

## Rewarding the Team

Make sure team-oriented compensation plans are designed carefully.

By Matt Bolch

**W**alk into any Nucor Corp. plant, and nearly every production worker can tell you within a tenth of a percent what his team's weekly bonus will be at that point. That worker probably can tell you what product is running next and how that will affect the bonus as well.

"It's truly remarkable how much in-

formation the employees know. It's a beautiful thing to see," says Dan Krug, manager of HR and organizational development at Nucor in Charlotte, N.C. Nucor is the largest steel joist and deck manufacturer in the world and the biggest steel producer in the United States, with net sales in 2005 of \$12.7 billion. All but a handful of its 11,700 employees are based in the United States.

Nucor is the rare company that lives and dies by the spirit of teamwork. That is evident in its organizational design, management philosophy and incentive plans. Each employee participates in one of four incentive plans.

For many companies, having a compensation plan that rewards employees for successful teamwork fits their organizational model.

Companies that have such plans take various approaches to structuring team-based pay. HR professionals at companies that use these plans say they can be an effective way to reward team performance, but must be carefully crafted to avoid unintended consequences that could undermine individual initiative and business goals.

Jason Kovac, senior compensation manager at WorldatWork, a Scottsdale, Ariz.-based nonprofit education association for compensation, benefits and total rewards, says interest in team-based pay has waxed and waned over the past several years, first gaining traction in the early to mid-1990s.

According to Jim Fox, founder and senior partner at the compensation and HR specialty firm Fox Lawson &



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# Compensation & Benefits Agenda

Associates LLC, based in St. Paul, Minn., 12 percent of privately held firms, mostly in manufacturing, have some sort of gainsharing program. And the use of team-based incentives also is gaining support among hospitals and health systems that often tie rewards to specific goals, such as increased patient satisfaction scores or a reduction in receivables, he says.

## Form Follows Function

While team-based pay isn't a panacea for organizational ills, it can be a useful tool to motivate and reward employees. But to be effective, a company's culture must embrace the team concept, team divisions should make sense, and goals should be clear.

However, don't think you can get the best from your team by designing a compensation plan first, says Fox. He believes that the best teams form by themselves and the consideration of whether teams should be compensated for their work beyond base pay is a question that should be deliberated only after the team is formed.

"The best advice I can give is to get the [team] setup right," Fox says. "Pay comes later, if at all, to reward team members for their efforts. Pay will not correct the problems with an ill-conceived team. But if a team has been designed correctly, the pay model necessary to sustain its performance will be a natural outcome of the team development process."

## Some Don'ts

While there are many approaches to team-based pay, a company that is heavily team-based or that uses multiple teams should resist the urge to pit teams against one another or reward individual team members with extra recognition (and pay), says Christopher Avery, a Texas-based speaker and consultant who specializes in issues concerning individual and shared responsibility in the workplace and the author of *Teamwork Is an Individual Skill: Getting Your Work Done When Sharing Responsibility* (Berrett-Koehler, 2001).

"Fostering competition between the teams promotes impermeable boundaries on the teams—i.e., a lack of infor-

mation sharing and collegiality," Avery says. "Therefore, attempting to award the best of middling or low-performing teams among a group of middling or low-performing teams will provide a negative return on investment."

And singling out a team member for extra pay is a surefire way to sabotage the team dynamic—unless the group receives a bonus and divvies the funds among themselves. "When teams perform highly, it is the interaction [among] team members, not the members themselves, that creates the high performance," Avery says. "If you ask such members who was singly responsible for the high performance of the team, they'll say 'Huh?' or 'We were,' and mean it."

If management wants to reward a high-performing team member, give that person a raise, Avery adds.

And remember that even though teamwork is an essential aspect of many organizations, no team works perfectly all the time. Don't ignore messages that things aren't working or indications that a team member or supervisor is not doing his part. At Nucor, "If you're not contributing with the team, they certainly will let you know

about it," Krug says. "The few poor players get weeded out by their peers."

The same tenet holds true for supervisors the team feels aren't pulling their weight on the plant floor. "When I joined Nucor, my boss told me this is one of the few companies where the employees can fire their boss," says Krug, who joined the company five years ago.

## How Nucor Does It

Of the four incentive plans at Nucor, the one aimed at production employees is the purest team-based compensation plan, used for groups of 12 to 20 people, including maintenance workers and supervisors.

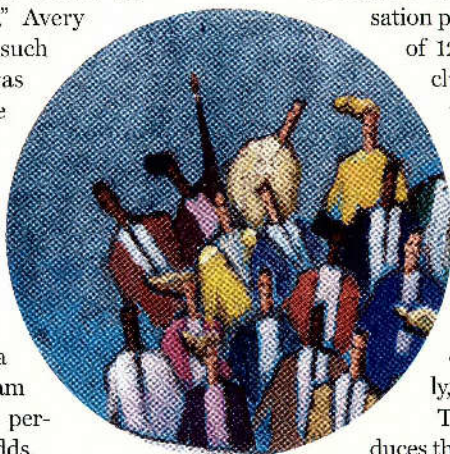
"People expect a complicated [incentive] plan, but our plan is really simple: quality tons out the door and pay weekly," Krug says.

The company reduces the number of weekly shifts when necessary to keep employees working. But workers can still earn incentive pay even for shortened workweeks because of low production thresholds before bonuses kick in, Krug says.

There is no upper limit on bonuses a team can earn, but they are usually between 100 percent and 220 percent of base salary and average 170 percent to 180 percent.

That takes care of the quantity part, but what about the quality of the goods? At Nucor, the tonnage of subpar products is subtracted from total output in increasing multiples the farther bad products travel from the source. If a team catches inferior goods in its work area, the tonnage is simply subtracted. If it reaches the next internal customer or the shipping department, the amount of bad product subtracted is doubled. And if it reaches the customer, tonnage in a multiple of three is subtracted.

With bonuses included, the typical Nucor steel mill worker makes \$72,000 a year and participates in a profit-sharing



## ► Online Resources

For more information about compensating employees for teamwork, see the online version of this article at [www.shrm.org/hrmagazine/07February](http://www.shrm.org/hrmagazine/07February) for links to:

- An SHRM research paper on team-based pay considerations.
- An SHRM white paper on team compensation methods.
- The SHRM Online Compensation & Benefits Focus Area home page.
- An HR Magazine article about compensating teams.
- An SHRM research paper on compensation trends.
- An annual salary budget survey by WorldatWork.



plan that paid out an additional \$18,000 per employee in 2005, Krug says.

Although production workers' performance is most closely tied to team-based incentives, every Nucor employee participates in a bonus or incentive plan that emphasizes performance. "Receptionists, secretaries—you name it—we're all part of a team," Krug stresses.

Professional and clerical staffers participate in a bonus program based on their division's financial performance

scorecard approach, rewarding each group of employees up to \$1,500 a year per employee based on two factors: delivering its profit objective and its rating on a team scorecard, the criteria for which varies among units. If the company does not meet its profit objective, management can authorize a smaller payout, which will be tempered by team performance on the scorecard.

Performance and financial objectives are weighted on the scorecard and posted

## Since Nucor implemented its incentive plan in 1966, the company has been profitable each quarter.

that can equal up to one-third of their base pay. Department managers also are rewarded twice-yearly, based on return on assets, of up to 80 percent of their base pay.

Senior managers' salaries are set lower than in comparable companies, with the remainder of their compensation based on Nucor's annual overall percentage of net income to stockholders' equity.

Ten percent of the company's operating profit also is divided among all employees, except for senior managers.

Since Nucor implemented its incentive plan in 1966, the company has been profitable each quarter and no employee has been laid off.

### Keeping Score

Another successful team-oriented plan is employed at Gulfstream Aerospace Corp., which has been rewarding employees based on overall company performance for years.

In 2001, the incentive program was changed to tie performance pay more closely to team goals. The size of teams varies by location and job function and ranges from 60 to 900 participants, says Bob Holben, director of compensation and benefits for Savannah, Ga.-based Gulfstream, a wholly owned subsidiary of General Dynamics.

Gulfstream adopted a balanced

in each work area for everyone to see. Scorecards also can be accessed by employees via the company intranet.

An initial payment can be made at mid-year of up to \$500 based on team performance. Groups can score higher than 100 percent on an objective and use the overage to offset future deficits, but those adjustments may not be equivalent because of the scorecard's weighted formula.

"We've tweaked the program from time to time, but we have received positive feedback from managers and employees and believe it has made a difference in our organization," says Holben.

In one case a single incident knocked a team's payout from 90 percent to 60 percent, so workers realize the potential consequences of their actions. "The incentive plan definitely has workers' attention."

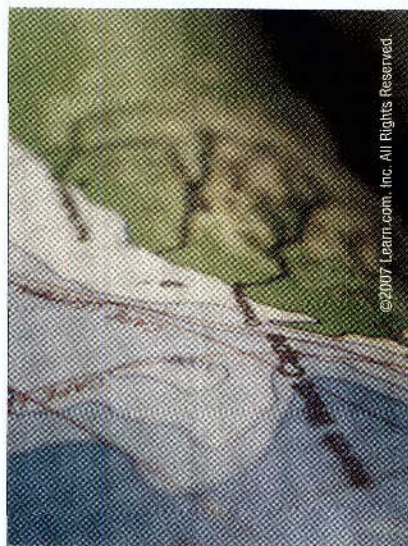
Nucor's "bonus system is woven into our culture," agrees Krug.

"In down years, we all make less money. In good years, we make more," he continues. "The organizational control holds us all accountable for our performance." ■

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