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On the Folly of Rewarding Team Performance, While Hoping for Teamwork

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Team rewards motivate the right behaviors only when they are applied consistently and carefully differentiated for at least the extreme high and low performers.

Management at a large U.S.-based supplier of manufacturing parts knew the company needed a pay system that would encourage employee teamwork when it decided to convert several silo-structured departments to cross-functional teams. Yet they purposely stayed away from team incentive pay. This goes against the conventional wisdom that tying a meaningful portion of compensation to collective effort unifies team members.

Following such logic, organizations have increasingly adopted team rewards. According to surveys conducted by the Center for Effective Organizations, the number of Fortune 1000 companies using some degree of work group– or team-based incentives increased from 59% in 1990 to 85% in 2005. The research subsequently presented suggests, however, that team incentives are often counterproductive to motivating teamwork because of perceived inequities. Therefore, a more cautious use of team rewards is indeed a good pay strategy.

Reward Equity

To better understand team member feelings toward team-based rewards, this study investigated 49 project teams comprising a student population within a U.S. business school setting. Similar to teams within many organizations, the teams were short term and were formed to work on clearly delineated, close-ended projects in addition to their individual, nonteam duties. The team reward in this case was grades.

Teams ranged in size from four to seven members, totaling 202 individuals. Individuals were

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surveyed before teams were formed and again 3 months later, at project completion. The findings show that team members feel strongly about reward equity and that these feelings are highest for those who have less trust in their team.

Collectively, members indicated a significantly greater preference for rewards based on individual contribution to the team (equitable team member rewards) as opposed to rewards based on collective team performance (equal rewards for each team member). Furthermore, this preference was negatively related to trust across team members. Members who viewed their team as less trustworthy in terms of ability, honesty and dependability held a stronger preference for equity than more trusting members. Less trusting team members also placed more importance on whether the person in charge used his or her preferred standard to determine member rewards.

By project completion, collective levels of trust toward team members had significantly increased, and the importance placed on which reward standard the person in charge would uphold decreased. However, preference for equity had not significantly changed. This suggests that equity concerns among team members are persistent, but how equity is attained—via an individual or collective reward approach—is flexible when there is trust that team members are contributing comparable value.

EXHIBIT 1
Study 2 Sample and Procedure

The qualitative results in Study 2 were attained through analysis of structured team member interviews. Graduate business students enrolled in a virtual MBA program during spring 2008 were interviewed via e-mail using structured, open-ended questions and a critical incident framework. Participants were asked what type of team they are currently, or have been, a part of in the workplace; how the team was compensated; and whether they felt it was fair. Participation was optional and information was reported in confidence. Twenty-one of the 84 individuals contacted responded to the interview questions, resulting in 20 usable cases after removal of one case that did not meet the critical incident parameters.

Participants represented a wide cross-section of organizations and positions. Organizations included both the public and private sector. Levels of employment included experienced professionals, supervisors and managers in the areas of engineering, manufacturing, supply wholesaling, publishing, national defense, business consulting, financial services and insurance.

The reported four forms of team reward inequity that employees commonly perceive were identified through exploratory classification. Data were analyzed in keeping with a commonly used format for exploratory, qualitative data, which involves a three-step process: (a) scan the overall data to search for dominant themes, (b) develop a coherent conceptual framework and use it to further refine the themes, and (c) code and categorize the data according to the themes.

A Typology of Inequities

The above findings provided the impetus for a second study to explore how reward equity is attained, or not, in actual organizational teams. Because equity, like fairness in general, is in the eye of the beholder, it is important to understand individual team member perceptions regarding team reward equity. It is these perceptions, rather than an objective measure of equity, that determine fairness violations and ultimately team member reactions. I conducted a cross-sectional, qualitative study of individuals within teams (see Exhibit 1 for information on the study's sample and procedures) and identified the following four ways in which companies consistently fall short in making team rewards feel equitable and fair (also see Exhibit 2 summary and support).

Consistency Across the Team

Many employees report feeling overlooked or undervalued as a central part of the team once a project is completed. These less favored members are usually separated from the more favored team members by departmental lines or hierarchical differences. For example, one employee of a nonprofit insurance association worked considerably long hours on a project in conjunction with an established work group from another department. Once the project was successfully completed, the departmental work team and senior management were praised and rewarded while the quasi-team member received a comparatively insufficient pat on the back. This heavily influenced her decision to leave the company.

Unjustifiable differences in how team members are acknowledged also commonly occur when each functional department separately rewards its own part of a cross-functional team. Relative contributions to team effort may be overlooked when team members are evaluated in isolation, or overall team success may carry more weight within some departments than others.

A member of a cross-functional team charged with implementation of an automated supply chain application found that, upon completion of the project, the three procurement members of the team were promoted and/or received bonuses within their department. Meanwhile,

EXHIBIT 2
Study 2 Exploratory Classification of Qualitative Data

	Representative Quotes from the Data	
Category of Inequity	**Identified Inequity**	**Reported Consequence**
Inconsistency across members of the same team	a) "In the end the working group and Senior Management got the recognition. Internally in the company people knew I was involved with it, but little reward was received by me other than 'good job'."	a) "I found this unfair . . . it had a HUGE impact on my decision to leave the company."
	b) "Two of the three members of procurement staff on the team were promoted to procurement management. All procurement received their bonuses. . .The logistics staff, management, and myself did all of the non-programming work, and to my knowledge, not one of us received a bonus, raise, or promotion."	b) "As you may have discerned, I in no way felt this was fair. Ultimately, I left the company."
	c) "The project manager commented that he did not intend for individual bonus amounts to be public information. . . We felt that he favored members of his organization (project engineers) and neglected members of other disciplines."	c) "At the time many team members, myself included, did not feel that the project manager's distribution was fair."
Inconsistency over time	d) "She usually gave the same people extra time off, special praise in staff meetings, even though they were not the only ones working on an event and times I didn't get any rewards when I felt I did as much work as the others. There were times I was praised or rewarded when others on my team were not and I know they should have been."	d) ". . . it made me feel very demotivated." "Needless to say, when a new job opportunity presented itself to me, wasn't a tough decision to make."
	e) "Though a reward was not expected in my initial pricing project, I had somewhat of an expectation that receiving the reward once meant that all projects would pose similar bonuses."	e) "The only downside to the reward that I have found as time has passed is that other projects of similar effort in which I have taken part have not had the same bonus."
Failing to Recognize and Respond to Performance Extremes	f) "Each team member's bonus percentage is exactly the same."	f) "I know that the higher performing operators do not feel that this methodology is fair."
	g) "In the end, the executive assistant and I did the lion's share of the work, with some participation from the engineers."	g) "I believe a fairer plan would have had a component for individual contribution so that those of us on the team that performed above the norm could have received more of a bonus or, conversely, those that did not contribute as much could have lost part of their bonus."
	h) ". . .they should not have received the team reward . . . but who is going to be 'that person' and say something to management?"	h) "In times where no effort was made by some team members, I felt that the reward was very unfair."
	i) "You'd probably still prefer going by merit, but giving everyone an equal portion would be OK . . . because you knew that underperformers wouldn't last long in the company."	

(continued)

EXHIBIT 2
(continued)
Representative Quotes From the Data

Category of Inequity	Identified Inequity	Reported Consequence
Exceeding Employee Tolerance for Pay Risk	j) "I had no control on my 'reward'."	j) "I have to say that this significantly decreased my satisfaction at that job and I left shortly thereafter."
	k) "A single poor performer could drag down the entire team."	k) "There was a lot of reluctance to move to any completely team based compensation structure. There were concerns about the fairness and appropriateness of such a method in our company . . ."

Note: Each individual respondent assigned his or her own letter. Letters matched across columns.

his role in the team's success received no special acknowledgment from his own department. This perceived inequity ultimately drove the employee to leave the company—a recurring theme in this study.

It seems that many managers are under the mistaken impression that team members do not compare rewards. For instance, members of a cross-functional team working to design, build and commission a new plant in a foreign country each received a bonus based on savings when the project came in under budget. When the project manager was asked by some team members why he distributed the bonus pool dollars in favor of members from his own division, his only answer was he did not intend for individual bonus amounts to be public information.

Managers must realize that team members will invariably discover reward differences and, without apparent justification, will perceive differences as inequitable and unfair. Of course, an equal allocation of rewards across team members also requires justification of the implicit assumption that each member's contribution is equal in value.

Consistency Over Time

An unexpected $1,500 team bonus during one employee's first team experience with his organization created a feeling of pay loss when his future team assignments with the organization did not offer a similar payout. Employees evaluate rewards in relation to their own reward expectations, and these expectations ratchet up much more quickly than down. Therefore, when no reward expectation exists, maintaining no reward may be better for long-term team member motivation than providing a one-time reward that skews expectations.

Alternatively, to avoid unrealistic expectations, a one-time reward should be clearly communicated to team members as unique to this team situation and something that is not likely to occur in future team assignments.

Because fairness violations are processed more emotionally than rationally, even nominal rewards for team performance have implications for fairness perceptions and must be managed with an eye toward member expectations. An employee who regularly served on teams within her organization initially expected no additional reward beyond her existing salary. However, once the executive director began sporadically doling out public praise and small favors to some team members, recognition for teamwork became an issue of psychological importance for each team assignment. The executive director had inadvertently created an expectation of reward for teamwork and then failed to consistently meet it. This employee felt strongly enough about it to ultimately leave the organization.

Differentiation of Performance Extremes

Determining fine degrees of difference in individual performance to attain absolute equity in reward allocation is often difficult and even unnecessary. It seems if at least extreme differences in performance are acknowledged—providing greater rewards to top performers and penalizing very low performers—employees may feel equity has been served. According to one member of a long-term team, although members would probably still prefer a fully equitable allocation of rewards, having each person receive an equal amount is acceptable because members know the company is quick to remove underperformers.

However, identifying even just the extreme performers can be tricky for organizations. Even when team members are not carrying their share, there is reluctance on the part of the other team members to run and tell management. The social pressure to be seen as a team player not only deters members from pointing out that others deserve less, it also prevents top performers from asking for more.

Researchers Sarin and Mahajan interviewed members of cross-functional, product development teams in the high-tech industry and found that top performers did not voice an interest in extra recognition or rewards when asked in front of others on the team. These same members though expressed a yearning for equity when interviewed privately.[1]

Therefore, a good way for managers to identify high and low performers, when they are not in a position to directly observe team member performance, is to ask for confidential feedback from individual team members. Preferably, this feedback can occur well before teams are finished with their work together to allow firsthand, closer observation of certain team members' performance by management as a way to objectively confirm performance extremes.

Tolerance for Pay Risk

Whereas an employee may be content to risk a meaningful portion of their pay on their own performance, the same amount of pay tied to the collective performance of team members is often seen as too risky. Findings from an experimental study by Kuhn and Yockey showed that individuals will even forgo potentially higher pay to avoid having a portion of pay tied to unproven team members.

Participants asked to choose between hypothetical jobs at two different companies consistently chose the lower paying company with fixed pay rather than the potentially higher paying company with an incentive tied to team performance (teams of about 10 people). However, when the incentive was tied to individual performance, the potentially higher paying company was preferred.[2]

The threshold of acceptable risk will differ for each employee and team situation. Having 20% of total pay dependent on group efforts was too much risk for one employee; she ultimately left the position. A group of employees undergoing assignment to cross-functional teams strongly wanted no portion of their pay tied to team performance.

Conversely, a member of an executive management team was happy to have a sizable bonus dependent on his team's success, in spite of the risk, because he viewed it as a chance for generous compensation over and above his fair base pay. The important point for organizations is to recognize that accountability at the collective level carries with it a greater, and at times unacceptable, degree of reward uncertainty for individuals.

One Organization's Approach

The manufacturing supply company described at the start of this article provides a case study of one company's approach to equitable team member pay. It converted three traditionally structured, functional departments into 12 cross-functional teams. Teams were formed around customer accounts and grouped into four market-segmented business units. Although they are still in the early stages of implementation, the company appears to have avoided the common mistakes described earlier.

- Management recognized the importance of reward equity to support teamwork.

Prior to team formation, management sought out a cross-section of the future team members for input on designing a new pay structure. Employees expressed strong reluctance toward pay tied to team performance. Giving employees "voice" is an important first step in managing perceptions of pay fairness. In this case, it also helped management see the appropriateness of pay based on individual team member performance.

To develop a pay structure that would reward the individual and also support the team, the company identified team member roles based on the specialized skills each role contributes to the team and then used this as a basis to differentiate compensation across team members and evaluate ongoing member performance.

- Consistency across members of the same team is supported by the organizational structure.

The restructuring of relevant functional departments into business units means performance appraisals of each team's members are conducted by one business unit manager rather than an array of functional managers, allowing for greater consistency in how members within each team are evaluated and recognized. A single director oversees the new business units and several remaining functional departments that provide support to the teams. From this vantage point, the director has the ability to spot and appropriately acknowledge quasi-team members—employees who temporarily step in to provide significant support to a permanent team.

• Consistency over time is maintained with careful contemplation of team rewards.

The company has clearly defined individual compensation to include team participation. Therefore, and after estimation of the potential payback of team incentives, they see no current need to incent team work further. Most important, the decision to forgo team incentives was deliberate, not impulsive, and applied consistently, not randomly. Management's careful handling of team incentives helps avoid a ratchet-up of employee pay expectations to a level the company cannot financially justify and maintain in the long-term.

• Differentiation of performance extremes are addressed through the performance appraisal process.

All team tasks have been categorized according to the area of team member specialty required to complete them, making it possible to hold each member accountable for his or her specific role in the team process. During individual performance evaluations, management can thus determine if each team member is falling short of, meeting or exceeding his or her expected contribution level within the team. As with any good performance evaluation system, the clear definition of employee roles provides the benchmark to make this possible.

• Employee tolerance for pay risk is managed by keeping rewards within individual control.

Rather than attempt to motivate team performance through a team incentive, which in this case would result in an unacceptable level of individual pay risk, each person's individual role in the team process is rewarded, something he or she has substantial control over. Also, the company does not rely on the pay system alone to encourage team performance. Team goals and measurements of team-level performance are explicitly communicated so employees have a clearer line of sight regarding their part in the company's success, something that was previously lacking when only company-level measures of performance were reported.

Conclusion

Many organizations attempt to motivate team performance through the use of team incentives. The research presented demonstrates that this approach is often counterproductive because team members perceive it as inequitable. To avoid inadvertent violations of equity expectations, organizations must make certain team rewards are applied consistently across team members and consistently over time.

Rewards must be differentiated for at least the extreme high and low performers within the team. Team members' tolerance for the increased pay risk that comes with rewards tied to collective performance must also be considered.

These basic principles of equitable team rewards may be met in different ways. The organizational case detailed above is just one example, and no two cases of equitable team rewards will look exactly alike. However, inequitable team rewards are exactly alike in one key aspect as far as most team members are concerned: They are just not fair.

Notes

1. Sarin, S., & Mahajan, V. (2001). The effect of reward structures on the performance of cross-functional product development teams. *Journal of Marketing*, *65*, 35-53.
2. Kuhn, K. M., & Yockey, M. D. (2003). Variable pay as a risky choice: Determinants of the relative attractiveness of incentive plans. *Organizational Behavior and Human Decision Processes*, *90*, 323-341.

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