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Precarious curve ahead: The effects of forced distribution rating systems on job performance

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ABSTRACT

The forced distribution rating system (FDRS) is frequently used to appraise an employee's performance. The purpose of this paper is to synthesize theory and empirical research to present an integrative model for understanding the potential benefits and risks of a FDRS on the three components of job performance: task, citizenship, and counterproductive performance. A FDRS may lead to higher task performance in the relatively short-term, as it initially motivates effort as well as helps attract and retain top talent. Caution is in order, however, as a FDRS may also lead to lower citizenship performance and higher counterproductive performance through injustice perceptions and dysfunctional competition. Over time, the risks of a FDRS on job performance may increasingly outweigh initial benefits, particularly under certain task (interdependence) and group (cultural) characteristics. Implications of a FDRS for human resource management research and practice are discussed.

1. Introduction

The forced distribution rating system (FDRS) is a performance appraisal system that *forces* supervisors to distribute a predetermined percentage of employees in categories based on their employees' performance relative to other employees' performance. Jack Welch is most often credited with popularizing the FDRS (Lawler, 2002; Naughton & Peyser, 2004). Under his leadership, General Electric's (GE) FDRS involved a 20/70/10 "vitality curve" (Welch, 2001). Specifically, supervisors identified the "top 20%," "vital 70%," and "bottom 10%" of their subordinates. Those in the top 20% received raises two to three times greater than those given to the vital 70%, who were given "solid" increases. Those in the bottom 10%, in contrast, received nothing and often were fired. Although GE's 20/70/10 distribution is considered something of a standard (Becker, Huselid, & Beatty, 2009; Boehle, 2008), the FDRS is by no means unique to GE. For example, supervisors at both Ford and Goodyear have evaluated employees using a 10/80/10 distribution (Osborne & McCann, 2004). It is estimated that about 30% of America's highest ranked (Fortune 500) companies have used variations of a FDRS (Ovide & Feintzeig, 2013). These companies include Amazon, Cisco Systems, and Dell.

The defining characteristic of a FDRS are as follows: Supervisors are required to rate their employees' performance *relative* to other employees' performance; and, based on this appraisal, assign employees to predetermined performance categories. The number of performance categories is usually between three and five, and – comparable to a normal distribution or bell-shaped curve – there are typically smaller percentages of employees in the top and bottom performance categories, with most employees being rated in the middle categories (e.g., General Electric's 20/70/10, Ford's 10/80/10 distributions). These performance

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categories are, in turn, typically linked to decisions affecting compensation, promotion, and termination. Hence, the FDRS is often referred to in the business community as "forced ranking," "stack ranking," "the bell curve," or "rank and yank" (Eichenwald, 2012; Holland, 2006; Kantor & Streitfeld, 2015). Despite significant controversy surrounding the practice, this FDRS continues to be used in many large organizations.

Based on computational modeling, Scullen, Bergey, and Aiman-Smith (2005) showed that a FDRS initially leads to improvement in a firm's workforce potential. In a laboratory experiment, Berger, Harbring, and Sliwka (2013) showed that productivity on a task requiring independent work effort was higher in a forced distribution as compared to a baseline condition. While these studies contribute important insights, under-specified in the current literature is how *social and psychological factors in the context of organizations* influence the performance effects of a FDRS. As we further discuss in this paper, a FDRS may lead to dysfunctional competition and perceptions of injustice, and in turn less helping and more sabotage behaviors. These are critical factors to consider because job performance in real organizations often requires teamwork rather than independent work effort.

The purpose of this paper is to advance theory on the effects of a FDRS by reasoning about its potential benefits and risks on job performance, and the *conditions under which* its risks are expected to outweigh potential benefits. Toward this end, the paper is organized into three main sections. First, background information and existing literature is briefly reviewed. Second, an integrative model of the effects of a FDRS on the three components of job performance is proposed, with seven sets of research propositions flowing from this model. Through this integrative model, we explain *how* and *why* a FDRS may initially have positive effects on task performance, but over time have negative effects on citizenship and counterproductive performance, such that the practice may eventually become detrimental to employees' overall job performance and by extension organizational performance – particularly when applied in organizational contexts that require high levels of task interdependence and social support among comparison others. As we further discuss below, in reasoning about the underlying processes through which a FDRS affects job performance, we assume that the organization is using the practice as a "stand alone" system (i.e., not in conjunction with other performance appraisal practices) based on valid performance criteria. Finally, based on the integrative model, we conclude with implications for human resource management research and practice.

2. Background information on forced distribution rating systems

2.1. Performance appraisal criteria

In general, Grote (2005) advocates use of the company's core values or, where possible, the list of job competencies that are important to a firm. The criteria against which performance was assessed at General Electric (GE) were the company's four E's of leadership: high *energy*, ability to *energize* others, *edge* to make tough decisions, and ability to *execute* and deliver on promises (Welch, 2001). Sanofi-Aventis used data on sales numbers, client relationships, product and service knowledge, and call reporting and documentation (Boehle, 2008). At Microsoft, employee performance was rated against previously identified job goals (Amalfe & Steiner, 2005).

2.2. Research on forced distribution rating systems

There is a paucity of research on the FDRS. Blume, Baldwin, and Rubin (2009) studied how potential applicants' attraction to an organization is influenced by four FDRS elements: (1) extent of rewards for high performance; (2) extent of consequences for low performance; (3) frequency of performance feedback; and, (4) size of comparison group. College students read descriptions of jobs in different companies that use different types of FDRSs. They then rated the attractiveness of those jobs. What the students found most attractive in a FDRS were: high monetary rewards for high performance; frequent performance feedback; and, large comparison group sizes. The severity of the consequences for low performance – particularly, job dismissal – had a negative impact on their judgment of a FDRS.

In a subsequent study, Blume, Rubin, and Baldwin (2013) found that respondents who scored higher on a cognitive ability test indicated greater attraction to an organization using a FDRS than those who had lower scores. The researchers reasoned that this may be due to those with higher cognitive ability anticipating success in acquiring the job knowledge needed to perform well. There was a significant interaction between collectivistic values and perceptions of the fairness of a FDRS. Respondents who scored high on collectivism were particularly sensitive to perceived lack of fairness in a FDRS. Collectivists value group welfare over individual rewards, and therefore are averse to a system that they perceive unfairly rewards some team members and punishes others.

While Blume et al. (2009, 2013) examined the FDRS from the perspective of potential *ratees*, Schleicher, Bull, and Green (2009) examined this practice from the perspective of potential *raters*. MBA students and managers reported that appraising performance was more difficult and less fair using a FDRS than a performance rating system where individuals are rated against an absolute standard (e.g., meets or exceeds sales goal). This was especially true if the raters perceived relatively little performance variability among employees, and if their evaluations were linked to administrative decisions such as salary raises, promotions, or terminations.

Berger et al. (2013) compared the performance effects of a forced distribution compared to an absolute rating condition. Productivity was 6 to 12% higher under the forced distribution condition. The performance benefits of the FDRS were lower, however, when workers had previously been exposed to the absolute rating condition. In addition, workers in the forced distribution condition were twice as likely as those in the absolute rating condition to sabotage others when the option to do so was available.