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FORETHOUGHT COMPENSATION

Low-Trust Teams Prefer Individualized Pay

by Kimberly Merriman

Reprint F0811E

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It's always a tough call—should managers base team members' pay on individual or collective performance? Recent research suggests that a fundamental factor is often overlooked in this decision: the degree of trust within the team.

Evidence suggests that members of low-trust teams should be paid according to individual effort. That's an important nugget for companies, because low-trust teams are proliferating in today's global business environment. Short-term, virtual, and cross-cultural teams have become the norm in many companies, but they don't easily allow members to go through the gradual process of gaining confidence in one another's competence, honesty, and dependability.

Many companies accept the conventional wisdom that team-based pay is the best way to encourage cooperation. According to the University of Southern California's Center for Effective Organizations, 85% of *Fortune* 1,000 companies used team- or group-based pay to some degree in 2005, up from 59% in 1990. But cooperation is often better fostered by teams' perception of fairness, which starts with an allocation of rewards that members consider equitable.

My colleagues and I studied 49 teams with four to seven members drawn from students at a U.S. business school, who collaborated on four-month projects. Team members who reported less trust of their colleagues' ability, honesty, and dependability had a greater preference for individual-based rewards (grades, in this case). And the less they trusted their colleagues, the more they cared about whether their preference was followed. This research dovetails with findings by Kristine Kuhn and Mark Yockey of Washington State University that people will even forgo potentially higher pay to avoid having their compensation tied to unproven team members.

Over the life spans of the teams in our study, trust increased and team members began to care less strongly about whether their reward preference would actually be implemented. But their preference for individual rewards decreased only marginally, suggesting that teams must have a very high level of trust for members to truly embrace group-based pay.

One U.S.-based global company that supplies manufactured parts for other companies' products has found a useful approach to designing rewards for teams. It follows these guidelines:

Listen to employees. When converting three siloed departments to a dozen multifunctional teams focused on customer accounts, the company queried a cross section of employees and learned that they were very resistant to team-based compensation.

Identify specific roles. The firm established a system of differentiated compensation based on the specialized skills each member provides to a team. Because each person has a unique function, it's relatively easy for managers to identify individual contributions. Employees are evaluated on measures such as job knowledge and work quality.

Be consistent about evaluation. All members of a given team are evaluated by one manager rather than an array of functional managers.

Unite teams through recognition. The company encourages teamwork and cooperation by acknowledging individuals' contributions to their teams and explicitly tracking and communicating the teams' role in the company's success.

The company realized that many employees find it unfair to have a significant portion of pay tied to the performance of team members they don't fully trust, and that a sense of unfairness is counterproductive to teamwork. So it made no attempt to forcibly unite teams through collective compensation. Instead the company provided rewards that better met employees' and teams' needs. As a result, it avoided the pitfalls of low-trust teams reported by the organizations in another study I completed: team member demotivation and withdrawal.

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