

Individual or Team-Based Incentives? When to Use One, the Other... or Both

Over the past two decades, organizations have increasingly come to rely on teams to produce the lion's share of business value (DeMatteo et al., 1998; Ladley, Wilkinson & Young, 2015; Ali, Fuenzalida, Gomez & Williams, 2021). Twenty-five years ago, only two-thirds of firms reported that 20% or more of their workforce were engaged in one team or more at any given time (Lawler et al., 1995). **Today, teamwork and collaboration consume about 80% of the typical knowledge worker's day** (Wright, 2018).

Though most employees agree that team-based work is essential, **only one-quarter prefer to work in teams versus alone**, and, as of 2016 (before the Covid-19 pandemic complicated matters further), 68 percent say the teams they work on are dysfunctional (University of Phoenix, 2013; Cross, Rebele, Grant, 2016; van der Lippe & Lippenyi, 2019; Alexander, De Smet, Mysore, 2020). This points to a critical disconnect. If a large part of organizational success hinges on teams, yet teams are broken, intervention is essential.

Incentive program designers have an important role to play in helping firms reward and recognize workers in ways that lead to better-functioning teams (Cross, Rebels and Grant, 2016). Like most other reward design, the practice of optimal incentivization of teams is not immediately obvious or intuitive. The type of work teams perform ranges widely and can change over time. For incentives to do good rather than harm, they should encourage the types of actions and behaviors appropriate to the work of the team in question – the right incentives at the right time. Leaders and reward program designers should first determine whether the work of the team is highly-interdependent (tight team) versus loosely dependent (loose team).



“As business becomes increasingly global and cross-functional, silos are breaking down, connectivity is increasing, and teamwork is seen as a key to organizational success. According to data we have collected over the past two decades, the time spent by managers and employees in collaborative activities has ballooned by 50% or more.”
(Rob Cross, Reb Rebele and Adam Grant, HBR, 2016).

While leaders and organizations desire greater collaboration and better teams, they tend to emphasize individual achievement when it comes to compensation, promotions, rewards, and recognition (Kerr, 1975; Ladley, Wilkinson & Young 2015). Leaders may favor incentives and rewards aimed at individual effort and outcomes because they are comparatively easier to measure and administer. Yet **individual rewards might contribute very little to team dynamics and performance**, or even detract from them. For example, the crucial hubs in high-performing teams – people who sacrifice personal achievement to assist team members – will rarely qualify for individual rewards. Organizations that overlook and/or discourage these crucial connectors (“sacrificers”) might pay a steep price (Shea & Guzzo, 1987; Cross & Prusak, 2002; De Dreu, 2007; Ladley, Wilkinson & Young 2015; Buford & Walter, 2017).

Team-based incentives and rewards may prove more difficult to administer (particularly in larger teams) because individuals come to their teams with different goals and contribute varying levels of effort and/or value (Pearsall, Christian & Ellis, 2010). Team rewards may even introduce issues of “free-riding,” where individuals let their teammates do most of the work while sharing equally in the reward (DeMatteo et al., 1998; Bornstein, Gneezy & Nagel R., 1999; Ladley, Wilkinson & Young 2015; Majerczyk, Tian, & Sheremeta, 2019). Moreover, a significant body of research questions the very efficacy of team-based incentives. For example, in a 2010 meta-review published in the *Journal of Business Research*, the authors conclude: “*Despite hundreds of studies examining team rewards, the conditions under which team rewards will be effective are unclear*” (Aimea, Meyer, & Humphrey, 2010). These factors may combine to make leaders reluctant to consider team-based incentives and may also discourage their advisors (reward program designers and consultants) from recommending them.

A growing body of research, however, offers compelling evidence that **where small teams engage in highly-interdependent work, team-based rewards drive better performance and outcomes** than individual rewards. This effect may be heightened in the presence of intergroup competition – where small, interdependent teams compete with other small teams (Wageman & Baker, 1997; DeMatteo et al., 1998; Bornstein, Gneezy & Nagel R., 1999; Wageman, 2001; Barrick, Bradley & Colbert, 2007; Pearsall, Christian & Ellis, 2010; Lim & Chen 2014; Ladley, Wilkinson & Young 2015).

Researchers have found that in small, highly-interdependent teams, **hybrid rewards – which recognize team achievements and the behaviors and productivity of individual team members** – can drive the best results of all (Johnson et al., 2006; Siemsen, Balasubramanian, & Roth, 2007; Pearsall, Christian & Ellis, 2010). Other research, however, finds that team-based rewards alone prove most effective in the same circumstances (Ladley, Wilkinson & Young 2015).

The research cited is consistent in finding that **team-based and hybrid rewards are most effective where the work in small teams is “highly-interdependent.”** Opinions differ on what constitutes a “small” team. In most cases, researchers mean teams of ten or fewer, but this will vary depending on the complexity of the work and the degree to which team members have worked together in the past. Highly-interdependent teams are those whose members must work closely with other team members to accomplish goals – a volleyball team, for example – versus the sort of team where members perform independently toward a larger team goal – say, a gymnastics team.

The long and growing body of research cited above suggests that **as a small team becomes more interdependent, better communications and greater cohesion will result in better performance.** Researchers also find that individual and organizational performance improves with team performance (Lim & Chen 2014; Ladley, Wilkinson & Young, 2015). However, when a team does not perform highly-interdependent work, greater communications and cohesion might actually harm performance; largely because it is time-consuming and unnecessary (Barrick, Bradley & Colbert, 2007).

Work in teams has grown increasingly complex and more often features broad and deep interdependencies (DeMatteo et al., 1998; Ladley et al, 2015; Ali, Fuenzalida, Gomez & Williams, 2021). An assembly line, for example, represents a “serial dependency,” in that even though the team co-creates a finished product, team members work individually, passing their completed work on to the next person. In a restaurant, on the other hand, there is “pooled task interdependency” (Ladley et al, 2015). The chef, cooks, wait staff, bartenders, hosts, and bussers must communicate closely and work cohesively to ensure smooth operations, especially during the busiest hours. In these cases, team-based or hybrid rewards are more appropriate. Again, where a team does not perform highly-interdependent work, leaders should probably not use incentives (or other means) to encourage unnecessary communications and cohesion. Here, individual incentives are likely more effective (Johnson et al., 2006; Siemsen, Balasubramanian, & Roth, 2007; Pearsall, Christian & Ellis, 2010; Ladley et al, 2015).

INSIGHTS & KEY TALKING POINTS	SOURCE
<p>Firms that look hard at what they do and don't reward, are more likely to ensure that rewards align with desired behaviors and outcomes.</p>	<p>Kerr, S (1975). <i>On the Folly of Rewarding A, While Hoping for B</i>. Ohio State University. https://web.mit.edu/curhan/www/docs/Articles/15341_Readings/Motivation/Kerr_Folly_of_rewarding_A_while_hoping_for_B.pdf</p> <p>Steve Black & James D. Allen (2018) Part 7: <i>Rewards, Motivation, and Performance</i>, The Reference Librarian, 59:4, 205-218, DOI: 10.1080/02763877.2018.1499164</p>
<p>Individual rewards target observable and measurable behaviors and outcomes. Team rewards recognize individuals for activities that lead to group outcomes. Firms normally require both to drive the results they desire but good team rewards often prove even more difficult to design than individual incentives.</p>	<p>Pearsall, M., Christian, M., Ellis, P. (2010) <i>Motivating Independent Teams: Individual Rewards, Shared Rewards, Or Something in Between?</i> Journal of Applied Psychology 2010, Vol. 95, No. 1, 183–191. https://www.researchgate.net/publication/41087520_Motivating</p> <p>Ali, A., Fuenzalida, J., Gomez M. & Williams m. (2021) <i>Four lenses on people management in the public sector: an evidence review and synthesis</i>. Oxford Review of Economic Policy, Volume 37, Issue 2, Summer 2021, Pages 335–366, https://doi.org/10.1093/oxrep/grab003</p>
<p>Most of the work in organizations today is produced by small teams. More than ever, some of these teams are “tight teams” who work interdependently. Due to the difficulty of designing fair and effective team-based incentives, organizations may be missing an opportunity by over-emphasizing rewards aimed at individuals on these types of teams. Where teams are small and highly-interdependent, team rewards, or perhaps, hybrid rewards, are likely to drive better communications, cohesion, performance and outcomes. The challenge is exacerbated as more teams work and collaborate remotely.</p>	<p>DeMatteo, J., Eby, L., Sundstrom, E. (1998). <i>Team-Based Rewards: Current Empirical Evidence and Directions for Future Research</i>. Research in Organizational Behavior, Volume 20, pages 141-183. Copyright © 1998 by JAI Press Inc.</p> <p>Majerczyk, M., Sheremeta, R. & Tian, Y. (2019) <i>Adding Tournament to Tournament: Combining between-team and within-team incentives</i>. Journal of Economic Behavior & Organization, Volume 166, October 2019, Pages 1-11</p> <p>Ali, A., Fuenzalida, J., Gomez M. & Williams m. (2021) <i>Four lenses on people management in the public sector: an evidence review and synthesis</i>. Oxford Review of Economic Policy, Volume 37, Issue 2, Summer 2021, Pages 335–366, https://doi.org/10.1093/oxrep/grab003</p> <p>Bornstein G., Gneezy U. & Nagel R. (1999). <i>The effect of intergroup competition on coordination: an experimental study</i>. Games and Economic Behavior 41 (2002)1-25</p> <p>Lim, N., Chen, H. (2014) <i>When do group incentives for salespeople work?</i> American Marketing Association. ISSN: 0022-2437 (print), 1547-7193</p> <p>Ladley, D., Wilkinson, I. & Young, L (2015) <i>The impact of individual versus group rewards on work group performance and cooperation: A computational social science approach</i>, Journal of Business Research (2015), http://dx.doi.org/10.1016/j.jbusres.2015.02.020</p> <p>Buford, B. & Walter, M. (2017) <i>Taking One For The Team</i>. Mary Walter Leadership. See: https://www.marywalterleadership.com/blog-the-art-of-being-boss/taking-one-for-the-team-brian-buford-and-mary-walter</p> <p>Cross, R. & Prusak, L. (2002) <i>The people who make organizations go – or stop</i>. Harvard Business Review. See: https://hbr.org/2002/06/the-people-who-make-organizations-go-or-stop</p> <p>Van der Lippe, T & Lippényi, Z. (2019) <i>Co-workers working from home and individual and team performance</i>. New Technology, Work and Employment 35:1 ISSN 1468-005X</p>
<p>Leaders may intuitively believe that all teams should communicate more and work more cohesively. However, where the work performed by the team is not highly-interdependent, encouraging and incentivizing more communications and cohesiveness is likely counter-productive. Individual rewards, therefore, are usually more appropriate.</p>	<p>Barrick, M., Bradley, B & Colbert, A. (2007), <i>The moderating role of top management team interdependence: implications for real teams and working groups</i>. Academy of Management Journal, 2007. Vol 50, No.3, 544-557</p> <p>Lim, N., Chen, H. (2014) <i>When do group incentives for salespeople work?</i> American Marketing Association. ISSN: 0022-2437 (print), 1547-7193</p> <p>Ladley, D., Wilkinson, I. & Young, L (2015) <i>The impact of individual versus group rewards on work group performance and cooperation: A computational social science approach</i>, Journal of Business Research (2015), http://dx.doi.org/10.1016/j.jbusres.2015.02.020</p>
<p>Reward program designers can assist their organizations and clients in building better-functioning, higher-performing teams by recognizing when individual rewards work best (loose team), and where team or hybrid (individual + team) rewards can be applied to generate better citizenship within teams and better outcomes (tight team).</p>	<p>Bornstein G., Gneezy U. & Nagel R. (1999). <i>The effect of intergroup competition on coordination: an experimental study</i>. Games and Economic Behavior 41 (2002) 1-25</p> <p>Lim, N., Chen, H. (2014) <i>When do group incentives for salespeople work?</i> American Marketing Association. ISSN: 0022-2437 (print), 1547-7193</p> <p>Ladley, D., Wilkinson, I. & Young, L (2015) <i>The impact of individual versus group rewards on work group performance and cooperation: A computational social science approach</i>, Journal of Business Research (2015), http://dx.doi.org/10.1016/j.jbusres.2015.02.020</p>