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Bell-Curve Rankings In at Yahoo

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It's performance review season... meaning reports of various performance review systems are making headlines for employers. In a recent survey by OnForce, former technology employees turned-independent contractors stated that performance reviews were one of the least missed aspects of working as employees, only behind commuting. Performance reviews come in various types, with some causing more controversy than others. One of the most controversial types of performance review systems is the bell-curve (aka "forced" or "stacked") ranking.

Yahoo is instituting a "stacked" ranking system for evaluating employee performance. This is the second controversial employee relations policy made by Marissa Mayer, the new CEO; earlier this year Mayer cut back on telecommuting for employees.

Historically, there have been many methods to rate the performances of employees. One strategy, popularized in the 1980s by General Electric CEO Jack Welch, is to rank employees along a bell curve. This method forces managers to make comparisons among employees and define a certain set as the top performers and the worst performers. Critics of this system point out that the low performers may still have been performing well, or better than people in other departments. An estimated 30% of Fortune 500 companies still use forced rankings.

Yahoo is now introducing stacked ranking and the company is receiving public backlash. While Mayer reportedly indicated that the ranking system would not be mandatory, it is unclear whether that will be the case. This change is the latest major human resources changes for the company, after reduction in telecommuting earlier this year.

Forced rankings evaluations may not work for all employers. In fact, there are many pitfalls associated with forced ranking systems. One concern is that employees in a certain comparator group may not fall naturally within a bell curve, especially if the group is small. This type of ranking will penalize departments where the majority of the employees are performing well and reward departments where employees are performing poorly. Additionally, these types of comparative rankings may lead to discrimination claims by those employees placed at the bottom of the curve. Forced ranking is often subjective, taking into account the manager's preferences of employees. These preferences may include overt or subtle bias toward the employees, which can lead to a disparate impact on the basis of a protected category.

Before your company chooses an employee performance evaluation system, make sure to consider the potential liabilities associated with the system.

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