Team Incentive Programs: Pros and Cons

written by HR Banana
January 7, 2021

Team incentive programs are tools in the "compensation toolbox" that are rarely used in healthcare organizations but should be. Perhaps they are used in big pharma or insurance companies, but if you consider healthcare *delivery* organizations, you find very little use of this type of compensation plan.

In spite of their rarity, I have used team based incentive programs with great success in the hospital and large clinic setting. This was at multiple organizations and the use of team based incentive programs allowed us to achieve results that management could not have predicted! More on that later.

Team based incentive programs are rare for many reasons. These can include, (1) they are difficult to understand and administer, (2) it is unfair for some employees to receive a form of pay that is not open to all employees, (3) we tried it and it doesn't work, (4) we prefer our individual merit-based plan, (5) (Insert your reason here).

Team incentive pay plans were foreign to me when I started in HR. I didn't understand them or when or how to use them. Early in my career, a new CEO challenged me to understand and implement them in our organization. Out of this experience came a great deal of enthusiasm for their appropriate use and what they could accomplish.

Over the years, I have developed a template for creating a team incentive plan that can be used in any department, unit or work team. It is specifically designed for the health care provider. It addresses many of the pitfalls of poorly designed team incentive plans. It is simple to use and has been used in several healthcare

settings to achieve some pretty remarkable results.

I love this topic so much (and have so much to say) that it is too long for one post. So I am going to share the information in multiple posts over the next few weeks. Stay tuned!!!

Here is how we will break the information up:

- This Post: What are team incentives and the pros and cons of using them
- Second Post: Why team incentive programs fail and how to make sure yours succeeds
- Third Post: The basic building blocks of any team incentive program
- Final Post: A template for constructing a team incentive program

What are team incentive programs?

In a previous post, I discussed the difference between bonuses, gainsharing and profit-sharing. Team incentive programs reward all members of a work team equally for achieving certain results. They can be used to reward cross-functional teams, a department/nursing unit, or a work group within a department or unit.

Team incentive programs are a form of gainsharing. They are not discretionary bonuses, but are earned by the team for meeting certain criteria or achieving predetermined goals.

Should team incentives replace an

individual merit program?

It is easy to fall into the trap of thinking that an organization must choose between offering an individual merit program or offering team based incentive pay. In fact, if you enter "advantages and disadvantages of team based incentive programs" into your search engine, it will give you many articles on team based **VS**. individual incentive plans.

You will be sucked into lengthy discussions on why one is better than the other. This is a false choice. You can and should have both programs in your organization and an employee can achieve rewards under both programs.

Years ago, there was a lot of discussion on individual vs. team based compensation and which was better. After a lot of reading, my answer was "Yes". Use both. Think of a sports team. There are times when they all receive the same compensation and there are expenses that are equally paid for all of them. There are also individual differences in the pay of each member. If it works for the NFL, it can work for you.

Don't feel you have to choose between one or the other. Individual merit based compensation programs are necessary to differentiate in individual performance. By maintaining strong individual merit programs you can address one of the identified "cons" of team based incentives–which is the risk of losing high performers who are not recognized.

Team based incentives address different issues. Generally, in the healthcare setting I have used team based incentive programs when trying to achieve significant productivity gains or expense reduction. It is difficult to use them for quality or patient satisfaction improvements as it may be difficult to quantify the financial impact of such improvements.

Measurable financial results such as productivity or expense reduction are very easy to quantify. Both lend themselves to team based rewards as each generally requires collaboration and cooperation of all team members to get results. It is also easy to define what portion of the gains should be shared with the team and what portion should be retained by the organization.

Pros and Cons

Since we have already decided that team based incentives are not going to replace our individual merit program we can determine what their positives and negatives are.

Pros:

- **Foster collaboration and teamwork.** The team has a defined goal. For it to be achieved, every member's participation is critical. The team is only as strong as its weakest link.
- **The great equalizer.** Every team member will get the same reward. (This can either be dollar amount, or % of wage.) In my experience, both our higher and lower paid team members appreciated this fact. There were differences in hourly rates, but the group members were treated equally when aiming for the common goal.
- **Override individual goals.** Individual goals can get in the way of productive work. There are differences in what your employees are after. Team incentives focus on the common goal of the group.
- **Self-actualizing.** Teams that are given a goal and the increased freedom to decide how to achieve it are demonstrating the issue ownership and self-actualizing behavior that we all seek to create in our organizations. Management is no longer the "parent" telling the children what to do and how to do it.
- **Pride and sense of achievement.** Teams that determine the best course of action to achieve a goal have an incredible sense of pride when

they do so. In my experience, we had teams that achieved far more than we would ever have asked for, and their pride in doing it on their own was incredible.

- **Ownership and self-policing.** Since the fortune of the team rises or falls on the performance of all members, the team can become self policing and works to ensure that all members contribute. In our case, we used team-based incentive programs to improve productivity. We had managers tell us that their jobs were easier as the teams were self-policing on behavior that jeopardize or lower the potential payout.

Cons:

- **Possible infighting.** It is possible that employees will be dissatisfied if they feel that other team members are dragging them down or pressuring them up.
- **Overwhelm poor performers.** Those that are weaker performer may feel pressure to up their game. I am not sure this is a negative as I am generally okay with poor performers going to work for the competition. I think it can be more successful to have peer pressure improve performance rather than leave it up to the manager. However, if your goal is a harmonious work environment, this is something to consider.
- **Possible free riders.** Higher performing employees may perceive that the low performers are getting a free ride. If all are receiving the same reward yet not making the same contribution, this may be a problem. This is what happens when the group is unable or unwilling to self-police. It will be imperative that the manager continue to observe and address low performance.
- **Invisible employee.** It is possible that the emphasis on team performance may result in the manager being unaware of individual performance and contribution. This may be a problem with high performance or high maintenance employees. This can be countered and is why we always continued a strong individual review and merit program.

A team incentive program is not the "be all" or holy grail of compensation

programs. There are some things it can accomplish that could not be accomplished any other way. It should be a part of every HR professionals repertoire.

Next week we will discuss what causes team incentive programs to fail and how you can make sure yours will succeed.   There is a design strategy that will get you a "wow" rather than "ho-hum reaction!