



# Why You Need to Fire the Next 10%





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**You need to fire 10% of your talent and it's not the bottom 10%.** That's too easy. You already know they'll never be strong performers and most will drag down your company's productivity and earnings until they leave the organization. Sound harsh? Just wait, it gets worse.

The group you need to fire is the 10% that has hidden for years by delivering "just enough" performance. These employees perform at the low end of average, with an occasional good year that gives them just enough lift to limp-along for one more year. And then one more. If you ranked them against all other employees, they'd never be in the upper 70%.

Their performance isn't so poor that it's obvious they should be terminated. They hover in the tier just above that. But, it would be easy to replace them at the same price and with higher quality talent with relatively ease.

They're often good corporate citizens – they live the values, are nice to others. They may be long-ser-

vice employees who performed well years ago but who don't have the capability or mindset to perform at a high level today.

Some possess great institutional memory. They may have a strong network of relationships in the organization and use those relationships to appear more competent than they actually are.

You know you can do better, but instead you treat them like a car tire with a slow leak. You fill it with air once a week because you don't want to endure the pain and expense of fixing it.

## **The Next 10%**

This group is The Next 10% and every quarter they hurt your company's productivity and earnings. At a time when a few pennies per share shortfall can cost a CEO his job, The Next 10% is the barely hidden secret to better corporate results. Elevate the quality of talent in those roles and you'll see an immediate improvement in their direct reports' and peers' performance.

When we say, 'fire them,' what we mean is 'fire them.' Do it respectfully. Do it with appropriate





notice. Do it with very generous financial consideration. Don't wait until the next restructuring so it's easier on you. Give them a big party and a hearty handshake. But, since your job is to improve company performance, you need to do it.

If you're wondering if the business benefits are worth the pain, consider that:

- **The performance benefits will be immediate:**

We have yet to meet a corporate executive who regretted upgrading the quality of their direct reports. If someone is in The Next 10%, it means that 70% - 80% of employees perform better than they do. Unless your selection process is fundamentally broken, your next hire will easily outperform that person.

If you're concerned that The Next 10%er has unique knowledge that you'll lose or that must be transferred to his replacement, make sure that their very generous severance package includes having them train their replacement and transfer that knowledge.

- **They block others' advancement:** No matter what role that Next 10%er is in, someone else can learn more in their role. Their team members are looking up and wondering if the company will ever recognize that this person just can't do the job. After a bit of wondering they'll leave, assuming that the company doesn't value high performance or development.

- **You'll be judged by their mediocre results:** You're being held to a high performance standard and The Next 10%er isn't helping you deliver results. Your manager knows you need to act on them. Every day you don't act reflects poorly on

your ability to build a high performing team.

- **Team engagement will instantly increase:**

The Next 10%er may be well liked by peers and coworkers, but they know he's not the best talent for the job. They may miss him, for a while, but they'll soon value the high performing replacement much more.

We know from our research that high performing companies regularly upgrade their talent and don't tolerate lower performers very long. They have this shared mindset because they value performance and want the best possible talent in every job. Their executives' Talent Philosophy™ is that average is never good enough.

We also understand that there's concern and anxiety about making what appears to be a dramatic change. When we offer this advice<sup>1</sup> to our clients, we hear a consistent set of questions, including:

**How do we know who's in The Next 10%?** You likely know who they are right now but it helps to have quantitative data to support your choices. Performance ratings are the best starting point but likely not at their face value. That Next 10%er may have received "satisfactory" ratings for the past 5 years.

So, if you stack ranked all employees at their level, where would they rank in that hierarchy? It's likely that many employees received a higher performance rating at least one of those years. Their average rating, even if only slightly higher than theirs, may quickly sort them into the bottom quintile.

You can also stack rank last year's bonus payouts. You can run a "lifeboat" exercise or conduct a Buy, Sell, Hold discussion.

**We've never told The Next 10% that they're low performers. Isn't there's too much legal risk to terminate them now?** The concern with firing employees is that they'll sue you for unfair termination. If that's your primary concern, here's a great way to avoid paying out lots of money tomorrow – pay out a decent amount today.

We said above that we recommend a respectful send-off with generous financial consideration and a hearty handshake. Respect plus money will sharply reduce your risk of a termination ending up in court. Again, this is management advice, not legal advice.

For our friends in countries with works councils or whose management workers are represented by an organized body, you're obviously tied to those rules. That shouldn't change your intent to fire The Next 10%, just the process by which you do it.

**Our Talent Philosophy™ or company values say something about showing respect for employees. How is firing The Next 10% consistent with that value?** You can show employees respect and still deliver strong financial results for your company. Respect doesn't mean keeping under-performing employees in their job. That doesn't show respect for the company, your shareholders, or your coworkers and doesn't speak positively about your ability to manage.

Respect should be shown by treating your employees like adults and being transparent with them about their current performance and about your concerns for their future performance.

**Why not develop The Next 10% or move them to other roles?** You could do either, but it's highly unlikely that a 20th percentile performer will ever be a sustained 50th percentile performer in the same job or at the same level. In very rare cases, there is such a fundamental misfit that moving someone to a new role will spark high performance. In most cases however, The Next 10% individual is in a job too large for their capabilities.

If you're committed to building talent internally, you can give that Next 10% coaching, training, experience and other developmental activities to try to bring them to the 50th percentile. You may get there. By making that choice, you haven't invested in helping those at the 65th percentile get to the 85th percentile. Science would say that shift is where you'll get a better return on your investment.

**We have a "nice" culture. How could we make this work?** Most cultures are

nice cultures and most employees are nice people. They get along with their coworkers and are good organizational citizens. There's nothing that prevents you from having a nice culture and taking this action.

When people say, "nice culture," what they often mean is that their culture is paternalistic, passive-aggressive, not transparent and not honest. Nice is defined as never sharing bad news or confronting low





performance. If that's your culture, you definitely need to fire the Next 10% because there are likely 20% of them.

**S/He's the only person who can do the job.** This is only person who knows how to do this/s/he's the key guy on the project/I can't find a replacement. Each of those statements may be true in the short term but none is a valid long term excuse for inaction. Unless this individual is the only scientist with experience researching a specific molecule that may create your blockbuster drug, there's another one who can do the job.

It might take you 6 months or a year to find her, so start looking today. We don't advise that you move

so fast that you harm the business. But, if you've said this person is a Next 10%er, every day he's there you're agreeing to suboptimal business results.

It may sound cavalier to suggest that you terminate The Next 10% of your talent. We believe that better corporate returns are easily found in upgrading performance in these roles and that current talent will never deliver superior results.

By definition, that talent is in the bottom 20% of your performance curve so you shouldn't be surprised that there's an opportunity to upgrade. It's easy to fire the bottom 10%. High performing companies focus on The Next 10%.

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*<sup>1</sup> No, this is not legal advice, it's behavioral advice. If you're going to fire employees, get advice from your corporate legal department or other qualified legal advisor.*

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