

Individual Perf Targets
Team Perf. Targets
Rewards Against Targets

Companies are realizing that team-based rewards are crucial to achieving high performance and quality results from teams.

Realizing the Potential of Teams Through Team-Based Rewards

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Many companies don't recognize the importance of changing their human resource support systems—particularly rewards—to align with their new work systems. But when companies change the dynamics of work from *structure-driven*—organized around individual roles and functions—to *process-driven*—often organized around teams—they should change the reward system to support those new dynamics.

Like the transition to team-based work, a transition to team-based rewards is difficult. However, it can be critical to reinforcing team success. Most compensation systems are designed to emphasize and reward individual contributions. But determining compensation by relying on narrow job descriptions, individual merit increases, and internal equity based on individual jobs is likely to undermine development of a team environment. When work is fundamentally redesigned, traditional compensation systems often are no longer appropriate and need to be completely rethought. Exhibit 1 examines the disparity between the individual-based focus in a traditional compensation system and what focus teams actually need.

To gain the benefits of a team-based work

environment—flexibility, effective problem-solving, and a clear focus on results—companies need to develop a supporting team-based pay system, or, at the very least, moderate the dysfunctional aspects of the traditional individual-based system. If a company depends on having an excellent compensation system to deliver motivation, it must find a way to motivate the right kinds of *team* performance and *team* behaviors to achieve its goals.

DIFFERENT TEAMS, DIFFERENT REWARDS

Because teams come in many different shapes and sizes, the challenge of designing appropriate compensation systems to support different teams may seem intimidating. To guide companies in determining the most appropriate means for rewarding teams, we have developed a structure that distinguishes four basic types of teams—dedicated permanent, nondedicated permanent, dedicated temporary, and nondedicated temporary.

The primary pay system drivers in a team

FIGURE 1
Traditional vs. Team-Based Pay

	TRADITIONAL COMPENSATION APPROACH		NEW APPROACH
Design Element	<u>Hierarchical Structure</u>	<u>How It Affects Teams</u>	<u>What Teams Need</u>
Job Evaluation	<ul style="list-style-type: none"> Based on <i>individual</i> job responsibilities. 	<ul style="list-style-type: none"> Reinforces individual jobs and "specialist" nature of work. Creates unnecessary hierarchy on team. Weakens job market matches. 	<ul style="list-style-type: none"> Flexible jobs that concentrate on results and work of the team. Less emphasis on individual jobs and fewer distinctions among individual team member jobs.
Pay Structure	<ul style="list-style-type: none"> Based on <i>individual</i> jobs plotted on a specialist/job hierarchy. 	<ul style="list-style-type: none"> Focuses members on advancing through the job hierarchy. 	<ul style="list-style-type: none"> A focus on common goals and results, not on hierarchy.
Base Pay Growth and Delivery	<ul style="list-style-type: none"> Merit increases based on <i>individual</i> performance with a fixed pool of available funds. Across-the-board increases based on market factors. 	<ul style="list-style-type: none"> Individual merit increases cause competition among team members in a zero-sum game. Across-the-board increases create a feeling of entitlement. 	<ul style="list-style-type: none"> Cooperation among team members. A focus on team objectives and results.
Performance Management	<ul style="list-style-type: none"> Top-down process with focus on <i>individual</i> performance. 	<ul style="list-style-type: none"> Focuses team members on their own performance, perhaps to the detriment of team performance. 	<ul style="list-style-type: none"> A focus on total team performance and team behavior. Assessment of individual performance in the context of team outcomes.
Career Development	<ul style="list-style-type: none"> <i>Individual</i> promotions to <i>individual</i> jobs—often to different jobs or up a ladder based on depth or breadth in a particular functional area. 	<ul style="list-style-type: none"> Focuses team members on a hierarchical career path. 	<ul style="list-style-type: none"> A focus on adding value and skills to the team. Advancement based on team success. Advancement defined, for example, as moving to a strategically more important team.
Recognition	<ul style="list-style-type: none"> Given for <i>individual</i> accomplishments—typically not a prominent part of rewards. 	<ul style="list-style-type: none"> Reinforces individual "stars," potentially at the expense of teams. 	<ul style="list-style-type: none"> Emphasis on team accomplishments. Recognition used more prominently.
Spot Awards (Large Discretionary Awards)	<ul style="list-style-type: none"> When used, often focused on <i>individual</i> performance and usually private (given to <i>individuals</i> with no public recognition). 	<ul style="list-style-type: none"> Rewards individual "stars," resulting in jealousy or shutdown in communication. 	<ul style="list-style-type: none"> A focus on team success. Teamwide or public awards to emphasize team accomplishments.
Short-Term Incentives	<ul style="list-style-type: none"> Driven by large-scale measures, such as business unit or division performance, in addition to <i>individual</i> performance. 	<ul style="list-style-type: none"> Overlooks contribution of the team and rewards individual performance, potentially at the expense of team performance. 	<ul style="list-style-type: none"> Rewards for team performance. Reinforcement of team behavior. Reinforcement of individual contributions and behavior in context of team outcomes.
Long-Term Incentives	<ul style="list-style-type: none"> Driven by very large-scale measures of company performance; usually limited to upper levels and paid out based on an <i>individual's</i> level. 	<ul style="list-style-type: none"> Does not apply to most teams. 	<ul style="list-style-type: none"> Measurement of long-term contributions of the team. Extension of eligibility to all team members.

environment are the nature of team membership and the length of time the team needs to be in place. By looking at team composition as well as time commitment within the context of how the team's goals support strategic objectives, we have a framework for developing effective reward systems. We define the nature of team membership as follows:

- *Dedicated.* Team members do essentially 100% of their work within a single team.

- *Nondedicated.* Team members also perform other (nonteam) work or work on other teams.

We define the length of time a team needs to be in place as follows:

- *Permanent.* A team performs ongoing work or the organization expects the team to function in its current form for an extended period of time—for example, beyond one business cycle.

- *Temporary.* A team's work can be accomplished in a defined period of time, typically one business cycle or less.

In teams with a mixture of dedicated and nondedicated members, the principles for rewarding nondedicated teams typically apply. Exhibit 2 differentiates the functioning of the four types of teams and gives examples of tasks that may be suited to each type of team.

Effective compensation systems for these diverse teams demand a holistic design approach that considers each component of pay—from job evaluation to promotions to short- and long-term incentives. Some organizations will need to completely renovate all reward system elements to properly support their teams. Others may simply need to moderate the individual-based nature of some elements while renovating other elements. In either case, the organization must integrate the realigned compensation system with existing human resource systems—such as training and development, recruiting, and career management—to reinforce team results and behavior.

WHEN TO CHANGE REWARDS

Typically, compensation professionals change reward systems after changing work systems. However, work and reward system

changes should occur, as much as possible, in tandem. Reward changes can even precede work system changes, especially if rewards historically have been prominent signals of larger organization changes.

Planning work system and reward system redesign together prevents traditional individual-based reward systems from undermining newly established team efforts. At a minimum, the dysfunctional effects of the individual-based reward system need to be moderated at the time teams are created. Even waiting to see "if the teams are successful" before changing the rewards can undermine team success.

Organizations that do not support their teams with team approaches to rewards often see improved results slip away. A food products manufacturing plant that had embraced total quality management with great success saw this success erode. Years of redesigning and refining work systems had created a virtually self-managed workforce that made decisions in such key areas as spending, scheduling, and equipment improvements. Unfortunately, the plant's reward systems had not kept up with its leading-edge work system and the results it was generating. The company continued to use industry medians based on typically structured work to set pay levels. This resulted in a growing disconnection between employees' expanded accountabilities and the reward system's ability to recognize these new accountabilities. Consequently, employee dissatisfaction rose, teams became demotivated, and productivity gains eroded.

In another example, a prominent consumer products manufacturer and a prominent health products manufacturer created a joint venture that developed its own work system built around project teams for its 50 product development employees. Yet, the new company tried to model its compensation systems on the traditional approaches used by its two sponsors. The result—six levels of management, individual performance assessment and merit pay, and narrowly defined jobs—was dysfunctional. The unit had to totally redesign its compensation to support its business and the work design. The new system became a critical link between the organization's systems and its strategy and mission.

EXHIBIT 2
Different Types of Teams

	DEDICATED	NONDEDICATED
PERMANENT	<p><i>What do they do?</i></p> <ul style="list-style-type: none"> • Responsible for a common core process, customer base, or product of the organization. • Perform either similar work or diverse tasks to create a larger whole. <p><i>Examples of tasks they might perform:</i></p> <ul style="list-style-type: none"> • Order entry. • Customer service. • Long-term product design—long development cycle. • Core manufacturing. 	<p><i>What do they do?</i></p> <ul style="list-style-type: none"> • Responsible for specific issues requiring expertise that crosses traditional boundaries. • Responsible for issues that require ongoing, but not full-time, attention. • May function as a communicating and coordinating vehicle rather than as a vehicle for accomplishing core work. <p><i>Examples of tasks they might perform:</i></p> <ul style="list-style-type: none"> • Quality improvement. • Safety program. • Cross-department team in which members serve a common major customer.
TEMPORARY	<p><i>What do they do?</i></p> <ul style="list-style-type: none"> • May address urgent issues. • Directed toward solving a specific problem, e.g., a product reliability problem or a time-sensitive issue. <p><i>Examples of tasks they might perform:</i></p> <ul style="list-style-type: none"> • Short-cycle product development. • Product enhancement. • Product-service problem resolution. • Skunk works. 	<p><i>What do they do?</i></p> <ul style="list-style-type: none"> • Often formed for a special purpose on an ad hoc basis. • Focus is on solving a problem or completing a project. • Membership often crosses traditional boundaries. <p><i>Examples of tasks they might perform:</i></p> <ul style="list-style-type: none"> • Task force. • Ad hoc committee. • Short-cycle product development. • Work redesign team.

Many organizations approach a team-based reward system by designing team-based incentives, like goalsharing, or new base pay delivery systems, like skill-based pay. To be truly effective, a system needs to address all components of rewards relevant to the type of team in operation, as Exhibits 1 and 3 show. Exhibit 3, in particular, illustrates what types of changes in reward system components are relevant to each of the four types of teams identified earlier.

BASE PAY DELIVERY AND GROWTH

For most companies, base pay growth and delivery play a prominent role in supporting the team-based work environment. The base pay system delivers most of the pay for most people, so the messages it sends stand out. Take the example of a major continuous process manufacturer: It converted one of its facilities to dedi-

Different Teams, Different Rewards

What Changes Are Appropriate for Each Type of Team?

	DEDICATED	NONDEDICATED
PERMANENT	<p>The reward system is a candidate for total revision along these lines:</p> <ul style="list-style-type: none"> • Base pay. Broad banding, skill-based pay. • Incentives and awards. Based on each team's results or all teams' collective results. • Performance management. Created for team as a whole. Individual team members evaluated within context of team performance. 	<p>If organization work is accomplished <i>mostly</i> in teams, the reward system is a candidate for total revision along these lines:</p> <ul style="list-style-type: none"> • Base pay. Broad banding or skill-based pay. • Incentives and awards. Based on all teams' collective results. • Performance management. Created for the team as a whole. Individual team members evaluated within the context of team performance. Integration across all teams. <p>If organization work is accomplished <i>partially</i> in teams, the reward system is a candidate for individual tailoring along these lines:</p> <ul style="list-style-type: none"> • Base pay. Remains within the pay structure of the larger organization. Moderation of individual-based components. • Incentives and awards. Balancing/integration with nonteam incentives and awards. • Performance management. Created for the team as a whole. Individual team members evaluated within the context of the team's performance. Integration and balancing with performance assessment of nonteam work.
TEMPORARY	<p>The reward system is a candidate for moderate revision along these lines:</p> <ul style="list-style-type: none"> • Base pay. Moderation of individual-based aspects of traditional program. Avoidance of structural changes. • Incentives and awards. Based on each team's results, tied to cycle of team's work. Incentives and awards for independent teams can be unique. For interdependent teams, they can be integrated with other programs. • Performance management. Created for team as a whole. Individuals evaluated within context of team performance. 	<p>If organization work is accomplished <i>mostly</i> in teams, the reward system is a candidate for total revision along these lines:</p> <ul style="list-style-type: none"> • Base pay. Broad banding or skill-based pay. • Incentives and awards. Based on all teams' collective results. • Performance management. Created for team as a whole. Individual team members evaluated within context of team performance. Integration across all teams. <p>If organization work is accomplished <i>partially</i> in teams, the reward system is a candidate for individual tailoring along these lines:</p> <ul style="list-style-type: none"> • Base pay. Remains with the pay structure of the larger organization. Moderation of individual-based components. • Incentives and awards. Balancing and integration with nonteam incentives and awards. Use of discretionary spot awards. • Performance management. Created for team as a whole. Individual team members evaluated within context of team performance. Integration and balancing with performance assessment of nonteam work.