

Forced Ranking—Behind the Scenes

Overview

In June 2002, I completed a major forced ranking project with one of America's best-known consumer goods companies. From the start, the company—anonymous at its request—did everything right. We'll call it Acme Services Company.

Why did Acme decide that forced ranking was the right approach? Almost three years before, a new CEO had been brought in from the parent company for a turnaround. He found:

- While the company was highly profitable, market share had been flat for the past several years.
- The company had a culture best described as high tenure, best effort, get along, go along, don't make waves.
- Performance appraisals were regular and routine, but leniency was common. Almost everyone was rated in the top two of the five categories. In addition, in sales, the one department where there initially appeared to be more differentiation in performance appraisal ratings than in others, all the lower ratings were concentrated among the salespeople themselves. Middle managers got higher ratings, and all the senior sales executives uniformly were rated in the top appraisal category. This in spite of the fact that sales had been flat for several years and the sales department was universally considered as one of the company's poorest-performing units.
- The company's succession-planning process included all the accepted standard features. But two contradictory problems were obvious: first, the same candidates were rated as highly promotable year after year without anything happening; second, key organizational slots were rarely filled by the candidate that the succession-planning list recommended.

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 lack of performance management toughness that characterized the organization.

The process started with my presentation of an executive overview of forced ranking for the company's top brass. This three-hour presentation gave the company's senior leadership a firsthand view of the procedure as it works in several different organizations. We reviewed the research data that demonstrated a high degree of correlation between excellence in performance management and excellence in business results. We discussed the experiences—positive and negative—of companies that were using forced ranking as part of their talent management practices. A surprising amount of time was spent on clarifying the difference between developing a formal *forced ranking* system like the ones used by GE or Sun or PepsiCo, and requiring a *forced distribution* of scores on Acme's existing performance appraisal system. A significant amount of time was devoted to discussing the cultural impact that the initiation of a forced ranking process would have. We concentrated on exploring the key components of the system that, assuming the senior leadership decided to proceed with the process, would make Acme's forced ranking process exactly appropriate to the culture they wanted to create and the CEO's objectives.

As a group, the senior leadership team analyzed six areas critical for system success:

- *Criteria for evaluation.* Since we would be assessing leadership and future potential, they realized that they would need to identify some standard yardsticks that would apply to individuals across all organizational units. After several iterations, a list of four emerged that everyone agreed were appropriate and measurable: 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. In addition, they decided that raters would be told to also consider each individual's performance history and perceived potential over the next two or three years, along with intellectual horsepower and demonstration of teamwork/collaboration with others.

- *Organizational level.* How far down in the organization would the ranking process extend? Where would you reach the point of diminishing returns? And would this executive group also be included in the forced ranking population? To make sure that the forced ranking process would have the biggest impact, we decided that only the company's top executive and vice presidential group (forty-seven individuals) and the people who reported directly to them (one hundred eighty 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 of his direct reports would then meet with him to assess the pool of VPs; and the VPs, along with their bosses and the CEO, would meet to assess all the remaining managers.
- *Ranking scheme.* Curiously, at the end of the executive overview, there were two sets of opinions about what the best ranking scheme to employ would be. Some of the group preferred adopting a quartiling approach (25-25-25-25) on the basis that this would prevent the possibility of some of their conflict-averse managers from dumping all of their direct reports in the middle category. Others, a slightly larger group, argued for a top 10/bottom 10 approach. A week or so after the meeting, the CEO made an executive decision that the company would use the same ranking scheme that GE had made popular: top 20 percent, vital 70 percent, bottom 10 percent. All the other executives quickly got on board with this decision.
- *Confidentiality and communications.* To what extent would the company publicize the fact that it was embarking on a forced ranking system? Would assessees be told how they came out in the forced ranking process? The group decided to publicize the program to all exempt employees, even the ones who weren't included in the ranking process. This decision resulted from a conclusion they came to during the executive overview that they would start at the top of the organization and then, assuming success with this population, expand the program in the second year to include all exempt employees. "No secrets, no surprises," was the mantra.
- *Procedure.* How exactly would the ranking sessions be run? How long would they last? What would be the roles and responsibilities of each participant? And how would rankers be prepared so that they could do their job knowledgeably and accurately? We decided to conduct mandatory three-hour training sessions for all rankers and to hold the ranking sessions offsite—both good decisions. We also decided to run two sessions a day—a bad decision, it later turned out, since time pressure to complete analyzing all the individuals under review forced us to spend less time on identifying developmental ideas for the A players and replacement plans for C players than we would have liked.
- *Outcomes and consequences.* What will happen once the ranking process is complete? What will we do with those who are assessed to be the company's A players? More worrisome to the group, what will we do with those identified as Cs?

A significant amount of discussion swirled around that last question, what will 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 usual effect of initiating development efforts with this group is merely to churn the larger population. People who are rated as Cs are developed until they move up a bit and displace some bottom-end Bs. 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 for them in their specific situation: to reserve intensive development efforts for the A players who would enormously benefit both themselves and the company, and to remove C players from their jobs, placing them either in other jobs within the company that they could unquestionably handle with a high degree of competence, or arranging for them to leave the organization and find a more appropriate position elsewhere.

Did this mean summary terminations? No. But it meant that anyone identified in the bottom group would be removed from his position and either moved to another job that he could handle in an outstanding way or exited from the company in a dignified way with a generous separation package. When separations were deemed necessary, they would be done over time—a brief period of time—but long enough to make sure that the company wasn't damaged by important work left undone or that the morale of the great majority of employees wasn't wounded by seeing coworkers treated without compassion. Once this

decision had been made, the HR team developed an attractive severance package to be offered to those who would end up in the bottom group.

Finally, the company decided to include a form of appeal process. They decided that if an employee disagreed with the outcome of the ranking session, he or she could reject the severance package and over the next ninety days attempt to demonstrate that the assessors had been wrong and that he truly was in the solid **B** category. If this happened, then the record of the initial C assessment would be expunged, and he would be dealt with the same as anyone else who had initially been placed in the vital 70 percent category. But if he failed, he was told that termination would occur, and the severance package would not be as generous as the one offered at the conclusion of the initial rankings.

Figuring Out the Nuts and Bolts

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

Every assessor got a briefing book with complete job histories and demographic data on the individuals being assessed, along with the last one or two performance appraisals. The briefing book opened with a one-page cover sheet that detailed the individual's complete employment history (both with the company and previous jobs), educational background, pay grade and salary, time in position, performance appraisal summaries, skill assessment, photograph, and the result of the last succession-planning discussion. Each one went through a three-hour training program that reviewed the spirit, intent, and mechanics of the program, along with intensive skill-building activities. A sample activity: 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 boss and the worst. Now assess that boss against the four leadership criteria. What made him or her an A **player** or a C?

Finally, the CEO sent everyone involved in the procedure two e-mails in the two weeks before the meeting. In the first, addressed to every one of the people who would be reviewed in the ranking sessions, 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." His e-mail continued:

This program will benefit everyone who is involved. For those 90 percent of Acme managers who will end up being ranked in the top two groups, the ranking process will confirm the importance of their contributions. For those ranked in the top 20 percent, this program will highlight the talent they bring to Acme and accelerate their development. And for the 10 percent who are ranked in the bottom category, this process will allow the person to move to a job that better matches his or her skills, whether inside or outside the company.

In the second e-mail, with the subject line "My expectations," he provided 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 which become necessary through this process are accomplished in an orderly manner.

Finally, he concluded that e-mail to assessors with some bullet points:

- I fully expect that each of you will continue to prepare for the sessions as you have been instructed. Get your thoughts together and talk to the employees who report to you who will be assessed. Get their viewpoints on how they feel that they have performed to the criteria.
- Think out of your functional silos. Demand that your fellow assessors provide clear examples of excellence when they describe an employee.
- Ask questions . . . reach in to zones of discomfort.
- There will be a minimum of 10 percent lower-echelon individuals identified. The number could be greater in any given session *but not less*. I have heard talk that there may be less . . . let me be clear, *there will not be*. I recognize that this is a difficult task, but it has to be done if we are going to raise the bar for executive leadership at Acme.
- Planning for what the development plans for the top 20 percent is going to look like is under way at this time. While the architecture for this development is being finalized, I want you to know that I expect each of you to take a major and fundamental role in this endeavor. The development of our top 20 percent is a strategically important undertaking for which many of you will be held directly responsible.

An “Orderly Manner”

One of the early concerns of the executives who would be participating in the ranking session regarded what would happen to those subordinates who were identified as C **players**—the bottom 10 percent. They and their colleagues had decided that these people would not be merely advised of the fact that they were identified in the bottom group or be given a year to shape up, but instead would be moved out of their positions. Most of them probably knew before the sessions even began who their C **players** were. They also knew that these were good people, many of whom, through no fault of their own, had been promoted over their heads, and almost all of whom had been faithful and diligent workers for many years. They were not “poor performers”—the company’s true poor performers had been let go in the course of two reductions in force over the previous two years. They were people who simply didn’t have what it took to move the company from where it was to where it needed to be in order to survive in a highly competitive environment.

Complicating the situation was the fact that many of the potential C **players** were working on important special projects or assignments that they were capable of handling in an excellent way. Managers were concerned that they would be forced to remove someone from a job prematurely, without allowing for important projects to be completed or for replacement candidates to be identified. We realized that not telling them how they came out until their project was completed and a replacement was in the wings was both ethically and operationally unworkable. It would be wrong not to let people know how they came out as soon as the sessions were completed—we had pledged that we would do so. Besides, the anxiety produced by forcing people to wait for the news would have an intensely negative effect on both morale and productivity.

Instead, managers were told that first, they would be able to replace anyone they let go as a result of the ranking sessions. (One of the biggest resistances to forced ranking arises when managers are not allowed to replace individuals who are terminated as a result of ending up in the lowest category. Managers are much more willing to identify and remove poorer performers if they know they can immediately replace the person with an outside hire.) Second, we told them to work out a plan for the individual’s orderly transition out of the job (and out of the company if no appropriate internal position could be found) with the full involvement of the employee himself and the HR specialist for the department.

Inside the Assessment Meetings

The assessment meetings took up most of a week, with each meeting running up to eight hours. At first we thought it would be 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 many sessions to run long. The quality of discussion of the performance and potential

of any individual was never sacrificed; 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 4 × 6 sticky note and arranged in alphabetical order on blank flip chart pages posted on a side wall. In the center of the room, facing the group of assessors, was a blank piece of graphics paper, five feet high, ten 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 sticky note that provided the exact number of people who needed to be assigned into 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 required 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 and not one at a time. Each boss went up to the flip chart, peeled off the names of his or her subordinates, and stuck them in the A, B, or C area.

In the first assessment session, thirty-seven people needed to be slotted as As, Bs, or Cs. After the assessors sat down, the numbers weren't close. Thirteen names had been placed in the A area, twenty-six were tagged as Bs, and the C territory was empty. For the first of several times in the session, I reminded them of the outcome required: seven As, twenty-six Bs, four Cs. Then they started talking.

This group of Acme's vice presidents began their discussion by reviewing a person who had been proposed as a top 20 percent individual. “If this were my company, would I want this guy on my team?” the head of manufacturing asked of this 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 other participants put forth the argument 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 sticky note to just 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. Very quickly the assessor group further refined the middle category into B-pluses (those who just missed being classified as As), B-minuses (those who barely escaped the C category), and the great majority of good solid B performers. And this made sense, since the conversations that would follow the assessment meetings would be different depending on whether a B player just barely missed being named an A or whether the individual just barely escaped a C-player designation. (See the scripts in [appendix A](#) for what to say to A, B, and C players.)

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 and, somebody argued, was 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 list of A players was tough, particularly since everyone agreed that these managers were all 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 only put seven bottles on the shelf!”

Assigning people into 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?" "Will this be a hollow exercise if we don't terminate?" the CFO responded. The ensuing discussion brought out both the fact that while terminations would result, they would be arranged so as to cause minimum disruption to everyone involved, and the observation that some departments that had done a good job of moving quickly on marginal performers stood at a disadvantage compared with those that, until now, 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 particularly tough-minded or demanding ended up contributing almost all the C **players** to the list.

Every 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 involved those who had generally been accepted as high-potential promotion candidates, when the discussions around the table revealed that not everybody agreed with what had previously been the accepted view.

"I'll be straight," the chief operating officer said to the VP of HR about one individual who for years had been seen as the obvious replacement candidate for the VP of HR'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 the sessions:

"Would you give her the Western Region job?"

"Yes, I probably would."

"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, the vital majority, and the also-rans, the intense forced ranking discussions also caused senior management to look at development in bigger ways than training seminars and university executive programs. "Are there jobs in headquarters that we can use as development experiences for these guys in the field that 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 eighteen-month rotation assignments."

"There's another issue, though," 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."

A name of a slot blocker surfaces. One of the executives talks about him in a way that makes him sound like an obvious **C player**, a man that needs to be replaced. "But telling him that he's a **B** will be a real shake-up for him," his boss replies, still convinced that his subordinate is a candidate for an A ranking.

“So would telling him that he’s a C and he’s out,” another responds. The matter is settled. “I don’t think it’s healthy for anyone to be in that job forever,” the VP of HR says. The individual will be told that while he was ranked as a **B player**, the organization will be looking for another assignment for him because his job is too important to have it permanently filled.

The Results

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, they achieved in every case a genuine consensus on the leadership potential of each of the company’s top 227 leaders. The ranking session results were reviewed by the CEO and both the company’s inside and outside legal counsel to see if the outcomes produced any issues of disparate impact. None were found and no legal challenges resulted from the separations that resulted from the process.

For each of the **C players**, a full discussion was held during the ranking session about whether there actually was an appropriate job match for this person somewhere in the company or whether it would serve everyone’s interests best if the person left to find other opportunities elsewhere. For some, there was an obvious better fit within the organization. For the majority, the company’s generous severance package, combined with outplacement and other help, made the transition to a new employer easier. For some **A players**, specific developmental assignments were discussed; for others, the 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 leadership peaks and valleys existed. The company’s annual succession-planning event had never generated the depth of analysis or the candid scrutiny of talent that the forced ranking session had produced

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 will always be present. But as Acme Services Company demonstrated, if a company wants to jump-start a genuine leadership development process, and move quickly toward muscle-building the organization, forced ranking may well be the best tool around.

Forced Ranking and the Small Company

I’m sure that the impression I’ve given in this chapter is that forced ranking is a procedure undertaken only by the big guys—*Fortune* 500 companies and similar-sized firms. I have discussed conducting training programs and utilizing external facilitators. I described how Acme put together briefing books and made provisions to keep those rankers who may not know a particular person being reviewed engaged with the process. I talked about a process used in a company employing thousands of people to rank the top 227 executives. But is all this activity necessary when it’s a small company that is using forced ranking?

No, it’s not. Recently, on a Monday morning, I got a phone call from the HR director of a local company with about one hundred thirty people. We’ll call the company TechCorp. She told me that after two years of the president’s urging his VPs to toughen up their performance standards and take action to replace subpar performers, his CFO had decided (at long last) to fire the manager of accounting and replace him with a stronger individual. This decision gave the president the stimulus to decide that a more thorough housecleaning was needed and demand that the HR manager create and execute a forced ranking system specifically to identify and terminate the weakest 10 percent of the company’s employees.

Learning about my work in this area through her company's employment attorney, she was calling me to ask for help.

After a short meeting with her the next day to review some of the basic concepts of forced ranking and to learn more about the president's expectations, I suggested that she review our discussion with him. I said, "Ask him if he'd like to meet with me to talk about the possibility of my working with them to design the system, make sure it did what he wanted, and was defensible in the event any challenge later arose to the terminations he was planning."

That was Tuesday. She called back on Wednesday asking if I could meet with her and the president at 1:00 p.m. Thursday—the next day. I said I'd come over a little early so she and I could come up with a game plan for my meeting with him.

That game plan went out the window when he and I started talking. He knew exactly what he wanted. He said that he had told his five VPs that they were to come into the conference room where we were now meeting at 1:30 p.m. (it was now 1:05 p.m.). He told me that he wanted me to tell them how to do forced ranking to identify the bottom 10 percent so they could be terminated and wanted her to make up a list of all the people in the company and have it ready to hand out to the vice presidents the next day. And, he said, they were all going to be involved in a conference call at 2:30 p.m., so I only had an hour to get them on board and explain how the process would work.

In the twenty-five minutes I had before the company's five VPs walked in, the three of us hammered out the details of their forced ranking system:

1. Instead of just identifying and terminating the worst 10 percent of the TechCorp employee population, they would approach it as a talent identification process and identify their best performers as well as those on the bottom.
2. They would use a top 20 percent/vital 70 percent/bottom 10 percent ranking scheme.
3. They would separate the total employee population into two different lists: one of exempt employees (about a hundred, primarily engineers) and the other of nonexempt employees (about thirty, primarily secretaries and administrative assistants). Each VP would independently rank both groups.
4. For each group, each VP would conduct the top 20/vital 70/bottom 10 analysis on the entire list, including both his own direct reports and those people who worked for the other VPs. They would do this over the weekend. On Monday morning, they would meet and compare lists, thrash through any disagreements, and come up with a final 20/70/10 distribution for the president's review.
5. On Monday afternoon, the VPs would meet with the president and the HR manager, review their recommendations, and make any final adjustments to the list.
6. People who were ranked in the bottom 10 percent would be terminated from the company. But a specific departure plan would be created for each individual, taking into account the projects the individual was currently working on, to minimize disruption, and the individual's history with TechCorp.
7. A generous severance package would be tailored for each departing individual.
8. The HR manager would work with each of the VPs on development and retention plans for those identified in the top 20 percent.
9. The use of the forced ranking process would be considered "company-confidential" information and not discussed with employees.
10. I would write and provide them with scripts to advise those employees who ended up in the bottom group that they would be leaving the organization and how the termination process would work.

At 1:30 p.m. the vice presidents walked in. We had quickly duplicated copies of the overview materials I had brought with me to go over with the president. I handed them out. I went over the rationale for forced ranking and explained the basic principles (two of the five had earlier worked for large corporations and had participated in a ranking process; the other three were familiar with forced ranking from their business reading).

We established the criteria they should use to make the decisions. I drew the two matrixes I provided in [chapter 4](#) (see [figures 4-1](#) and [4-2](#)) on the conference room's whiteboard. I suggested that besides making their decisions based on current performance and perceived potential, they also consider two additional factors: effectiveness of execution and intellectual horsepower. We went over the mechanics and timetable. We talked about how to make good ranking decisions. At 2:30 p.m. we were done. Their forced ranking system had been designed. They left for their conference call; I drove back to my office.

The following Tuesday, the HR manager called. The process had worked perfectly. The VPs had come to agreement without difficulty, the president concurred with their recommendations, and all of them felt significantly enlightened by having to identify the top 20 percent. The scripts were just what they needed. The TechCorp forced ranking process was a smashing success.

All the publicity about forced ranking has focused entirely on America's household-name companies and left the impression that it's a technique for only giant corporations. Granted, designing and installing a forced ranking procedure is usually a major organizational change requiring the efforts of many people over a period of several weeks or months, as we saw with the example of Acme Services Company. But it doesn't have to be that way. It particularly doesn't have to be that way in the small company. Forced ranking can be an appropriate talent management process for any company of over a hundred or so people to consider. It can happen fast, and it can be done right in a very short period of time (as the leaders of TechCorp demonstrated).