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# REWARDS FOR TEAM CONTRIBUTIONS TO QUALITY


## ABSTRACT

This study reports the findings of a survey of team reward practices of North American Firms that have had a minimum of three years of experience with Total Quality Management. Semi-structured interviews with the director of quality revealed several team reward best practices. The best team reward practices include (1) using a mix of both monetary and non-monetary rewards; (2) restricting the size of team rewards to a monetary value of $ 500 or less so they can be given out more frequently; (3) making provisions for all teams and team members to be eligible to receive team rewards; and (4) basing team rewards on customer satisfaction or a performance metric unique to the organization

## RÉSUMÉ

Cette étude s'intéresse aux programmes de reconnaissance d'équipes dans un contexte de qualité totale. La question de l'étude est: est-ce-que l'utilisation des programmes de reconnaissance dans un contexte de qualité totale augmente le succès de l'entreprise? Il est sous-entendu que les programmes de rémunération incluent: le programme de partage de profit, le partage des gains, prix d'équipes et les prix individuels. L'étude comprend 30 entreprises qui ont implanté ce programme sous une forme ou une autre. Les données ont été recueillies par un questionnaire qualitatif et ce dernier a été codifié afin de permettre d'effectuer quelques analyses statistiques. Les résultats démontrent que: (1) Le prix décernés et l'utilisation des programmes de reconnaissance ont un impact important sur le succès de l'organisation (2) L'appui des cadres supérieurs et le niveau d'implication de l'entreprise sont des critères indispensables qui contribuent au succès du programme (3) La formation contribue également au succès du programme (4) La communication et le partage d'information entre les cadres et les employés sont indispensables afin de permettre d'accroître ses chances de réussite dans le contexte de la qualité totale. Enfin, l'étude montre que le niveau de rémunération d'équipe semble être la variable la plus importante afin d'assurer le succès des programmes de reconnaissance d'équipes dans un contexte de qualité totale.

## REWARDS FOR TEAM CONTRIBUTIONS TO QUALITY

Organizations that adopt Total Quality Management experience a major change in company culture. Important changes in company culture under Total Quality Management include (1) placing a strong focus of company performance on satisfying the needs of the customer; (2) making a relentless effort to continuously improve products and services; and (3) re-designing the jobs of front-line employees into teams which encourage them to collaborate with each other as well as customers and suppliers (Dean & Bowen, 1994).

The emphasis on teams and the focus on continuous improvements under Total Quality Management has a significant impact on the company reward system. Traditional reward systems that focus on individual accomplishments and employee behaviors that are competitive and non-collaborative fall out of alignment with a customer-centered company culture (Dobbins, Cardy & Carson, 1991). Deming (1986) warned managers that individual-based merit pay undermines a company's ability to improve quality. Obviously, organizations that implement Total Quality Management need to rethink how the reward system provides incentives for teamwork and making continuous improvements in its core processes. The purpose of this article is identify some of the effective ways that companies use to provide for team contributions to quality.

This article reports the findings of a recent survey of team reward practices used by North American firms that have adopted Total Quality Management. Following a brief explanation of the method used to gather the data, the best practices used to reward team quality contributions will be identified. In addition, issues in implementation of team rewards and caveats for managing team rewards will be explained. However, first, we will look at some important pitfalls that managers face when trying to use team rewards.

## PITFALLS TO AVOID WHEN USING TEAM REWARDS

Managers should be aware of several pitfalls that dilute the effectiveness of team rewards to influence employees to make improvements in quality. These pitfalls include (1) free riders; (2) inappropriate performance measures; (3) inflexibility; (4) reduction in intrinsic motivation; and (5) team interdependence (Gomez-Mejia & Balkin, 1992). Managers should consider these pitfalls in the design and implication of team reward policies.

### Free Riders

Free riders are individuals in a team who provide low work inputs to the team in exchange for a full share of the team rewards (Albanese & Van Fleet, 1985). If left unchecked, free riders can demoralize team members' efforts to improve team performance. This suggests the need for procedures to monitor and control free riding, and to withhold rewards from the free riders when team rewards are allocated.

### Inappropriate Performance Measures

Specific performance measures that measure the team's contributions to customer satisfaction or improvements to quality should be developed. The allocation of team rewards should be contingent on these team performance metrics. Traditional performance measures based on volume of output or financial ratios may have to be modified or discarded if they interfere with the team's focus on quality.

**Inflexibility**

Team reward policies must be flexible to adapt to changes in customer needs. Straightjacket formulas that are based on meeting numeric goals (such as producing a specific level of output with a specific level of defects) that trigger team rewards are usually doomed to failure. Employees learn to master the formula, become comfortable with it, and resist changes in it, once the formula becomes obsolete.

**Reduction in Intrinsic Motivation**

Team rewards must be used in ways that avoid the pitfall of destroying employees' intrinsic motivation to do their job. The need for continuous improvements requires employees to be innovators, coming up with novel solutions that improve a work process or that delight the customer. The use of monetary rewards that are tightly linked to team performance may teach team members to become money hungry and undermine their intrinsic interest in the work itself (Kohn, 1993).

**Team Interdependence**

Work processes in many organizations require collaboration between teams. For example, sales and production teams must cooperate to deliver a defect-free product to the customer in a timely way. Team rewards allocated on achieving goals that ignore the interdependencies between the teams may defeat the ultimate goal of customer satisfaction.

## METHOD

A total of 30 private sector firms were identified in the United States and Canada that had significant experience (at least three years) with Total Quality Management. Several of these firms were recognized leaders in quality and have won the Malcolm Baldridge Award. The firms were in the telecommunications, utility, transportation and manufacturing industries. The company informant who was selected to provide information for the study was the Director of Quality.

Interviews were performed with the respondents over the telephone using a semi-structured interview format that took approximately 45 minutes to complete. Specific questions about team reward practices were developed and put into the interview. Questions were developed to measure important dimensions of team reward policies such as the following: (1) type of reward; (2) size of the reward; (3) eligibility for the reward; and (4) measures of team performance that trigger the reward (Bartol & Hagmann, 1992; O'Neil, 1992).

The best practices of team reward policies were identified by finding a subset of respondents in firms who satisfied two conditions. First, the respondent must have considered the firm's Total Quality Management program to be effective and indicate that it contributed to increased organization performance.

Second, team reward policies were utilized within the organization. A total of 9 firms satisfied both conditions and were used as a basis for examining best practices of team rewards.

## BEST TEAM REWARD PRACTICES

The best team reward practices for quality contributions to the organization are summarized in Exhibit 1. The best practices cover the type and size of the team rewards, who is eligible for rewards, and the kinds of performance metrics that trigger the team reward.

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Insert Exhibit 1

about here

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### Type of Reward

The type of team rewards that were allocated for quality contributions consisted of a mix of monetary and non-monetary rewards. Each type of reward sends a message to the team. Non-monetary rewards are used to provide recognition to a team for making a quality contribution. Team members may be awarded a plaque at an awards dinner to celebrate their success. Tokens of appreciation such as jackets, hats or shirts with the team's name on it may be given in recognition for meeting a quality goal. These non-monetary rewards help reinforce team identity and "espirit de corps."

Monetary rewards are given to team members to show that the company is serious about valuing team contributions to quality. Monetary rewards can complement the non-monetary rewards, since money is always valued by employees, while plaques and tokens may provide less motivation if used more than one time.

Steelcase, a Michigan manufacturer of furniture, provided both monetary and non-monetary rewards to its teams. Some examples of non-monetary rewards were a "manager car wash" where managers would wash the cars of employees, and a dinner for two provided for the employee and a spouse or friend. The monetary team reward would be a discretionary spot bonus of around $100 per employee for making an excellent contribution to quality.

**Size of Reward**

Companies that rewarded team contributions to quality provided modest sized rewards of $500 or less per employee. There are some good reasons to use modest sized rewards. First, a large reward (worth over $1000) could only be given less frequently due to cost factors, which would limit its use for encouraging continuous improvements. Smaller rewards allow the company to give out more rewards more often which is in closer alignment with making continuous improvements. Next, a large monetary reward could be disruptive to inter-team harmony and cooperation, by leading to dysfunctional competition for the reward. Smaller, and more frequent rewards, are less likely to arose envy of others, and more likely to encourage cooperation between teams, since all teams have multiple chances to receive the rewards.

The distributive justice rule selected for allocating team rewards would be that of "equality" which reinforces team unity and cohesion (Folger & Greenberg, 1985). Thus, team members received equal sized amounts of the rewards.

**Eligibility for Rewards**

The companies that were identified for best practices of team rewards had policies that allowed for broad participation of employees to be eligible to receive team rewards. Many of the respondents' team reward policies were similar to the one we found at Xerox Canada which included both management and non-management employees in the plan.

**Performance Metrics**

The one performance measure that was common to all survey respondents as a basis for the allocation of team rewards was customer satisfaction. For example, Aetna, an insurance company, gathers its customer satisfaction information through the use of customer surveys that provide both verbal and written information so that areas where superior customer service has occurred can be identified.

Other performance measures that trigger team bonuses tend to be unique to the company. Some typical performance measures that trigger team rewards used by manufacturing companies included cycle time reductions, improvements in statistical process control (SPC), and reduced defects. Service companies reported performance measures such as customer response time or delivery time and cost savings due to the improvement in a process such as order taking.

## IMPLEMENTATION PRACTICES FOR MANAGING TEAM REWARDS

In the interviews with the firms that provided information for the best reward practices some salient implementation practices were suggested that explained how managers in these organizations avoided the pitfalls of using team rewards that we discussed at the beginning of this article. These implementation practices answered questions such as: How much involvement should employees have in designing the team reward program? Should teams have control over reward allocations and other human resource decisions? How can customers be involved in the team reward process? How can rewards be given so that teams are encouraged to collaborate with each other?

### Reward and Recognition Task Force

The interviews with respondents revealed that the most valuable method to implement team rewards was a reward and recognition task force. A reward and recognition task force consists of a diagonal slice of employees in the organization who represent different constituencies of the reward system. It would include members of various teams, employees with diverse backgrounds, managers and unionized employees (if a union is present).

The reward and recognition task force was used to involve employees in designing fair procedures for governing the team reward policy and for selecting the types of rewards, both monetary and non-monetary that were viewed as attractive to team members. After the team reward policy becomes operational, the reward and recognition task force operates to ensure that the reward policy meets its stated objectives, and it gathers suggestions for improvements to the policy.

**Team Input into Human Resource Decisions**

One of the effective ways suggested by respondents to deal with the "free rider" problem was to involve team members in human resource decisions that affect team performance. Team members' input was solicited for hiring decisions of new team members. In some cases, peer evaluations were used to make assessments of team members' performance. Team members could indicate that a share of the team reward should be withheld from a low performing employee on the team. By empowering team members to have some control over the quality of human resources on their team, as well as having procedures for the team to withhold rewards from non-deserving employees who seek a free ride on the accomplishments of others, the threat of free riding to team performance can be managed.

**Customer Involvement in Team Rewards**

Customers can be involved in team reward allocations two different ways. First, customer satisfaction is solicited through the use of surveys, panels or focus groups. High levels of customer satisfaction can trigger team rewards. A second way to involve customers in the team reward allocation process is to inform customers that they can nominate teams for rewards if excellent service is provided to the customer. For example, a Xerox service team that delights the customer with superior service for its copy machine could be nominated by the customer for a team award. In this second approach the customer is a proactive participant in the team reward process.

**Align Team Rewards with Other Reward Systems**

When teams are interdependent on each other for overall performance, it is important to align the team rewards with other reward systems linked to organizational performance. One example where this would be necessary would be a manufacturing plant that operates with multiple shifts, and the performance of the day shift team affects the performance of the night shift team (such as keeping the work area clean or maintaining equipment so that it operates effectively) and vice versa (Lawler, 1992). A reward system that encourages all the teams to collaborate together in this situation would get employees to focus on organization performance as well as team performance. Many of the respondents indicated that their companies use profit sharing in addition to having team rewards. Profit sharing lets each employee on a team share in the profits of the organization. Profit sharing promotes team cohesion by linking all the teams to a "common fate" in which they can prosper or forfeit some earnings depending on their willingness to work together.

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**EXHIBIT 1**
**Best Team Reward Practices for Quality Contributions**

| Reward Policy | Best Practice |
|---|---|
| Type of Reward | - Mix of Monetary and non-monetary Rewards |
| Size of Reward | - Modest Sized Reward; $500 or Less. |
| Eligibility for Reward | - All Teams and Team Members are Eligible to Receive Rewards |
| Performance Metrics | - Related to Customer Satisfaction or Unique Measures |