What Is Forced Ranking?

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Forced ranking is a controversial workforce management tool that uses intense yearly evaluations to identify a company's best and worst performing employees, using person-to-person comparisons. In theory, each ranking will improve the quality of the workforce. Managers rank workers into three categories: The top 20 percent are the "A" players, the people who will lead the future of the company. They're given raises, stock options, and training. The middle 70 percent are the "B" players, steady-eddies who are given smaller raises and encouraged to improve. The bottom 10 percent are the "C" players, who contribute the least and may be meeting expectations but are simply "good" on a team of "greats." They're given no raises or bonuses and are either offered training, asked if they'd be happier elsewhere, or fired.

Key Stats

- **Buzzword coined:** 1970s
- **Also known as:** Vitality curve, forced distribution, topgrading, rank and yank
- **Practitioners (past and present):** General Electric, Yahoo!, Ford Motor Co. Capital One, 3M, Enron, and others

Why It Matters Now

Although most large organizations refuse to publicly discuss or even confirm whether they're using some form of forced ranking, as many as one-third of Fortune 500 companies use such systems, says Dick Grote, author of "Forced Ranking: Making Performance Management Work." Forced ranking first gained attention at General Electric in the 1980s. The practice lost its glimmer in recent years following Enron's downfall, which has been attributed in part to back-biting spurred by forced rankings. But with unemployment at its lowest level since the 1990s, the talent war has heated up again, making it more important to identify top performers, since they're being more heavily recruited.

Why It Matters to You

Forced ranking tends to be popular with large corporations that have hundreds or thousands of employees and need to systematize their HR processes. If your workplace is one of these—and if the company is in trouble and looking for solutions—forced ranking could be in your future. The long-run impact should ideally be increased productivity, profitability, and shareholder value. But sometimes a company culture can shift due to forced ranking, creating a more competitive atmosphere and decreasing morale.

If you're in the market for a new job, spend some time researching which companies in your industry use forced ranking. Some firms will not openly offer this information to potential employees.

The Strong Points

By identifying their top employees, companies can jolt managers out of complacency, combat artificially inflated performance ratings, and reduce favoritism, nepotism, and promotions that may be based on factors other than performance. Managers can identify top performers—the people they least want to lose—and reward, keep, and train them to be future leaders of the business. Forced ranking also provides a justifiable way to identify and lose workers who may be holding the business back. About 40 percent of "C" players voluntarily resign, which is often a happy outcome for managers, who can then hire better-quality replacements.

The Weak Spots

Companies can inevitably make mistakes using forced ranking, firing someone who might go on to be a super star elsewhere or discouraging excellent performers by ranking them as mediocre simply to fill a quota. Replacing lower-rung employees each year can also be costly and can lower productivity in the early months of adoption. New data, including a study by Drake University professor Steve Scullen, shows that forced ranking loses its effectiveness after a couple of years, since the average quality of workers increases and there are fewer "C" players to identify.

Critics also claim the system creates a competitive environment that can result in cutthroat, unethical behavior; limit risk-taking, creativity, and teamwork; and discourage workers from asking for help or extra training out of fear that they'll be identified as low performers. The strategy has also resulted in legal troubles for such companies as Microsoft, Ford, Goodyear, 3M, and Capital One, which have fought discrimination lawsuits filed by former employees who claimed forced ranking was used to discriminate on the basis of race or age.

Key Players

General Electric: The most famous practitioner of forced ranking in the 1980s and 1990s. Former CEO Jack Welch suggests that forced ranking helped grow GE's revenues to $130 billion in 2000 from $70 billion in 1995.

Yahoo! The Internet company created its own version of forced ranking, called "stack-ranking," to determine how compensation increases are distributed. Managers rank employees from top to bottom and award bonuses and raises accordingly.

Ford Motor Co.: The car manufacturer employed forced ranking until 2001, when Bill Ford took over as CEO. Ford settled a lawsuit for $10.6 million that year when fired employees alleged age discrimination.

Motorola: The phone maker relied on forced ranking between 2001 and 2003 but has since discontinued using the management system.

How to Talk About It

Despite widespread usage, most executives and human resources officials won't use the term "forced ranking" to refer to their own process because the phrase itself seems harsh. People refer to it as their "talent management process" or "leadership assessment procedure."

Relative comparison: An appraisal that compares employees against each other, forcing some to be rated above others, such as, "How did Joe do compared to Sally and Bob?"

Absolute comparison: A conventional performance appraisal, such as, "How good did Joe do against the responsibilities and goals set at the beginning of the year?"

Forced distribution: An appraisal that does not compare people against each other but gives employees ratings such as "excellent," "good," or "needs improvement." A set number or percentage of workers must fall into each category.

Further Reading

Book: "Jack: Straight from the Gut" by Jack Welch

Book: "Forced Ranking: Making Performance Management Work" by Dick Grote

Book: "Hard Facts, Dangerous Half-Truths and Total Nonsense: Profiting from Evidence-Based Management" by Jeffrey Pfeffer & Robert I. Sutton

Blog: Incentive Intelligence

Blog: Compensation Force

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