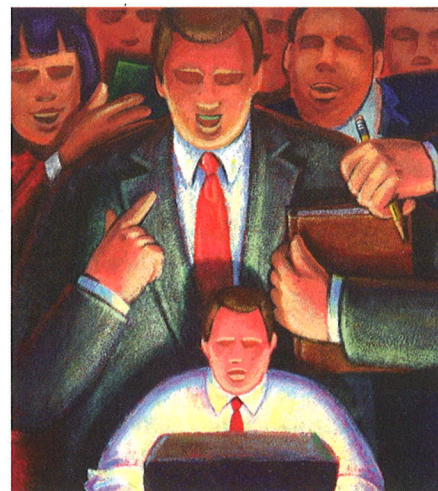
into a specific and arbitrary number of performance categories. But the rigorous procedures in place in most forced-ranking systems prevent the process from becoming erratic and capricious.

Is the process subjective? Only to the extent that, like so many other difficult decisions managers are required to make, there is no easy answer as to who ranks higher than whom. The ranking process requires the exercise of honed managerial judgment in a situation where the data are always incomplete—the same judgment that we applaud when applied in other areas.

Is the process unfair? The most common objection to forced ranking posits a situation in which the hapless manager is forced to judge a team of skilled "Green Berets," each doing an excellent job, and force-rank some into the dunce category. But talent variations do exist, even among Green Berets. Some show more courage under fire than others; and some make better judgments. So, while everyone may play a unique role well, some play their roles better than others and offer more potential to play bigger and more challenging roles.

What is never said in these specious objections is the opposite (and equally likely) scenario: the team in truth is a bunch of Keystone Kops, and the forced-ranking system compels managers to place a few of the witless and undeserving into the top category.

Payoffs and turnoffs. Critics also contend that the process may impact morale by generating an "every man for himself" culture made up of self-centered individualists who scorn team play and value competition over cooperation. You can allay that concern by



ensuring that the ranking criteria value teamwork and cooperation.

The benefits of forced ranking, intelligently and ethically conducted, are many: it creates and sustains a high-performance, high-talent culture.

Early in my career, I worked five years each for General Electric and PepsiCo. Both companies are advocates of forced ranking. I never saw evidence of the ruthlessness and unbridled competitiveness anticipated by the critics. Instead, I saw a culture of highly committed and hugely talented people who brought enormous energy every day to achieving challenging goals. Both were incredibly healthy and satisfying places to work for the talented because those who didn't share their level of talent or commitment didn't stick around long.

Forced-ranking procedures correlate with total return to shareholders and other measures of performance.

Employees rated at the top stand to receive not only greater financial rewards but also enhanced and targeted development efforts. It makes sense to identify those who will benefit the most from these expensive development activities.

An effective forced-ranking procedure helps make performance management a priority, lets employees know where they stand, overcomes the common reluctance to finger poor performers, and injects some starch into the backbones of managers who would prefer to rate everyone as above average.

We often see a disconnect between the information in the performance appraisal and the picture that emerges in the frank, person-to-person comparisons made in the forced ranking. When top executives discover that they and their managers have routinely approved excessively lenient assessments of the performance of staff, future appraisals tend to be much tougher.

The forced ranking process is a rigorous approach that reinforces the fact that managers and leaders should be subject to a higher standard of performance.

Forced-ranking ensures that the company has the highest performing talent pool leading it both now and in the future. If you want to jumpstart a genuine leadership development process, try using forced ranking.

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ACTION: Try ranking your people.

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