We've recently posted a couple of articles about **employee development** and **workforce management** in times of budgetary pressure. We've tried—perhaps too subtly—to nudge readers towards thinking about their employees and about strategies for ensuring that their organizations are positioned to survive the looming budget cuts, and perhaps even thrive.

Have we been too subtle? Heck, we came right out and **begged** you to take action on these issues, back in February.

While the idealist hopes you've invested time thinking deep thoughts about these issues, the cynic is pretty sure you've blown them off. We're sure you had good reasons: focusing on program execution is always a good rationale for ignoring more long-term needs. If other excuses were needed, we expect budget planning or mid-year forecast efforts were trotted out like show horses. In other words, we bet you've been ignoring your workforce issues and will continue to ignore them … and then of course you'll complain when your operations start to become negatively impacted.

We figure you need another swift kick to the keister.

So here's yet another article on the boring, yet critical, topic of workforce management. Print it out; show it to you co-workers. Post it on the bulletin board. Send a copy anonymously to HR. We don't care (just make sure you note it came from www.apogeeconsulting.biz). But *do something about this*, will you please?

Our first point is brought to you by DefenseNews, who **reported** that defense contractors "are struggling to keep talent" in the budgetary downturn. The DefenseNews article stated—

Cutting employees is easy. Keeping the right ones is difficult.

While U.S. defense companies will likely continue to reduce staffing as part of the defense downturn already in progress, the process of sorting the critical from the expendable is a concern for many senior executives.

Much of their fear stems from a glance at history: The aerospace and defense industry didn't handle the last downturn well. Not only did a loss of critical knowledge affect efficiency, but in many cases companies were ill-prepared to support government needs when greater spending returned.

The article quoted Steve Grundman as saying—

'In general, I think reductions in the last downturn were focused on 'capacity' and capital investments, not people, and what they learned was that the focus should have been on 'capabilities' and skills instead,' Grundman said. 'Compared to finding a good systems engineer, it's comparatively easy to build a factory, an insight I'm not sure was so widely shared 20 years ago as it is today.'

One of the time-honored tactics for managing workforce cuts is to "stack rank" (sometimes called "rack and stack") employees. Employees in each organization are ranked in comparison to each other. Often this is an annual process; but when workforce cuts are being contemplated, it is traditionally one of the first steps that management takes. We understand why. Generally speaking, you want to lay-off your low performers and retain your high performers. Thus, you first need to identify who is who. Makes sense, right?

Well, maybe not.

Recently, we have come across articles and discussions which assert that "stack ranking" is a fairly *terrible* approach to workforce management—especially when implemented on a routine basis and especially when a pre-selected "grading curve" is issued by upper management. The pre-selected approach was made famous by Jack Welch and the General Electric Company, where the lower 10% of the workforce is identified annually—and then fired—came in for special criticism.

The first salvo came from an article about why Microsoft is no longer the leading-edge of technology innovation. One of the primary reasons for Microsoft's lagging performance in innovation and development, according to the author, is its preoccupation with forced rank stacking. A summary of the article stated—

Analyzing one of American corporate history's greatest mysteries—the lost decade of Microsoft—two-time George Polk Award winner (and V.F.'s newest contributing editor) Kurt Eichenwald traces the 'astonishingly foolish management decisions' at the company that 'could serve as a business-school case study on the pitfalls of success.' Relying on dozens of interviews and internal corporate records—including e-mails between executives at the company's highest ranks—Eichenwald offers an unprecedented view of life inside Microsoft during the reign of its current chief executive, Steve Ballmer, in the August issue. Today, a single Apple product—the iPhone—generates more revenue than all of Microsoft's wares combined.

Eichenwald's conversations reveal that a management system known as 'stack ranking'—a program that forces every unit to declare a certain percentage of employees as top performers, good performers, average, and poor—effectively crippled Microsoft's ability to innovate. 'Every current and former Microsoft employee I interviewed—every one—cited stack ranking as the most destructive process inside of Microsoft, something that drove out untold numbers of employees,' Eichenwald writes. 'If you were on a team of 10 people, you walked in the first day knowing that, no matter how good everyone was, 2 people were going to get a great review, 7 were going to get mediocre reviews, and 1 was going to get a terrible review,' says a former software developer. 'It leads to employees focusing on competing with each other rather than competing with other companies.'

Teresa Nielsen-Hayden had this opinion to offer about forced rank stacking, at her website's blog ("Making Light")—

[Rank stacking] strikes me as magical thinking: you make your company more competitive by making its internal departments and individual employees compete with each other. Wherever it comes from, IMO it's profoundly dysfunctional. Business is about getting work done — unless you're in a line of business where that work consists of figuring out who's a star and rewarding them, which is rare.

Companies and departments are by nature internally cooperative clusters of people who are working on the same projects and/or issues. Turning employee evaluations into a game of winners and losers and stars, and employees into competing gameplayers, is not a good way to get work done. …

Stack ranking also fails to take into account what kind of work is being done. Sometimes fast-moving highly profitable achievements rest on an earlier foundation of slow incremental work on less-than-tractable problems. It's not unusual for a department to do both sorts of work. Which kind gets rewarded for being productive? Which gets the bad reviews and firings?

I'll absolutely question the use of stack ranking as a motivational device. Doing good work, looking ahead, helping to create a strong, smart organization, and refraining from doing evil should be enough to get any employee a good annual review. If what it gets them is a note in their permanent record saying it wasn't enough, and they should have done more, they *might* feel motivated to try harder next year, and in a few cases may try harder the year after that; but mostly not, and sooner or later they're all going to lose heart. People want to care about their work. If you break their faith in their job, it's hard to win it back.

It's a miserable system for managers, too. Say you've put together a great department — competent, well assorted, good work proprioception, with high productivity and high morale. Now impose a rating system that tells you that your department manages its people neither better nor worse than any other department. Be forced to label 20% of your people winners, without reference to the rest of the department's work that makes theirs possible. Label 70% of them as timeservers and underachievers, no better than they should be. Label 10% of them failures, or even fire them, when you've spent all year trying to help them be good at their jobs.

One of the commenters on her site offered this observation—

I'll not knock evolution: blind competitive pressure has created some pretty amazing things over the past billion years. One of things it has consistently produced, however, is *cooperation*. Time and again, it's turned out that in a cutthroat take-no-prisoners dog-eat-dog existential battle of all against all, the most winningest strategy is working together. What these competition-inducing schemes to improve upon the inefficiency of group production constantly miss is that group production originates in the first instance by out-competing everything else. Cooperation is where competition leads. Trying to use blind evolution to improve upon cooperative systems is like noticing that great square wheel you made is getting rounded on the corners from wear and setting about sharpening them back up.

This is more than simply the opinion of one (or two) individuals. If you visit Nielsen-Hayden blog post (link above) you'll find links to several academic and business magazine articles on the topic that share this point of view. The consensus seems to be that forced rank stacking is bad for employee morale, hurts productivity and project execution, and stifles innovation. And it's more than simply one or two or seven peoples' opinions—it's also questionable on a statistical level: it's bad math.

As Ms. Nielsen-Hayden wrote—

The 'grading on the curve' aspect of it is also defective. Basic management theory limits the number of employees that can report directly to a single boss. Any department that's small enough for everyone in it to be reporting to the same boss is too small a sample for that boss to be grading them on a rigid 20-70-10 curve.

Besides, as any kid who got curve-graded in school can tell you, it's no guarantee of high-quality work. If all the students in a curve-graded class slack off, they don't all get a D or F. Instead, it gets easier to get a B. If all but a few students slack off, it's a good bet that the ones who don't will get an A. Now translate that into the essentially cooperative workplace. Is it really a good idea to reward employees when their co-workers fail?

Let's posit for a moment that the "rack and stack" practice is bad. *So why do you let your HR Department make you do it?*
And that is the critical question, isn't it? Why do you let your HR folks and senior leadership perpetuate a practice that hurts your company?

We might speculate that the reason for the perpetuation of the practice is that it's "traditional"—i.e., it's the way it's always been done. Nobody who makes the decisions in this area knows any other way.

But we all know that the worst reason to do anything is "because it's always been done that way." (The second worst reason is "because we don't have enough budget to do it any other way.") If that's all they've got for a rationale, then they've got nothing at all. And we think you should call them on it.

One more point apropos to this issue, again offered by Ms. Nielsen-Hayden—

If you know in advance that 10% of the employees in your department are going to get fired, one logical answer is to always keep a few redshirts around. This frees up the rest of you to stop worrying, and work on the stuff you were hired to do. Any good work you get out of the redshirts is pure profit.

Perhaps that's a bit cynical, but it's also the logical answer to the problem of forced rank stacking.

So as you ponder the current and future budgetary pressures imposed on your organization by customers and the general marketplace, we ask you to remember that you need to plan for survival. You need to plan for the long-term future. And that means managing your current workforce, developing employees to become the next generation of leaders, and keeping your HR Department from getting in the way.