

Strategic performance appraisal in team-based organizations: One size does not fit all

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Executive Overview

The pervasive use of teams in today's organizations makes employee performance appraisal more challenging than in the past. Unfortunately, prescriptions offered in the business press often fail to consider the diversity of team forms used in team-based organizations. Teams differ in their membership configuration, the complexity of their tasks, and level of interdependence from other organizational units. In this article, we identify three team types and examine the fit between performance-appraisal characteristics and team types. Performance-appraisal characteristics include target (individual or team), type (outcome, behavioral, or competency-based), and data source (manager or multirater). Our analysis underscores the critical need for effective leadership in designing and implementing performance appraisal systems in team-based organizations.

In the early 1990s, a prominent high-tech firm in the northeastern United States enthusiastically rolled out a new performance-management system to improve the performance of its professional work teams. The program was comprehensive, with details contained in two large, beautifully written, leather-bound volumes prepared by external consultants following nearly a year of work. Top management introduced the program with much public fanfare and pledges to implement it.

Three years after the launch, the second author happened to run into a colleague who was doing research at the firm on the human resource system and productivity:

Q: How's the performance management system working?

A: What performance management system?

The program introduced with such hope had come and gone within the space of a year, leaving in its wake frustration, anger, and cynicism.

This may be an extreme example. But it is no

secret that many performance-appraisal systems fail to deliver their anticipated benefits in team-structured organizations. Working with teams in our consulting practice has convinced us that one-size-fits-all performance-appraisal systems are largely to blame. A generic system applied across an organization ignores important differences among teams. For example, intact, colocated work and service teams still attend to the core work in many organizations, while virtual teams, geographically or organizationally dispersed, are used for more complex tasks.¹ This trend has accelerated with the move from a manufacturing to a knowledge-based economy. In the same organizations, we often see rapid-response teams of loosely networked professionals who manage strategic initiatives in the face of technology change, continued globalization, and hyper-competition.²

These are all teams, yet each presents a different challenge to performance management and its bedrock—employee performance appraisal. Employee performance appraisal influences motivation and development, provides documentary sup-

port for rewards and recognition, and links the activities of individuals to organizational effectiveness. But the movement to team-based structures in the 1990s raised new questions and revived old controversies regarding the efficacy of traditional appraisal systems.

For example, who should be appraised in team-structured organizations—individuals or teams? Should the focus of appraisal be on attaining specified outcomes, or on nurturing appropriate behaviors to achieve those outcomes, or on acquiring competencies and skills? Should the focus be the same or different for individual and team appraisal? And who should provide the data on performance—a manager who is not really part of a team? Other team members? Customers?

Designing effective performance-appraisal systems requires careful consideration of a number of team contingencies. In this article, we discuss three—team membership configuration, team task complexity, and the nature of the interdependencies among a team and external groups—that, when taken together, define three prototypical team types. We then specify the appropriate performance appraisal target, type, and data source for each type. To ground our discussion, we begin with a brief review of what is meant by employee motivation and performance, and specify how three different types of performance appraisal—outcome, behavior, and competency-based—affect these processes.

Employee Motivation and Performance

Performance appraisal influences employee motivation by identifying and specifying mutually agreed on outcomes (outcome-based performance appraisal); directing attention to specific tasks, objectives, and assignments and specifying the behaviors that are needed to accomplish them (behavior-based performance appraisal); recognizing skill acquisition and identifying skill deficits for further training and development (competency-based performance appraisal); providing feedback on progress toward outcome attainment and actual task performance (outcome and behavior-based performance appraisal); and establishing the process and providing the rationale for distributing rewards (outcome-based, behavior-based, and competency-based performance appraisal).³

Outcome-based performance appraisal is used most successfully when it is part of a comprehensive goal-setting program that includes clearly defined, specific, challenging goals.⁴ Appraisal of behavior has possibly been the most used form over the last 30 or so years, and it involves identifying

and rating observable behaviors relevant to individual work roles. Finally, competency-based appraisal consists of assessing an individual's skills or knowledge relative to that required to perform a specific job.⁵

Work Roles and Performance-Appraisal Criteria

Performance appraisal, whether outcome-, behavior-, or competency-based, traditionally focuses on the formal requirements of specific jobs. With the introduction of team structures, employee-involvement programs, and total quality management, employee roles in the workplace have expanded, and now include activities that go beyond task performance. The following work roles have been identified as important in today's workspaces:⁶

- Job role: Concerned with quality, quantity, and customer service provided.
- Context role: Being a good organizational citizen, continuous improvement of organizational processes, personal self-development in career, and continuous learning.
- Teamwork role: Collaborating in problem solving and conflict resolution, communicating openly, goal setting and performance appraisal of the team, as well as planning and task coordination among members.

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Employee job-role performance contributes most directly through the organization's core technical processes, while performance in context and teamwork roles contributes to the broader organizational, social, and psychological setting in which job-role performance occurs.⁷ Generic performance appraisal systems that specify work-role definitions, behavioral descriptors, and competencies are available in the commercial market, or organizations can develop their own. In either case, it is important to involve employees and supervisors early in the process to assure their acceptance of the system.⁸ Mutual development by employees and supervisors of work roles, and the outcomes, behaviors, and competencies necessary for their enactment, serves four purposes:

- influencing employees and supervisors to think deeply about which of the roles are most supportive of department goals and of the organizational mission;
- providing specific direction on the behaviors and competencies needed to adequately perform in each role;
- communicating to supervisors which roles an employee is most interested in; this information can be considered for future job assignments;
- resulting in a concrete agreement between employees and supervisors on where time and energy will be focused.

Sources of Performance Data

Much has been written about the use of 360-degree (multirater) feedback as an effective tool for performance appraisal.⁹ At its most basic, a multirater feedback system gathers ratings of an employee's work-role behaviors from those in the best position to observe it, including subordinates, customers, and peers, as well as supervisors. Since its inception in the early 1990s, 360-degree performance appraisal has been criticized as often as lauded. A number of recent articles have summarized concerns with the validity of the measurement instruments, the process through which they are administered, and how the feedback is eventually used by organizations.¹⁰ Yet many scholars and managers agree that multisource feedback is fundamentally a good idea that deserves further development.

We will not review the technical discussions related to the validity of 360-degree feedback instruments, which have been thoroughly covered elsewhere,¹¹ other than to note that such discussions are important with any performance instrument. Experts do agree that 360-degree performance appraisal should:¹²

- be used more for employee development than for making personnel decisions;
- be part of a formal goal-setting system;
- be administered on a regular basis rather than only once;
- provide aggregated, anonymous feedback to recipients;
- assure that raters evaluate employee behaviors only in work roles for which they have adequate knowledge and first-hand experience;
- provide orientation and training to performance raters;
- provide training and guidance on effectively interpreting and constructively using feedback to recipients.

Performance Appraisal Target: Team Member or Team?

Despite admonitions by many management scholars and consultants to abandon individual performance appraisal for team appraisal,¹³ U.S. corporations have been slow to do so. Their reticence may be justified, as team effectiveness is founded on individual behavior and performance, and individuals vary in the amount of effort and capability they bring to the workplace. Social loafing is likely to result when individual effort is not recognized and assessed. This conscious or unconscious tendency to shirk responsibilities by withholding effort toward group goals while sharing in rewards occurs more often when group members believe that their individual contribution (or lack thereof) cannot or will not be identified or assessed. People do show fewer signs of social loafing in small teams than in large groups, but they are still more likely to loaf when rewards (including recognition) are tied to team effort rather than individual effort.¹⁴ This tendency is markedly stronger in individualistic western cultures than it is in more collectivist societies such as Israel and Japan.¹⁵

If a team must support a free rider without recourse, other team members often withdraw effort.¹⁶ Social loafing spreads among team members like flu, poisoning the work climate. Individual performance appraisal helps discourage social loafing by providing each team member with feedback on the acceptability of his or her individual behavior, and on the need to further develop skills and competencies. High-ability team members are likely to be reassured that equity will be restored, and that all members will have the necessary skills and abilities to contribute.

Social loafing spreads among team members like flu, poisoning the work climate.

Individual-level performance appraisal helps reduce social loafing, but it ignores the interaction and synergy that characterize excellent team performance. Team performance assessment gives a team the information it needs to identify team problems and to develop team capabilities. It heightens team pride and ownership, increasing commitment and identification of members with the team. Many team performance measurement systems, such as that at Xerox, are developed jointly by teams, managers, and customers as part of total quality management efforts.¹⁷ Joint accountability helps assure that the criteria and

standards for performance are aligned with organizational and team strategies. Such measurement systems are largely outcome-based with some behavioral measures, but there is little reason that they could not also include team competencies. Teams are typically trained to prepare and interpret their own performance data as part of continuous improvement efforts.

Team Types and Performance Appraisal

In this section, we examine the fit of performance appraisal target, type, and data source with different types of teams. We begin by identifying three types of teams—work teams, project teams, and network teams—based on two important dimensions—membership configuration and task complexity. (See Figure 1.)

Membership configuration refers to the expected tenure of a team, the stability of its membership, and the allocation of members' work time, and it varies along a continuum from static to dynamic.¹⁸ Static teams are characterized by full-time team members, membership that remains constant throughout the life of the team, member expectations of a future, and a common level of activation or involvement of members throughout the life of the team. At the other extreme, dynamic teams are characterized by shorter tenure tied to task completion, members who come and go depending on task demands, and members who also work on other teams or nonteam tasks simultaneously.

The second team dimension, task complexity, recognizes that organizational teams engage in a

wide variety of work that varies from the routine to the nonroutine.¹⁹ Routine tasks are well scripted and defined, and people encounter relatively few exceptions to the rule in completing them. Cycle time (the time needed to finish one complete unit of work) on routine tasks is specified in advance and is of relatively short duration. Outcomes are easily assessed soon after task completion against specific, quantifiable criteria. In contrast, nonroutine tasks tend to be emergent—the desired outcome and the means to accomplish it are impossible to define in advance. At the extreme, everything encountered in performing a nonroutine task is an exception to the rule. Nonroutine tasks require applying multiple knowledge bases or skill sets learned through education in specific disciplines or through extensive training. Cycle time is longer on nonroutine tasks and indeterminate; at the extreme, cycle time can be decades, such as in developing a new drug.

The dimensions of membership configuration can vary independently. For instance, an airline flight crew is stable, with dedicated members, but of short duration. The dimensions of task type can also vary, but we find common patterns among them that define three types of teams used in organizations.

Work or service teams

At one extreme of membership configuration and task complexity, we find intact work teams engaged on routine manufacturing or service tasks. Those in production at Saab, Saturn, and Xerox are good examples that have been discussed often in the business media. These teams have been in existence for a long time, their membership has changed little or not at all since formation, and team members anticipate membership stability in the future. Members have similar skill sets and are cross-trained to perform many of the tasks necessary for the team to reach its goals. The team's tasks are standardized, cycle time is generally short, and multiple task cycles occur in each performance appraisal period. The team's output tends to be easily and objectively evaluated, there is minimal disagreement among stakeholders about the criteria for success, and feedback on performance is often provided by the task itself.

The work team is a well-developed social system. Members have interpersonal knowledge of each other's likes, dislikes, and personalities such that task interaction is more predictable. The quality of interpersonal relationships is important to all members. Trust reflects knowledge gained over time through experience with each other, but trust is also a matter of confidence that the needs, pref-

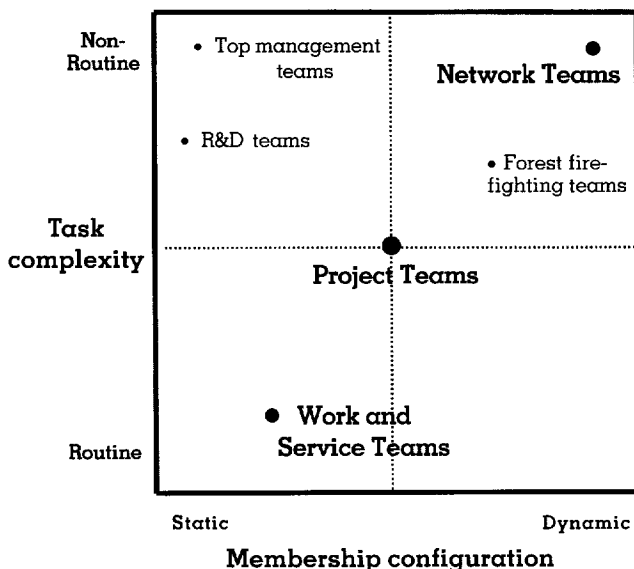


FIGURE 1
Types of Teams

erences, and goals of all team members are similar. This is enhanced by the team's regularly engaging in team building and training as an intact unit.

The work team is a well-developed social system.

As shown in Table 1, individual and team performance appraisals are recommended for work and service teams. Conditions operating in these teams—an atmosphere of trust, expectations of a future together, shared knowledge of members' differences and similarities, and shared interest in the continuous improvement of the team members and the team—create an optimal environment for conducting performance appraisal at both the individual and team levels.

These same conditions make peer ratings a useful supplement to managers' evaluations of individual team members' behaviors and competencies assuming other conditions of use are met. For instance, the feedback report is used

only for developmental purposes, and individual raters' anonymity is assured. Team members are in a good position to assess and certify each other's competencies related to job and nonjob roles, as they have personal knowledge of and experience with them. They also are in an excellent position to assess each other's job behaviors because they observe them daily. Since the team works together over multiple appraisal cycles, useful feedback can be given on improvements that have occurred in individual behaviors and competencies since the previous appraisal. The feedback report also provides a foundation for individual goal setting, and for a constructive dialogue among members on how to improve team functioning.

Outcome-based performance appraisal is recommended for the team but not for individual team members, as the tight interdependence among team tasks makes it difficult to accurately determine who did what toward achieving team goals. (If this is not the case, we question whether a team actually exists.) Individual outcome-based appraisal shifts the team's focus

Table 1
Performance Appraisal Methods for Different Types of Teams

Team type	Who is being rated	Who provides rating	What is rated?			How is the rating used?		
			Outcome	Behavior	Competency	Development	Evaluation	Self-regulation
Work or service team	Team member	Manager	✓	✓	✓	✓	✓	
		Other team members		✓	✓	✓		
		Customers		✓	✓	✓		
		Self	✓	✓	✓	✓		✓
Work or service team	Entire team	Manager	✓	✓	✓	✓	✓	
		Other teams		✓	✓	✓		
		Customers	✓	✓	✓	✓		
		Self	✓	✓	✓	✓		✓
Project team	Team member	Manager	✓		✓	✓	✓	
		Project leaders		✓	✓	✓		
		Other team members		✓	✓	✓		
		Customers		✓	✓	✓		
		Self	✓	✓	✓	✓		✓
Project team	Entire team	Customers	✓	✓			✓	
		Self	✓	✓	✓	✓		✓
Network team	Team member	Manager		✓	✓	✓	✓	
		Team leaders		✓	✓	✓		
		Coworkers		✓	✓	✓		
		Other team members		✓	✓	✓		
		Customers		✓	✓	✓		
		Self	✓	✓	✓	✓		✓
Network team	Entire team	Customers	✓				✓	

from teamwork to individual work and promotes a view of teamwork as no more than the sum of the individual parts. It encourages finger pointing and assigning blame by the team rather than problem solving, and it undermines concepts of mutual accountability.

Yet individual team member task proficiency is essential to team effectiveness,²⁰ and feedback to team members on their own task accomplishment helps them regulate their own performance.²¹ Thus work and service team members are typically responsible for monitoring and documenting their own performance on individual tasks. This information is then used by the team as a whole to identify training and development needs and plan skill-building exercises for each member.

At the team level, measurement systems often reflect various types of outcome measures (e.g., productivity, sales volume, and customer complaints), and these act as a signaling device to the team for problem solving and corrective action. Teams are held accountable for monitoring and documenting their own performance against standard goals and against team goals, and they are also held accountable for results. When outcomes do not meet standard or team goals, teams are responsible for exploring potential sources of performance variability and for minimizing and eventually eliminating those over which they have control. Sources of variability outside the team's control are also identified and documented for management action. It is difficult to conceive of a situation where teams have 100 percent control over outcomes, and it is important that this be acknowledged. The weaker the effort-performance linkage (the more factors outside the team's control affect performance), the more important it is that behavioral measures be used to supplement outcome-based measures. Behavioral measures can include jointly attending team-training sessions during the performance cycle and arranging equal opportunities for all team members to master task proficiencies through job rotation.

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Three hundred and sixty-degree feedback is sometimes collected on teams as a unit, and most of the same principles apply as those identified for individual multirater feedback. This type of feed-

back from internal and external customers can be especially useful when work teams are delivering a service and objective measures are difficult to identify. But care must be taken that raters actually assess the team as a unit rather than just the one or two members of the team with whom they interact.

Project teams

Project teams are distinguished from work teams by expectations of a limited future. Members are assembled for a specific purpose and they expect to disband once their task is complete. Well-known examples of successful project teams include the team that developed the first of IBM's PCs and the team that developed the original Taurus/Sable at Ford. Projects can range from relatively short to longer term, but members know they are on loan and will return to their functional areas on completion of the project.

Project teams engage in work that is outside the core production or service work of the organization and inherently less routine than that of work or service teams. Members typically come from different functional areas and have differentiated skills and knowledge bases; they lack expertise or deep understanding of each other's specialties. The difficulty and the tempo of team tasks vary across the life of the project and members' involvement waxes and wanes with project need. Project teams must learn and adapt to task realities.

As a result of their particular task demands and membership configuration, project teams tend to be focused more on tasks than on team members.²² Project teams have high goal interdependence among members—they are dependent on each other to meet project goals—but the degree of task interdependence among members varies considerably. Training and development of members does not occur as an intact unit, and members are left to apply and integrate individual training with their team experience. Team members' competencies include functional expertise, political skills, creative problem solving, and critical decision making skills, but there is less emphasis on team self-management skills.²³ Paradoxically, team self-management is often less appropriate in these teams of highly educated specialists than it is for work and service teams. Members are functional specialists rather than team specialists, and the priority on meeting project deadlines makes it difficult to engage in team training. In general, the less variable membership dynamics are, and the more routine

the task, the more possible and desirable it becomes to move leadership and routine management functions into the team and to make members jointly responsible for team goal attainment. As team-membership dynamics become more fluid and team tasks become more specialized, there are greater needs for coordination and integration of the work across time, space, and members, and strong centralized leadership becomes more critical to goal accomplishment.

The determinant existence and shorter duration of project teams limits the usefulness of team outcome-based assessment because the project cycle does not coincide with the typical appraisal cycle. End-of-project outcome measures do not benefit the team's development as the team has likely dissolved by then. Instead, metrics are developed that relate to the various stages of a project so that teams can self-correct before things go too far off course. These include the continuous tracking of time, cost, and return-on-investment, as Hewlett-Packard does in its product development teams.²⁴ Interim metrics are carefully designed with the input of project team members to eliminate or account for extraneous sources of variability that the team does not control.

Team members are expected to understand team metrics, work together to track them, revise them as needed, and use them to set downstream project goals. Multisource performance appraisal is particularly useful for rating performance of project team members on these behaviors and competencies. Because project team members are assigned and reassigned to different projects and often serve simultaneously on multiple teams, no one functional manager, team leader, or set of peers observes behavior over the many different work situations in which they perform. Under these circumstances, it makes sense to collect ratings from each of the team leaders and team members of the various projects an employee participates in during a performance cycle.

Project leader and peer ratings are good sources of behavioral ratings related to a team member's context and teamwork roles. But peers lack knowledge of other members' functional disciplines or understanding of their technical specialties, and they generally cannot assess the goodness or value of individual team members' inputs. As shown in Table 1, functional managers, who are responsible for technical mentoring, and who typically retain administrative responsibility for employees,²⁵ are in a better position to provide behavioral ratings of job roles and to

assess competencies pertaining to specific functional expertise. Functional managers and employees use the feedback report from peers and project leaders to identify developmental needs and schedule training. Thus people who are assigned to project teams as part of their job roles are rated on both their individual performance and their contribution in their team role. Training focuses on the development of behaviors and competencies that are transferable from one team assignment to the next.

Network teams

Network teams are virtual in that their potential membership is not constrained by time or space; they include geographically dispersed members who collaborate through a combination of telecommunications and information technologies.²⁶ Their membership is not limited by organizational boundaries, and frequently includes contingent workers, customers, vendors, and consultants, as well as organizational employees. It is difficult to draw boundaries around a network team, as potential membership includes all who are committed to the goal.

Network teams also differ from project teams because their work is extremely nonroutine. Most network teams engage in one task cycle, the nature of which is unlikely to be repeated. For example, Fleet Focus, a team composed of dispersed specialists, was assembled by Fleet Financial Group of Providence, RI, to reorganize and re-engineer Fleet's structure and processes during its acquisition of Shawmut Bank's portfolio in 1994. A similar network team functioned during Fleet's merger with BankBoston in 1999.

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Membership configuration in these teams is dynamic, shifting in response to changing task needs, which are themselves emerging in response to rapidly changing environmental and technological conditions and from unique interactions among customers, suppliers, and team members. The timing and intensity of members' participation and the nature of the interaction and level of exchange among members is not scripted, but is dependent on task needs. Network teams are rapid-response units charged with strategically responding to market chal-

allenges and exploiting market potentials. Thus their primary competency is the ability to rapidly select and assemble the most appropriate member configuration for the task at hand, even when that task cannot be clearly specified. Team performance is a matter of strategic responsiveness.

The performance emphasis for team members shifts from what they did yesterday or last year to what they are willing and capable of doing tomorrow, where tomorrow is still largely undefined. Network teams, more than any other, rely on a cadre of potential members who are continuously engaged in self-directed learning to improve skills, knowledge, and competencies. Team members must be able to continuously reframe and rethink how things are done. Further, because membership configuration and task requirements are emergent and dynamic, collaborative, intensive communication is especially important to coordinating effort and achieving team effectiveness. Distant members must rely on electronic technologies to maintain coordinated action and commitment to goals. These include audio and video teleconferencing, chat groups, e-mail, bulletin board software, group decision-support systems, and project-management calendars.

Network teams are transitory structures that engage in unique tasks as they arise. Their performance cycle is at odds with annual performance-appraisal systems, and performance of the team as a whole is often not assessed in any formal way. However, there is evidence that this type of improvisational action is becoming increasingly important to organizations operating in highly turbulent industries, and it is important that their employees be prepared to participate in network teams as needed.²⁷ Thus appraisal is focused on developing individual capacity to initiate, participate, and lead improvisational action, rather than on assessment of past outcomes.

Competency-based appraisal systems are optimal for assessing the potential of all employees to participate in network teams. Knowledge, behaviors, and skills, including individual adaptive ability, are appraised and used for evaluation and developmental purposes. Behavior-based appraisal can also be used to assess the extent to which employees participated in learning activities during performance cycles. These can be self-paced programs, in-house training, or courses at educational institutions. To avoid simply rewarding attendance in training programs, employees are assessed on the extent to which they apply learning to current activities, set developmental goals, and seek out feedback from others as an

input into the self-regulatory process.²⁸ Finally, behavior-based appraisal is used to assess the extent to which members engage in collaborative communication and teamwork behaviors when participating in network teams. Multirater behavioral assessment is essential in networked organizations, because team members are working in multiple performance settings during any given performance cycle.

External Interdependence: A Final Contingency

Our analysis would be incomplete without considering the interdependencies among a team and other teams, individuals, and groups within an organization. At its simplest level, interdependence exists when a team is dependent on the contributions of nonmembers to complete tasks and goals. High interdependence exists when teams are dependent on multiple outsiders for information, resources, and support, and, when the need for the exchange emerges with the task, such exchanges are not well understood and procedures for them are not formalized. Low interdependence implies that teams are dependent on only a few outsiders, and procedures can be set up to manage the exchange of resources and information.

As the complexity of interdependence increases, teams face escalating needs to manage extensive interaction with others inside the organization. Care must be taken to assure that performance-measurement systems focused at the team level do not encourage teams to optimize their own performance at the expense of other teams and the system as a whole. Motorola's experience with team incentive systems is instructive in this regard. The

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firm found that the outcome of focusing on team productivity in its production facility was anything but teamwork. While some teams did perform better, the cost of open competition, griping, and conflict among teams caused suboptimization in the plant as a whole.²⁹ Team-focused outcome measures are important tools for team-development purposes, but the more the team is interdependent with others, the greater the need is to balance

outcome measures with behavioral measures related to citizenship and teamwork with other teams.

Putting It All Together

One-size-fits-all prescriptions for performance appraisal methods are still all too common, despite strong differences among the types of teams commonly found in organizations. Further, the three types of teams we discussed here do not cover all the possible permutations of team membership dynamics, task complexity, and internal and external interdependencies. Project teams or work teams certainly vary greatly in work organizations. Such teams are prototypical; real teams must be evaluated on many dimensions to determine the most useful and appropriate performance-appraisal target, type, and data source.

As teams move from the stable, routine, and self-contained end of the continuum to the dynamic, emergent, and interdependent end, performance-appraisal systems must move from a focus on the outcomes, behaviors, and competencies of teams to those of individuals. At one extreme—the intact work or service team—the focus is on developing better teams. At the other extreme—network teams—the focus is on developing better team members. These members include those who can and will accurately and quickly assess the task and interpersonal idiosyncrasies of their interaction partners at any given moment and adapt their behavioral repertoire to fit the unique needs presented by both.

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Effective performance appraisal is a matter of fit between characteristics of the team and the target of assessment, as well as the rating type, source, and purpose. Performance-appraisal systems that result from careful consideration of these contingencies have the greatest probability of being effective—that is, of eliciting employee behavior that contributes to an organization's goals. Allstate Insurance, Xerox, Hewlett-Packard, and many other organizations have demonstrated that a stra-

tegic approach to performance-appraisal design dramatically increases the likelihood that team structures will contribute to greater organizational effectiveness.³⁰

Endnotes

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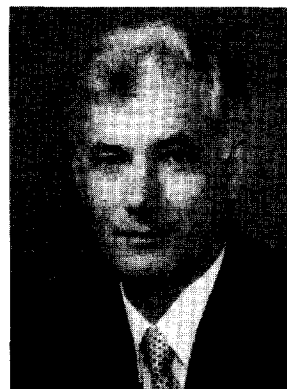
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