

## **The Trials and Tribulations of Performance Appraisal at Ford**

from *Fundamentals of HRM*, Noe et al., p. 221-222

Many companies, including Ford Motor Company, General Electric, Microsoft, and Hewlett-Packard, use a method of performance measurement called a forced-ranking system. With this method, employees are ranked as above, at, or below average, and the system requires that a certain percentage of employees fall into each category. For example, at General Electric, managers must place 20 percent of employees in the top category, 70 percent in the middle, and 10 percent in the bottom category. Typically, the bottom 10 percent receive no bonuses and may be terminated. At some companies using forced rankings, morale is poor, and some employees have filed lawsuits.

In spite of these drawbacks, Ford began using a forced-ranking system in the belief that it would help the company build a younger, more diverse management team able to succeed with new technology and rapid change. Forced rankings would serve as a way to change corporate culture by removing poor performers. (This was not Ford's first effort to remove poor performers. In the late 1990s, Ford offered a package of benefits to salaried employees who resigned or retired early. Managers were directed to tell candidates for this program that management believed they should resign or retire.)

Ford called its forced-rankings system the Performance Management Process (PMP). The process involved grading Ford's 1,800 middle managers with an A, B, or C, with 10 percent of managers receiving a C. Managers who received a C for one year received no bonus. Two years at the C level meant possible demotion and termination.

After Ford began using its PMP, a number of employees filed complaints, pressuring the company to change. In two separate legal challenges, 57 employees charged that the performance management system discriminated against older employees. A relatively large proportion of Ford's older workers received Cs.

Ford responded by abandoning the major elements of the PMP, including the practice of assigning a C to 10 percent of managers. The company modified the system because it had harmed teamwork and morale. Under the modified system, only 5 percent of managers are to receive the lowest grade. In addition, the names of the rankings have changed. In place of A, B, and C, grades, the rankings are now called Top Achiever, Achiever, and Improvement Required. Employees ranked as requiring improvement receive counseling to help them improve their performance.

In the time since Ford acknowledged the problems and modified the system, the company's CEO Jacques Nasser resigned, as did the head of human resources. The new CEO, William Clay Ford Jr., inherited the job of resolving the legal challenges.

### **Questions**

1. **Why did Ford use a forced distribution system for measuring performance? What problems did the system cause? (1 point)**
2. **Ford modified its forced-distribution system but did not abandon it. What might be some advantages and disadvantages of its decision? (1 point)**
3. **What changes or practices do you recommend to improve performance management at Ford? (1 point)**
4. **What sort of rater bias is inherent to a forced ranking system? (1 point)**
5. **Do the employees charging Ford with age discrimination have a case? Why or why not? (1 point)**