The Economist

Motivating workers
Ranked and yanked
Firms that keep grading their staff ruthlessly may not get the best from them

It is a brutal management technique in which bosses grade their employees' performance along a "vitality curve" and sack those who fall into the lowest category. Known as "ranking and yanking", it had its heyday in the 1980s and 1990s. In America its popularity faded somewhat after it was seen to have contributed to the fall of Enron. Now it is back in the headlines.
Mayer: who's for the chop next?

On November 8th All Things D, a tech-industry website, reported that Yahoo staff are increasingly unhappy about a quarterly performance review introduced last year by the new boss, Marissa Mayer. The grading exercise is said to have cost 600 of them their jobs in recent weeks.

Four days later, Microsoft announced that its own, equally unpopular system was being scrapped. In a memo, Lisa Brummel, Microsoft's head of human resources, said there would be "no more ratings" and "no more curve". The firm would implement a "fundamentally new approach", designed to encourage teamwork and collaboration.

Many firms, from Amazon to PwC, still use some version of what management theorists also call "stack ranking" to sort the sheep from the goats in their workforce. However, many of them enforce it more flexibly than seems to have been the case at Microsoft or Yahoo. Even General Electric, which pioneered the technique during the uncompromising reign of "Neutron Jack" Welch (GE's boss from 1981 to 2001), has since softened its approach.

The reason such gradings have not died out entirely is because employers still "need to find ways to fairly evaluate their employees and have a basis for compensation differences," says Robert Kaplan of Harvard Business School.

This is especially true when there is a wide gap between the remuneration of top performers and the rest. To avoid lawsuits claiming unfair discrimination, firms need to be able to show they have a clear basis for decisions on pay and bonuses.

Ranking and yanking is more logical in investment banks, law and accountancy firms and big consultancies: their business model is, in a sense, built on recruiting large numbers of junior staff and motivating them with the prospect of becoming a partner, even though in practice only a few of them can ever make it. In other types of business, the evidence suggests that it may work at first, if a firm needs to cut away dead wood (as Ms Mayer seems to think necessary at Yahoo). But the benefit can disappear and turn into a cost if the ranking and yanking is done repeatedly, says Denise Rousseau of Carnegie Mellon University. "You can quickly end up with the people in the bottom quartile being average performers rather than poor performers," she notes. "There is nothing wrong with being average in an above-average workforce. A lot of good work is done by average people."

If a large proportion of the workforce doubt the fairness of the grading system, and fear being among an arbitrarily imposed quota of "underperformers", many may try to jump before they are pushed: staff turnover may thus be higher than is desirable. Worse, employees may look for ways to game the system, as happened at Enron, where workers conspired to inflate their results to secure their bonuses or escape the axe. That is not the sort of teamwork and collaboration that is wanted.