What Does Team Pay Have to Offer?

An IES Research Club Paper

the Institute for Employment Studies

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1. What is Team Based Pay?

1.1 Definitions and types of team-based pay

There are a number of definitions of team-based pay. One wide ranging definition of collective reward (Milkovich and Newman, 1987) describes it as:

> *'any form of variable pay scheme which rewards employees collectively on the basis of their performance'.*

Within the term 'collective pay' one then has to consider team-based pay specifically. Katzenbach and Smith offer a commonly quoted definition of a 'team':

> *'a small number of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they hold themselves mutually accountable.'* (1992).

This suggests that there are many types of team: permanent and temporary; project; cross functional, *etc*. Similarly, collective reward appears in a number of guises. Reward systems may usefully be grouped into four categories or levels, largely on the basis of size of the group to which they apply:

- organisation level (*eg* department heads)
- business unit level
- team level
- individual.

At the organisational level there is profit sharing or forms of corporate bonus. These we will exclude from our discussion because there is a lack of inter-dependence and direct, common objectives necessary for team pay to succeed. The same may apply at business unit level, though this does depend on the nature of the unit. Individual rewards are clearly not relevant here.

A second axis for classifying reward schemes, including team-based systems, is by performance measure. This may be financial, (such as profits, return on equity, cost-savings) or it may be operational, (such as meeting/exceeding time deadlines, number of products manufactured, or quality targets, *eg* parts rejected, or customer satisfaction levels). There is also reward of the process — the inputs, or 'how' the outputs are achieved.

Thirdly, the form of the reward may be intrinsic (satisfaction of meeting goals, team relationships, creative challenges, responsibility, learning), or extrinsic. Extrinsic rewards may in turn be sub-divided into financial (a cash bonus, shares, base pay increase, trips, time-off, luxury gifts), or non-financial (praise from line manager, written commendation by senior staff, public acknowledgement on noticeboards and staff newsletters, celebratory events, *etc.*). Non financial recognition will not be tackled in this paper.

Another dimension to consider is whether one is offering an incentive or reward. Incentives are '*payments linked with the achievement of previously set targets which are designed to motivate people to achieve higher levels of performance*' (Armstrong, 1999). In other words, incentives are carrots dangled in advance to encourage the response you want. Reward, conversely, is an after the event recognition of an activity that has been undertaken. Most team-based pay schemes are incentive based. There are numerous forms of incentive pay of this sort.

Then there is the delivery mechanism. Money can be paid through base pay or as a bonus, in addition to the basic wage or salary. Team-based pay, precisely because it deals with teams as units rather than individuals, is usually paid in bonus form. This may or not be money reckonable for a pension or used in calculations on such things as overtime or shift pay. Generally, it is not.

To summarise then, the characteristics of team-based pay are that it:

- applies at team level, rather than individual, but the size of team may vary. We have excluded pay based on corporate performance, but business unit performance may be included
- can be used to recognise inputs of effort or outputs of delivery, or both
- is a form of extrinsic motivation though it may support intrinsic motivation
- is generally applied as an incentive rather than reward, though it is used as a type of non financial recognition
- is paid as a non consolidated bonus.

1.2 How widespread is team-based pay?

The most comprehensive of reward surveys, the government's New Earnings Survey, reported that 15 per cent of full time employees received a bonus in 2000. This definition though includes individual commission, payment by results, profit sharing and a whole variety of payments, most of which fall outside the scope of team-based pay.

Thompson and Milsome (2001) have summarised some of the main research into the extent of take-up within the UK of team pay and other 'new reward' schemes. They conclude that:

> *'the long-predicted explosion in new pay practices has proved ill-founded. Far from flourishing, they remain at the margins of mainstream reward practice in the UK and the USA.'*

They quote Brown (2000) who says, *'Practices such as team pay are being used alongside, not instead of, individual performance pay.'* Brown was also the author of the report by Towers Perrin (1999), where he found a *'picture of regular, incremental rather than revolutionary change. … What's really happening, is that HR managers are selectively using them and melding them with their tried and tested systems, in order to produce improved but not radically different approaches.'* At least six pieces of research provide evidence for these conclusions, with estimates for the prevalence of team pay ranging between five and 24 per cent of employees in the organisations covered:

- A study by the IPD (Armstrong and Ryden, 1996) of 98 public and private sector organisations found that nearly a quarter (24 per cent) had formal links between team performance and pay and a further 47 per cent were considering the implementation of some form of team reward.
- A large-scale survey of 1,158 public and private sector organisations by the IPD (1998) found that eight per cent of respondents operated team-based pay.
- Eleven per cent of participants report team-based pay in the Gee Publishing (1998) survey of 286 organisations.
- Twenty two per cent of the 464 respondents to the company survey by Towers Perrin (1999) now operate team bonuses, compared with 16 per cent in 1996.
- Only five per cent of the private-sector organisations responding to a recent IRS survey (2000) currently operate team-based pay for at least one employee group.
- The recent Mercer (2000) survey for the CBI, of 829 companies, found 19 per cent linked rewards to a formal assessment of team performance.

In summary, there are many forms of team pay. There are differences of view as to what should be included. While interest in team-based incentives has, in particular, increased, the evidence is that it remains a minority pursuit.

2. Why is Team-based Pay Attractive?

2.1 Objectives of team rewards

Introducing team-based pay should, at its core, be about using financial rewards or incentives to orient people to team goals. These may concern profitability, productivity, quality or customer satisfaction. The team is chosen rather than the individual (or in combination with individual reward) because it is at the team level that either it is deemed reward will be most successful or the goals are more group than individual related. Organisations may want to promote a cultural shift and use this form of reward to emphasise the business goals. This may be across the organisational board or to emphasise the distinctive culture in or performance of a specific business unit (*eg* in Tesco Express and Royal Mail — IDS, 2001). These are the positive reasons. It may be that team-based pay is chosen for negative reasons, especially that the existing pay scheme is failing. The emphasis on individual level reward may have encouraged competition, at the expense of the wider group, to deleterious effect on performance. Teamworking, supported by pay, is seen as a means to promote co-operation, sharing of information, skills and best practice.

Team-based pay may be launched for very pragmatic reasons. Organisations may feel that the bonus or incentive element is insufficient to attract or retain staff. This might encourage thoughts of some form of individual bonus scheme, but that might not be practicable. A team element may be necessary for some or all of the population, and for a part, at least, of the reward package.

These objectives are reflected in a European survey carried out by Towers Perrin (1997). They are roughly listed in order of importance and impact:

- enhance connection between pay and performance
- communicate business goals
- increase productivity and performance
- improve financial results
- encourage teamwork

- encourage employee involvement
- improve quality/customer satisfaction
- support changing culture/values
- reduce costs
- replace traditional merit regimes.

2.2 The advantages of team rewards

The advantages of team-based pay rather follow the objectives, listed above. Armstrong (1996) adds the following potential advantages:

- clarify team goals and priorities
- reinforce flatter and process-based organisations
- support a move to self-management or self-direction.

The alignment between employee and the organisation is a much sought after HR goal. Team-based pay may contribute to this aim by providing a vehicle through which business priorities can be communicated and reinforced. BP Grangemouth, for example, believes that its gainsharing scheme supports the business strategy and conveys the important aspects of site priorities to the workforce (IDS, 2001).

The emphasis Armstrong places on organisational structure is significant. Organisations that have delayered and reduced their management input may recognise that it is much harder to supervise employees than before. This is because the span of control has grown greatly. Individual based pay systems that rely on managerial assessment are problematic when there are numerous reports. Having a team basis to pay may then seem to be attractive. This may coincide with a general emphasis on the team as a critical element in work organisation. The more responsibility is devolved to teams, the more attractive it is to connect performance and reward at that level. This analysis appears to be borne out in the aerospace industry, where delayering has been accompanied by greater team working and team-based pay (Thompson and Buttigieg, 1999).

There are other advantages.

Traditional, individual-level skills-based pay has tended to reward staff when they themselves acquire some new skill. Team-based reward can encourage the sharing of skills, by offering the whole team a bonus when *everyone* has acquired a particular skill, to a required standard. Cross-functional teams, with supporting reward, can therefore promote skill acquisition allowing individuals to become more multi-skilled and flexible. So team-based pay can encourage flexibility and improvement of individuals and teams. It can help communication and co-ordination. All this will align employees with the changing business goals.

There are also cost benefits from team-based pay. These may stem from only making payments on the basis of successful performance — a virtue of all variable pay systems. But as team-based pay is usually delivered through non consolidated bonuses then it saves on pension and other on-costs. Moreover, bonuses have to be re-earned in a way that base pay increases do not.

So, on the surface, team-based rewards have many attractions. But what are the 'nuts and bolts' of team-based pay which need to be tackled when designing and implementing it?

3. The Mechanics of Team-based Pay

3.1 Types of scheme

Research by the IPD (1996) identified three basic approaches to setting the criteria against which performance is judged:

- **Performance related to defined criteria** *eg* at LloydsTSB or the Norwich Union, where criteria were sales and a measure of customer satisfaction; at Sun Life, the measure was a combination of customer service index and number of customer cases dealt with.
- **Bonus related to an overall criterion** *eg* at the Benefits Agency, where team bonuses were paid if there was 'a valuable contribution to performance as determined by local unit managers'.
- **Bonus related to the achievement of predetermined team objectives** *eg* Rank Xerox's added value gainsharing plan.

This indicates that some team-based pay schemes are driven by very specific measures (be they sales, productivity or customer satisfaction) with, to varying degrees *hard* criteria. Gainsharing is an example of this approach. It tends to apply to a business unit or site, and therefore may not be a true team-based scheme. But it is paid on the basis of a performance formula, such as the difference between selling price and employee costs. This enables the return to the company to be calculated directly. Employees then take a share in the benefit.

Other schemes use *soft* measures of success. For example, a competency-related scheme might reward the ability of different teams to co-operate with each other.

Overall judgements of success may be used, sometimes at the discretion of the manager.

Combinations of hard and soft measures are also possible. Indeed, the IDS claims that *multi-factor* schemes are becoming increasingly popular (IDS, 2001). They are attractive where there are definable outputs (sales, production, *etc.*), but less well defined elements, either inputs (*eg* initiative) or outcomes (*eg* customer satisfaction or quality). They are also beneficial where there is a fear that *single-factor* approaches overly influence and distort behaviour. Sales are chased, but profitability is ignored. Volume is raised, but quality slips. Safety performance, in particular, may need to be protected from the over enthusiastic chasing of targets.

Bonus schemes do not have to operate on the basis of just a team component. It is possible to introduce schemes that combine both team and individual pay or reward performance at both small team and organisational level. There is also the possibility of using an individual element in team reward. For example, Tesco Express require 80 per cent attendance and TWR Seatbelt Systems 90 per cent attendance before an individual is eligible for the team bonus (IDS, 2001). An unsatisfactory performance marking or poor disciplinary record are other reasons to exclude an employee from a team bonus.

A similar linking of goals is seen in systems that try to combine team and organisational reward. This is achieved through having a multiplier, based on organisational performance, which operates on the team bonus. This has the effect that how much is paid out may be tied to what the company can afford, but still be influenced by the team.

3.2 Bonus size, distribution formulae and methods of assessment

The size of the bonus depends variously upon the amount of incentive required, on the general importance of pay within the company, on the proportion of pay which is appropriate to be 'at risk', and on affordability factors, such as cost savings/self-financing aspects of the team. Some examples are given below:

- the managing director of Hay Group proposed that variable pay should be about a month's salary — a minimum of 5-10 per cent of base pay (Caudron, 1994)
- the highest target payment in Rank Xerox is around £4,000 a year, averaging about £1,500
- LloydsTSB pays out a maximum of £400 a quarter
- Tesco Express pays out to a maximum of 20 per cent of salary
- Norwich Union Financial Planning Consultants uses a maximum team bonus of £3,000 a year.

Some schemes, like many of those above, are 'capped', *ie* the level of reward is limited by the scheme rules. However much productivity rises, individuals can have no more than a 10 per cent bonus. This may control exposure (especially if the rules are loose or the assessment subjective), but there is the risk of good performers 'slackening off' once the target is reached. There are uncapped schemes, often when the targets are revenue or profit-based, where there is no theoretical cap because the scheme is self-financing.

Once the size of the bonus 'pool' has been determined, there are several methods for distributing it:

- a flat rate for each person
- A fixed percentage of base pay for each (this assumes that base pay reflects individuals' contribution to the team)
- A combination of flat rate and percentage
- A combination of team and individual performance measures

The impact of staff turnover also has to be considered:

- how to handle joiners
  - is there a minimum service qualification?
- how to handle leavers
  - those that resign during the year get nothing?
- how to handle internal transfers
  - a proportionate award is given for participating in each team?

Finally, a decision needs to be made on how often to pay any bonus. Generally, shorter intervals tend to be more motivating. Frequent payouts are less at risk from employee turnover — individuals joining and leaving the team. Pay points may not be determined on a regular time basis, but according to milestones in the project. The decision between the two options depends on the nature of the team.

Where schemes are tied to fixed, objective formulae, then no judgement has to be made as the payout. This actually understates the case in that some schemes are so complex in their approach (using organisational and local factors, inputs and outputs) that a calculation still has to be made. However, these can still be distinguished from schemes where judgements have to be made either about whether objectives have been met or, in schemes that have an individual element to them, on the quality of employee contribution. Usually supervision or more senior management makes these judgements. There are, however, examples where peer evaluation of performance is used, but these can result in popularity rather than performance measures.

3.3 Team structure and dynamics

Which sort of team to set up, and what objectives to use, are sometimes described as a balance between what are referred to as

‘Common Fate’ and ‘Line of Sight’ objectives. These terms need more explanation. These are summarised in the table below.

Table 1

Common Fate Objectives	Line of Sight Objectives
Team work across organisation	Team work within units
Optimise total resource use	Reinforce results people can affect
Equity, reward	Performance, incentive
Long-term benefits	Short-term benefits
Financial improvements	Operational improvements
‘What’ of strategy	‘How’ of strategy

Generally speaking, the stronger the degree of incentive required, the greater the independence of functions from each other, the more likely small team or individual incentives work best. The greater the structural fluidity between teams, and the less precisely measurable local performance, the more ‘common fate’ objectives would be applicable.

When judging the success of teams, it is important to judge them against the correct set of criteria. The functions of teams also change over time, and the system of reward needs to be flexible to adapt at the same time. Team members, for example, may be involved in discrete activities that combine to produce an overall outcome. This might suggest a bonus scheme aggregated at a high level. Computer technology might change work duties, stripping out the mundane, and allowing greater homogenisation of work — bonuses then might fit with teams of a smaller size. Rewards may need to reflect the life-cycle of projects, for example. At the beginning stage, reward objectives may focus on acquiring new skills and familiarity; later, they may be used to emphasise expected achievements; at a more advanced stage, rewards may focus on improvements in results; and in the final stage, to recognise celebrate success.

This section has looked at some of the practical aspects of how team-based pay schemes work. It illustrates that there are a number of decisions to be made that should be thought through on the basis of what sort of scheme is wanted, what sort of objectives it has. We will now turn to the research evidence on the success of the team-based pay concept and what appear to be the critical success factors.

4. Evidence of Effectiveness and Success Factors

4.1 Research evidence of effectiveness

According to Brown and Armstrong (1999), there is conflicting research evidence on the effectiveness of team rewards, but on balance they find that

> *'in appropriate circumstances, team reward plans are effective, in terms of both their "hard" results and their "soft" behavioural impact'.*

They stress the word 'appropriate' since teamwork and team reward are not suited to all. For example, accounts departments do not really have an output, and their customers are largely internal. Armstrong (1999) maintains that the evidence differs by occupation: for shop-floor workers, where physical output or allowed and actual time is clearly definable and measurable, the value of team-pay is well established; whereas for white collar jobs the case is 'not yet proven'.

Positive research evidence is reported by Rock and Berger (1991) from studies that found a long term beneficial effect on team performance by linking group rewards to group goals (Pritchard and Curtis, 1973, and Austin and Bobko, 1985).

A large scale study for the American Compensation Association, by Macadams and Hawk (1995), found that the average return on the cost of scheme payments was over 200 per cent *ie* the scheme generated $2 for the company, for every $1 paid to employees. Satisfaction levels among participating companies with improvements in business performance, teamwork and communications were all positive.

An earlier study by the American Productivity Centre (1987) demonstrated improvements in team-working, commitment, employee relations, as well as productivity, quality, and absenteeism. Towers Perrin (1990) found that 73 per cent of collective reward plans they studied had exceeded participants' own expectations.

A study by Gomez-Mejia and Balkin (1989), of 175 scientists and engineers involved in research and development work, found that team rewards were particularly effective in overcoming competition, and encouraging the sharing of results, especially since team progress in this sort of setting tends to go in leaps, and it is difficult to attribute success to the work of single individuals.

It is nonetheless important to distinguish between the effects of teamwork, and those of team pay; the second need not necessarily accompany the former, and it may be the teamwork and good goal setting which is having the positive effect.

Aerospace firms with team-based pay report higher profit margins and profit growth. This seems connected to the introduction of a team based work organisation. The point here may be is that there is a good alignment between structure and reward (Thompson and Buttigieg, 1999).

However, not all the research evidence is so positive. For example, according to Rock and Berger (1991) *'In spite of the popularity of gainsharing programs in recent years, there is no convincing evidence that demonstrates the incentive effect of such plans on the work force.'*

Thompson and Buttigieg, (1999) found a negative relationship between team-based pay and a customer focus strategy in their study of the aerospace industry. Research on US firms in the concrete pipe sector found that team-based pay was not particularly effective in encouraging a TQM approach. This, the researchers claimed, was because team-based pay encourages member co-operation but not skill development or what they called a 'systemic focus' (Shaw *et al.*, 2001).

4.2 Factors leading to success

4.2.1 Communication and involvement

It is clear that, to achieve success, it is not sufficient to concentrate just on the elements of the team; it is important to examine the whole company and the context in which the team works. The most crucial element mentioned is communication and involvement of the workforce. The worst policy is to do all the planning by managers and consultants in secrecy for fear that the plans will be resisted if the workforce gets to hear of them in advance. Workers should thus be closely involved from the design stage of the team, and communications with them kept high. Team members need to support the process.

Consultation should therefore extend to line managers, team leaders, existing or potential members, whether by focus group, survey, or interview. They need to be asked their opinions about the issues around working in teams, and how best to reward them, as discussed in this article.

Indeed, Brown and Armstrong (1999) go so far as to state that the same rule that may work well if it is devised by the team themselves may fail if it is imposed upon them from without. 'People support what they help to create' (Armstrong, 1999). Research also points the fact that for schemes to succeed the goals have to be accepted by the group members (Gowen, 1985).

4.2.2 Open, participative management

For this reason, an organisation introducing team pay needs to ensure it has an open and participative management culture, with clear support for team-working by senior managers Related HR practices, such as training, need to be in place.

4.2.3 Targets

The team goals need to be clearly defined, and aligned with wider company business strategy. To be effective as an incentive, there should be a clear 'line of sight' between effort and reward. This view is based on *expectancy theory*. This argues that motivation will occur if there is a relationship between performance and outcome, and the outcome satisfies the individual's needs. Moreover, the employee has to expect that effort will lead to reward. Thus targets have to be meaningful to team members. This generally means targets are more effective at work group rather than business unit or corporate level.

As research suggests, if the system is not to be demotivating it is important that the goals be difficult enough to be challenging, but not unattainable (Forward and Zander, 1971). Rock and Berger (1991) claim that quantitative performance measures tend to be perceived by employees as objective, whereas individual performance measures, assessed by line managers, are seen as more subjective. This is why organisations often prefer targets based on productivity operational goals.

So targets should be:

- stretching, but achievable
- consistent across the organisation
- not open to manipulation
- capable of transparent measurement
- so far as is possible, not subject to frequent change (or open to renegotiation).

4.2.4 Team relationships

Teams work best where co-operation is required to achieve the best work outcome. Members of the team need to be interdependent in their functions, rather than a group of individuals. They also need to acknowledge that their success depends on co-operation and shared responsibility. At the same time, the team needs to be clearly defined and distinguished from others.

Smaller teams, with shorter payout periods, give members a greater incentive and sense of influence over output. Keeping teams small helps with monitoring and is more likely to control free riders. Wide employee discretion and autonomy is well suited to teams, rapid decision-making or individual expertise are not. Indeed, granting greater autonomy can be a valuable intrinsic reward for team success. However, care needs to be taken to limit the excesses of group control. There are various ways in which the problem might or will be mitigated:

- training the manager to be aware of the potential for these issues and having strategies to intervene in an appropriate manner
- setting goals that minimise conflict
- limiting the size of the bonus so that its achievement is not a matter of life or death!
- resourcing the teams so that there is a good mix of skills and abilities
- using competency assessment in the performance management process to identify any undesirable behaviours in the group.

What sort of size team is best? Hackman (quoted in Thompson, 1994) claims 15 is the maximum number. More than that and the team starts to fragment, communication and co-ordination become difficult. Trust starts to ebb and factions start to form. It is also more difficult to establish the performance/outcome link.

De Matteo *et al.* (1997) found team rewards worked better if there was a high level of interdependence between members, an equal allocation of workload, and prior experience of teamworking.

Armstrong (1999) stresses that team members need to reinforce each other's common purpose, over any individual agendas. Other important factors which he finds help are if the team is:

- stable — they know each other, know what each expects of the other, know how they stand in the others' regard
- mature enough to be flexible in order to meet targets, familiar with using each other's complementary strengths, and being able to express contrary points of view and carry the day, without upsetting others
- collective and individual commitment to the purpose of the team is also an essential characteristic of an effective team.

4.2.5 Introduction Process

Although it is tempting to use team pay as a method of encouraging a new team to meld together, team pay actually works much better if members are already familiar with each other. Having to cope with a new style of working at the same time as a new pay system may be too much. Armstrong (1999) suggests using a pilot system, with core teams that already work well together; their success may then encourage others. This supports the views of De Matteo *et al.* (1997), reported above, that prior experience of teamworking is conducive to success.

4.2.6 Combining success factors

The importance of introducing a combination of these success factors is underlined by an (unspecified) 'recent study', referred to by Brown and Armstrong (1999), looking at 50 teams engaged in silicon chip manufacture. The study examined four factors: the physical environment, job design, reward structure and performance management systems. It found, not only that none of these on their own had a positive effect on performance, but that introducing teams without actions on at least two of the listed factors actually worsened productivity and quality. If action in three or more areas was taken, then performance improved.

This is consistent with much research on the effectiveness of people management practice. It seems that it is the 'bundle' of good HR practice that has a positive effect on performance, rather than a single element. Thus employee involvement, profit sharing, teamworking, *etc.* all contribute together to improved business outcomes.

4.2.7 Monitoring and evaluation

Once a team system is in place, it is important to monitor how it is working — how far it is meeting its objectives, how the team feels about the process, what problems there are, and how to improve the situation. It is important also that the structure is not fixed, but is flexible enough to adapt to changing circumstances within the project or organisation.

4.2.8 National Culture

How useful or successful team rewards are will partly upon national culture. Hofstede (1980) established, for instance, that the USA ranked highest in the world in the individualism of its culture, and UK third. Other cultures are more collective.

This point is relevant if there is the suggestion that successful schemes be exported to other countries or that a transnational team-based pay scheme be introduced. It is also important if a non

UK parent wishes to transfer a process that has worked well in the home setting. It cannot be assumed that success in one location guarantees success in another. Thus, results from team working in Japan might be very different if the same system were duplicated elsewhere.

This reinforces the message that *best fit* is a better guide than *best practice*. It means that organisations should take account of their own culture and their environment in designing their approach. This section has also highlighted the importance of process. The evidence is that team-based pay can bring organisational rewards. Much attention though has to be devoted to getting the team structure correct. But even if the environment is conducive to team pay, the process of introduction is critical. One that involves staff and gains their support is likely to be much more successful. As the next section shows, there are plenty of problems to overcome. Having your employees on your side gives you a better basis upon which to meet these challenges.

5. Problems with Team-based Pay

The first problem with team reward schemes arises if the individual is unable to influence the outcome, either through the team or because of outside factors. As with individual performance schemes, this can have a de-motivating effect. It should go without saying, but is sometimes overlooked, that if there is little scope for performance improvement, no scheme, however clever, will generate improvement.

Secondly, if the performance targets are not correctly set, then wider organisational targets outside of the team can suffer. It can be important, for example, if productivity is an operational target, to include targets for quality, or health and safety, as these may otherwise be relegated. This is one reason why organisations have been attracted to the balanced business scorecard since it measures not just financial, but also customer, people and process performance. The difficulty is that, although this gives a more rounded picture of what needs to be achieved, it can often result in a very blurred line of sight.

Target setting is particularly awkward for support staff as they may not have so easily defined or, more critically, objectives. Some staff are forced into a team-based pay scheme, even though ill-suited in terms of the nature of their work (too individualistic) or work activities (difficult to objectively measure success). The solution is to exclude such staff from your scheme and either reward them through individual performance related pay or link the bonus to corporate achievement.

Relationships between teams may become a difficulty, especially where teams are highly interdependent. An internal market may arise, where teams are reluctant to lend their 'best players' to other teams for *ad hoc* work; equally, the best performers may attempt to 'migrate' to the highest performing teams, or be poached by them, leaving weakened teams behind. Team pay may thus help teams that are already effective, but harm those which are weak. Those teams that perform more poorly than others may begin to find fault with the system and withdraw support for the process.

Once teams are successfully operational, they can become resistant to change, disliking being broken up. This problem is little different, though, to other organisational change, such as closing or re-siting a business unit, delayering, re-organising departmental functions, or making large numbers redundant. People used to working with each other are often reluctant to be separated or changed.

Within teams, there can be an issue of equity. Some team members may be perceived as 'free-loader', riding on the efforts of others, whilst those who see themselves as high achievers resent others gaining equal benefits for apparently less contribution. As an HM Treasury report pithily puts it: team-based pay '*penalises performers and rewards passengers'* (Makinson, 2000). Whereas team bonuses are intended to encourage stronger team members to support and encourage weaker ones, if this does not succeed in raising the team's performance, the weaker performing members may become the subject of antagonism from others, for reducing the amount of bonus available. Bullying may even occur. Inter-personal relationships may thus be exacerbated, rather than improved. Whilst this may suggest including an individual measure of performance, as well as team targets, there are pitfalls in rewarding team members differently, as this can also set up jealousies and resentments, and undermine the impact of building a unified team.

An alternative problem which can occur is 'rate-busting', where higher performing individuals are pressured by the rest of the team to 'slow down'; competition to drive the team rate up constantly can create undue pressure, which the majority actively resist. Group pressure may thus have the effect of bringing the best down, as well as bringing the weakest up.

Some commentators note a tendency for schemes to 'peak out' after 2-3 years, and then become less effective. This is not an uncommon observation with reward schemes, though it is at the shorter end of the usual extent of durability.

The problems highlighted in this section may be overcome by a good process of introduction, perhaps including piloting your approach first, and certainly by involving employees and their representatives in the design. However, some difficulties are more fundamental. Getting the targets and teams right is critical. Making sure that the whole sequence of effort to reward is transparent and effective is equally so. You need to be sensitive to your culture but yet not be so constrained by it that change is prevented. As with launching any new reward system, communication and training should not be underestimated.

6. Conclusions and Future Trends

Team-based pay is not as common as one would have thought. This is despite the fact that it is seen by many as an attractive concept. This may be because of the practical difficulties described in the last section — sorting out team membership and team objectives. The problem may start even earlier: how many organisations really have a team oriented culture? To what extent are there teams that:

- form a natural grouping?
- have interdependent skills and tasks?
- have fairly well defined boundaries, distinct from other teams?
- have a set of transparent and measurable targets that relate to the work individual team members do as a group and over which they have some effect?

Until these questions are satisfactorily answered one cannot get into the finer detail of how in practice they are to be rewarded. In fact, the reward system is the easier part of the problem. Determining the level and frequency of payout is much simpler than establishing that you have a stable team structure upon which team-based pay can be supported. Even if teams exist in a fairly robust form, it is not always straightforward to identify the correct targets. This is because there are some conflicting pressures:

- targets should relate to the business strategy, but bottom up target setting tends towards greater employee commitment
- targets should provide a clear line of sight, yet they must balance competing pressures — *eg* production and safety
- targets should reflect group goals, but it is individuals who actually perform.

This last point reinforces the fact that, as in any pay system, but perhaps more so in team-based pay, there is the question of whether participants have the skills and behaviours to operate it:

- Is senior management committed to team-based pay and understand its purposes?

- Do line managers have the ability to manage their teams and to manage team rewards?
- Is there a high trust employee relations' environment where collaboration is the norm rather than confrontation?
- Do team members have the maturity to pursue team goals but not to the point of generating anti social behaviour?

As Abosch and Reidy (1996) observe that '*the most effective team rewards are a function of management and culture, more than remuneration*'. Pay systems are rightly used to change organisational culture. Team pay might play an important part in such an attempt. Yet as Kessler (2000) observes: *'the very importance of pay to employees means that, if the organisations get it wrong, serious dysfunctional consequences may follow.'* And the chance of getting it wrong is perhaps greater with team-based pay than even with individual performance related pay. Trying to create a team culture through team-based pay is fraught with danger. It is much easier to reinforce a team culture with appropriate rewards than to lead with pay. The team structure has to be in place; the targets clear and self evident; the participants sufficiently skilled. Unfortunately, there are no 'off the shelf' solutions to team-working systems. Each case is different.

> *'Team pay may not always be appropriate, and it can be difficult to operate. The criteria for success are demanding, which explains why the number or organisations that have taken it up is quite small and why other forms of rewarding teams are often preferred.'* (Armstrong 2000)

6.1 Changing context

Aside from the specific reasons for introducing team-based pay, noted in Section 2, there are features of the changing context that might encourage the growth of team-based pay.

At present the public sector is showing a great deal of interest in team pay. This largely stems from the publication of the Makinson report in relation to civil service pay, but government support for the concept has seen other experimentation starting in the NHS and local government. Makinson believed that individual performance related pay was unsuitable for parts of the civil service where large numbers of employees are doing the same sort of job to common, not individual, goals — the so called 'processing factories'. He felt that team incentives based on a balanced business scorecard would improve productivity to the extent that schemes would be self funding.

Some civil service departments may feel under a degree of compulsion to consider team-based pay, but there are other parts of the public sector that can see potential advantages. These may apply equally to the private sector:

- non consolidated, re-earnable pay may be attractive in terms of paybill control
- variable pay has this advantage, but also it concentrates employees' minds on their performance
- team-based pay may be seen as an alternative to individual performance related pay and gain greater staff support
- similarly, trades unions may take to team pay in preference to individual performance related
- team pay may provide a better fit with the drive towards focusing on key business issues — quality, customers, productivity, *etc.*

The difficulty of getting an affordable and business aligned reward system is a continuing concern for practitioners. Any approach that furthers this goal will be seriously considered. Team pay offers some attractive features. Because it is generally paid on top of base pay and is closely related to positive business outcomes, it may both avoid making long term financial commitments and be, to varying degrees, self funding. When the amount of money available for distribution in these low inflation times is small, then making the most of what you have got or growing the size of the pot, are opportunities to be seized upon.

Moreover, in a competitive business environment and with a modernising pubic sector, the desire to get all employees focused on what will deliver success in terms of effectiveness and efficiency is a prime goal. Reward can send signals of what is important. Profitable sales are wanted, sheer volume is not. Tax payment is enabled, compliance is the fall back. It may be easier to send these messages to teams rather than individuals. This is because it may be more acceptable to staff and their representatives to assess team performance than personal. Interdependence of goals (*eg* we cannot sell new products if existing ones are badly processed) encourages a team philosophy. If individuals are being encouraged to work together, then the reward process should reinforce that behaviour. These are positive reasons to consider team-based pay. But there may be negative reasons as well. As practitioners have discovered, trying to include both inputs and outputs of individual performance can produce complex performance management and remuneration systems. Managers are not always sufficiently skilled or knowledgeable about individual performance to make such judgements consistently well. It may be better, some may think, to use competency appraisal for development, not pay purposes, and reward outputs via team reward, especially where it is difficult to separate out individual contribution.

Some public sector trades union leaders have been hostile to Makinson; others have been indifferent. Yet the sort of analysis above may not be so hard for them to swallow, particularly if team-based pay offers extra money beyond the usual inflation linked increase. Employee representatives tend to worry about the risk of bullying and the sort of resourcing issues referred to in Section 5. These problems can be addressed through careful management. What trades unions really dislike is the rebalancing of base pay and variable pay. Under competitive business pressures, some managers would like to cut base pay as far as is reasonably practicable and then pay incentive bonuses on top. This has the advantage of keeping the paybill low and responsive to business performance. It goes beyond an argument of financial efficiency, however. Some managers believe that employees will only be motivated to perform if there are large and clear incentives. As they would put it, 'staff are paid too much merely to turn up for work'.

The push towards more variable pay has been seen more in the boardroom than on the shop floor. The tightness of the labour market is probably constraining some of the more zealous proponents of this idea. If it is difficult to attract and retain good quality staff when offering a low basic wage with the promise of more to come if the business does well. This may not go down too well with those seeking a mortgage or paying off a debt. An easing of the labour market may encourage a shift towards more variable pay. However, this may come in a number of forms. Cash based profit sharing schemes have declined in interest since tax relief was removed. Share based schemes may grow for the opposite reason. Both for affordability reasons and to emphasise corporate performance, these sort of schemes can play an important role in compensation. So organisational level methods of reward may be competing on the same ground as team-based pay. And with small sums to play with, only growing and successful businesses can contemplate rewarding at organisational, team and individual level. Which one or two of these types of remuneration organisations opt for ought to be determined by how they best fit their context, culture and wider people processes.

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