Appraising & Rewarding Teams
by Richard R. Reilly & Jack McGourty

Traditional approaches to performance appraisal and compensation can create dysfunction when applied to teams. If team-based organizations are to be effective some new approaches are required. The development of team-based appraisal and reward processes requires five elements:

- clear **definitions** of the desired behaviors or performance outcomes
- ensuring that desired behaviors and performance outcomes are **relevant** to team and organizational goals
- developing methods to **accurately and fairly** measure the behaviors or performance
- Establishing **clear linkages** between performance and rewards
- **Communication** of the desired behaviors or performance outcomes to all team members

What are the desired behaviors in a team-based organization? We identify three classes of behavior: those related to individual competency (i.e., knowledge, skills and abilities relevant to organizationally valued performance), those related to individual team member performance and those that describe performance outcomes at the team level.

Strategic and Practical Issues
Before deciding what to measure in each of these areas, several strategic and practical issues should be considered. First, what is the overall organizational strategy and how does the organization of employees into teams align with that strategy? Groups of individuals working on relatively independent tasks are sometimes designated as "teams" but are teams in name only. In such cases,

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systems designed to assess and reward team perfor-
mance may actually be counterproductive. For exam-
ple, appraisal processes designed to assess and en-
courage collaboration among employees performing
independent tasks may actually slow productivity. Be-
fore considering how to appraise and reward team
performance, we should be confident that the work
group is a true team working interdependently to
achieve common goals or tasks.

A second consideration has to do with the characteris-
tics of the teams to be appraised. Teams can vary
along a number of different dimensions including the
permanence of the team, the extent to which individual
member participation varies over time, the degree of
task interdependence, the mission or goals of the
team, and the extent to which the team is empowered.
The design of measurement systems will be depen-
dent upon these characteristics. For example, a team
that maintains traditional hierarchical reporting relation-
ships will require different approaches to assessment
than a team that is fully empowered to make decisions
and self-manage.

Third, what has been current organizational practice in
the area of performance assessment and compensa-
tion? Moving from traditional individually-based ap-
praisal and reward systems to team-based methods
will involve a radical shift in thinking. The transition to
these new methods should take current practices into
account in deciding how to structure the change pro-
cess. The more radical the change the more there is a
need for employee participation and careful communi-
cation and implementation of the new methods. It is
also important to review the intended team appraisal
and reward process and its alignment with other key
organizational practices as well. Performance man-
agement affects and is impacted by several key prac-
tices, especially training and development. For exam-
ple, early in the implementation of one organization's
peer assessment program, employees expressed con-
cern over being measured on skills in which there was
little or no training offered. In this case, by making
team skills and behaviors more salient, the organiza-
tion highlighted a deficiency elsewhere in the system.

Finally, to what extent are the behaviors and outputs of
the team measurable? For some production teams
output may be easily quantifiable. For other teams
(e.g., management teams) the behaviors and outputs
may be less clear and demand more creative and
careful specification of team objectives.

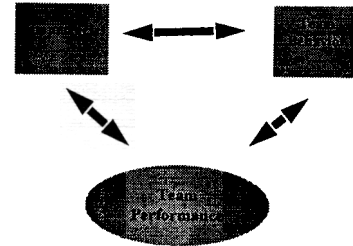**Competencies, Team Member Behavior and Team Performance**

Figure 1.

Competencies, individual performance and team performance
Our model assumes that team performance is a prod-
uct of the competencies of team members and the ef-
fectiveness with which the team members work to-
gether. Figure 1 illustrates a simple model. These
three different aspects of employee behavior - compe-
tencies, individual performance and team performance
-should be considered in the definition and measure-
ment of behavior in team-based organizations.

- **Competencies** are defined sets of knowledge,
skills and abilities that allow the employee to per-
form specific functions related to organizational
goals. Competencies can be broad or quite spe-
cific. A broad competency, such as "team facilita-
tion" will be relevant to the accomplishment of a
wide variety of tasks, whereas a more specific
competency, such as "troubleshooting electronic
switching systems" will be relevant to a narrow
range of tasks. In order for assessment to occur
competencies must be operationally defined by
identifying observable behaviors or critical knowl-
edge reflective of the competency.
- **Individual performance** includes behaviors under
control of the individual employee. These may in-
clude behaviors relevant to the performance of
non-integrated tasks as well as behaviors neces-
sary for the achievement of integrated (team)
tasks.
Team performance includes the behavior of the
team as an integrated and interdependent unit and
focuses on the achievement of measurable team
objectives.

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Assessing and Rewarding Competencies

From an employer's perspective the competencies are the people "software" needed to achieve organizational goals. From an employee's perspective competencies represent a personal portfolio of skills, knowledge and abilities that can establish their value to the organization, or to other employers. Team-based organizations can use competency models as a basis for placing value on employee knowledge and skill instead of relying on traditional methods of appraisal and job evaluation. Competency-based pay programs re*ward* employees for learning and demonstrating competencies that are relevant to the achievement of team goals. Having the correct mix and level of competencies does not guarantee that desired behaviors will occur or that team performance will be effective, but it does provide the necessary basis for effective performance and can also provide a basis for valuing and rewarding individuals.

Assessment of competency is typically accomplished through one of the following types of certification programs:
- Peer assessment programs involve the observation and evaluation of an employee's competence by one or more co-workers. Peer assessment programs are frequently used in mature, self-directed teams in which team members have the authority and responsibility for assessing the competency of team members.
- Supervisory assessment is most useful in newly formed teams, or teams in which the competencies to be certified are not yet possessed by other team members
- External certification relies on an accredited body to certify that the individual possesses a specific competency. External certification is most useful for competencies that can be acquired through well-defined education and training programs.
- Internal board certification utilizes internally recognized experts who can assess the level of a specific competency or set of competencies.

Rewarding Competencies

Competencies can be rewarded in several ways. Some organizations use spot bonuses; others make immediate hourly pay increases or changes in pay grade level. At Chrysler, for example, an employee's rate of pay is determined by the number of different operations in which the employee can demonstrate proficiency. An employee who learns 50 percent of the job skills required for the team, is given a raise. Another raise is provided at 100 percent of team job skills. At that point, the employee can switch teams and attain additional levels of skills and pay. Competencies can also be recognized by certificates, special events such as dinners or other forms of recognition that are meaningful to the employees.

Assessment of Individual Performance in Team-Based Organizations

Our assumption is that team performance is a function of specific interpersonal behaviors that contribute to effective teamwork. as well as task-specific behaviors. Virtually all models of team and work group effectiveness acknowledge that interpersonal processes are a crucial antecedent of team performance. This is particularly true in the early stages of team development or for teams that have incorporated new members. Because teams are a relatively new way of working for many employees, the appropriate behaviors needed for effective teamwork are often not clear. Behavioral assessment of team member behavior can be a powerful tool for helping to effect desired behavioral change. Our research has shown that behavior can be improved through communicating these behaviors and giving employees periodic feedback[1].

What behaviors should be assessed? Research suggests that four areas of team-related behavior are important:
- Self-management - the facilitation and leadership behaviors displayed by team members during team meetings and other interactions.
- Communication - giving and receiving constructive feedback, listening skills, sharing of information and articulation of ideas.
- Decision-making - helping to ensure that decisions are made systematically with all team members input and that acceptance of the status quo or "groupthink" is avoided.
- Collaboration - helping to manage or avoid negative conflict, displaying a commitment to the team and its goals, valuing the diversity of background and experience of other team members and sharing accountability.
- Other behaviors - Depending upon the team and its goals other behaviors can also be added. Individual behaviors related to specific task performance, customer focus and quality are examples.

Methods for assessing team member behavior can include traditional supervisory appraisals, peer assessment or multisource assessment. One approach that has been used with success involves having team members and other raters periodically assess one another using an instrument such as the Team Developer, a computerized team assessment instrument. The Team Developer includes a series of specific behaviors and asks raters to rate themselves and their teammates in terms of the extent to which the behavior is typical of the person being

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rated. If carried out properly each team member will be rated on each behavior by all other team members and a team leader. Repeated exposure to the behaviors as an assessor or recipient of feedback can help to internalize the behaviors and make them part of the team-based organizational culture.

Recognizing and Rewarding Individual Performance in Team-Based Organizations

Our experience with behavioral assessment in teams has led us to believe that basing rewards on the interpersonal behaviors displayed by team members is a mistake. Such behaviors are really only a means to an end - the performance or productivity of the team. A better use of behavioral assessment is diagnostic. One of the primary benefits of team member assessment is the feedback that can be provided. Typical feedback reports include self-ratings, summary ratings from peers, customers and supervisors as well as normative ratings for the larger organization. Feedback reports can also identify areas of strength and developmental need and provide guidance on how to use the results developmentally. Feedback can facilitate performance by allowing participants to compare their own performance to a standard and use the "gaps" as a starting point in goal setting and behavior change. In addition to written feedback reports, workshops that help participants use the results of assessment to structure a personal developmental plan are recommended.

Assessment of Team Performance

Referring again to our model of team performance (Figure 1) we focus on the final aspect, team performance outcomes. From a strategic perspective it would seem not only desirable but necessary to appraise and reward performance of the team as a unit if the organization wants to send the message that team performance is the key to organizational success..

For many teams it is possible to specify objective indices of performance at the team level. If objective indices are used they should have a clear relevance to the organization's mission and strategy. For example, customer service teams might be measured on the number of calls handled, the number of complaints by customers, or the number of commendations by customers. A product development team might be measured on cycle time or the number of products brought to market.

Indices should have a clear relationship to the strategic goals and objectives of the organization. For example, a customer service team might be measured on the number of calls handled, but sheer volume of calls

may have little relationship to the strategic goal of service excellence and, in fact, may be negatively correlated with it. On the other hand, indices such as repeat calls, customer complaints and customer commendations might be more closely aligned with the strategic objective. One important step that should be incorporated if objective measures are to be used is the participation of the team in identifying measures and in setting goals. Team members are good sources of information about what performance outcomes can be achieved, measured, and linked directly to team activities. "Line of sight" issues are an important consideration in team goal-setting. The team members must perceive that they can have a legitimate impact or influence on the specified outcomes. Team participation will help focus on the right measurements and the steps needed to achieve the goals that were set.

What are some of the approaches that can be used to assess the performance of the team as a unit? The most obvious is a direct measure of team output or quality, such as number of units produced, sales revenue, speed to market, etc. In order to effectively utilize direct measures of output the information must be readily available and easily understood by team members. In one organization a telecommunications sales team was being measured on the dollar volume that customers charged on telephone credit cards sold. Unfortunately, the team had no readily available information on how much a particular customer would actually use the card sold until six months later, making it difficult for team members to modify their behavior to target high use customers.

In addition, direct measures should be reliable over time. To put it another way, indices that are highly volatile and unstable will not be perceived as meaningful or fair to employees. Base line data on measurements should be examined prior to implementation to determine whether sufficient reliability exists for use as a performance indicator. Finally, measures should be under the control of the team. For example, indices of sales performance might be so heavily influenced by territory or shifts in local economic conditions that sales data might be meaningless. Unless the index can be transformed to account for the influence of the

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contextual factors such indices should not be used. One customer service team was able to participate in the design of their own measurement systems. They were able to separate controllable measures such as schedule adherence and the number of mailings sent to customers from the number of calls and letters received and handled in a given day, which were uncontrollable. At ALCOA, teams are measured on controllable indices of quality, costs and safety rather than the uncontrollable index of profit which is subject to wide variability due to the fluctuations in the price of aluminum.

Direct measurements of performance can be used most effectively by the team if feedback can be provided at appropriate intervals. This will allow the team to adjust their efforts or to adjust the goals when necessary. For example, Lucent Technologies measures the performance of their product development teams using a number of metrics that can be measured at various stages of the project. Measures, such as cycle time between key development checkpoints, are collected and fed back to the team in order to alert them to potential delays to market.
A second approach to assessing team performance involves collecting input from multiple sources who have the opportunity to observe the performance of the team. Teams, as an organizational unit, have internal or external customers and reporting relationships as well as interaction with other teams. Any one or all of these sources can provide assessment of the performance of the team. Multi-source assessments of teams can be especially useful when the performance is not easily quantified into direct output measures.

Team performance assessment represents a major change for many employees and therefore should be communicated carefully. The greater the extent to which teams can be involved in the planning of the performance assessment programs, the easier the communication will be. Communication of team appraisal programs should be kept as clear and simple as possible. Also, since team performance is likely to be linked to rewards and recognition, a clear explanation of how performance affects rewards should be included.

Rewarding Team Performance
Our research, sponsored by the Stevens Alliance, has shown that R&D organizations that reward teams with variable pay are generally more effective. Variable pay systems can include gainsharing (cost-savings) plans, profit sharing plans, and incentives based on team goals. Discretionary lump-sum bonuses can also be awarded to teams to recognize extraordinary performance. The type of variable pay utilized should be consistent with the strategy of the organization and the message that the organization desires to convey to its employees. In addition, merit increases can also be given based on some combination of team and individual performance. At Motorola, for example, merit pay levels are dictated by business performance. Increasingly decisions regarding individual payouts of merit pay are being turned over to the work teams who can make the decisions regarding the criteria for allocation of merit pay (see interview with Frank Pickett of Engelhard Corporation).

Variable pay systems ought to emerge from the organizations strategy, history and culture, not forcibly imposed or presented as the solution "du jour" for management problems. Rather, both research and experience suggest they be phased in gradually. At the assessment phase, management has to determine how ready the organization might be to accept variable pay. A new pay scheme related directly to the organization's strategic objectives has a better chance of acceptance than one that is not connected. Customized design of the new pay systems involves the formation of strategic pay objectives, showing how they are related to overall organizational or corporate goals. Performance objectives are tied to key outcomes: for example in R&D organizations these might be patents, new products, new processes, or reduced cycle time.

Implementing new pay systems always carries a risk of failure. These risks can be minimized by going through several steps. First, involvement of the affected employees is a critical factor in acceptance, especially in team-based organizations. Second, the program should be pilot-tested if possible on one or two teams or organizational units. A careful, systematic evaluation of the pilot program should then be undertaken to determine whether changes are needed before a full-scale rollout is made.

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