

# SATM

## Innovation & Technology Management News

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Our last three issues dealt with the innovation process, project management, and the management of software development. Our Winter issue focuses on appraising, rewarding, and managing technology-based teams, issues which have been the subject of Alliance research & Roundtable activities.

Larry Gastwirt  
Director

## Rewarding Teams at Engelhard Corporation: An Innovative Approach Revisited Interview with Frank Pickett

Engelhard Corporation was one of the founding sponsors of the Alliance. Five years ago, they shared with our membership a novel team reward program instituted in their Petroleum Catalysts Group. We thought it would be interesting to revisit the program and see what they have learned from the experience. We interviewed Frank Pickett, who has Human Resource responsibility for the Chemical Catalyst Group and the Petroleum Catalyst Group. Frank played an integral part in the formation of the team-based structure as

well as in design and implementation of the supporting programs.

*Would you explain to our members why your organization created a team-based structure leading to the genesis of your team reward program?*

Our organization, about seven years ago, introduced total quality management as a concept throughout the corporation. The corporation had gone through a major reorganization where many of the old ways of doing things were dismantled and a new

## Rewarding Teams at Engelhard (continued from page 1.)

customer-focused organization emerged. This major corporate initiative fostered the requirement of empowerment which became very fundamental to what we were doing. We needed people to be willing to step forward and do what was right without being told or without waiting to be told.

The re-organization led to a focus on empowerment. And the team approach grew out of this. We created Customer-Focus Teams. The idea was to enhance our relationships with our customers by providing them with all the sales and technical resources they required. We wanted to expand the boundaries of our conversations with those customers.

*What were the objectives of these Customer-Focus Team?*

We created a set of standards by which we wanted the teams to operate and we trained and educated the teams in those standards. We spoke with customers and validated that these standards were the right ones to drive an organization with. We wanted to sell X number of tons, to make Y number of dollars, and to increase our customer base by Z. So, we assigned segments of those objectives to each of the teams where it made sense. Some teams were also given objectives from a longer term perspective, such as building creative alliances.

*Were explicit metrics used to measure team performance?*

Absolutely, and I'll give you two that are really clear and measurable. Each team had a team revenue number to generate and a team profit number to generate.

*To what degree did the team members participate in the setting of the criteria themselves?*

Quite a bit. My experience is that our people have more engagement in that than normal. However this may not be universally perceived by some of our teams. Revenue is a good example. You can discuss revenue objectives with team members, but revenue forecasts are typically based on many other planning activities that these people may not be involved in. By the time they get the final number they may look at them and say, I don't know how they got that, it wasn't anything that we talked about.

*How was your Team Reward Program funded?*

Most people in our organization, one way or another, have an opportunity to increase their earnings through either bonus plans or incentive plans. So, to fund the customer focus teams, we carved out a percentage of team members' existing plans and brought that percentage of opportunity into the team. If an employee, depending on salary and position, had the ability to make a certain amount of money individually through a variable pay plan

or several pay plans, a portion was pulled out and placed into a pool of funds.

I'll give you a very specific example. My income is based on a base salary and a participation in an incentive plan for management based on corporate and divisional performance and my own personal performance. When I joined a customer focus team, a portion of my individual incentive plan was allocated to that team. That team, along with me, literally voted on whether I earned that piece based on my contributions to the team. And so, while I got a piece of my incentive from the overall corporate and divisional performance, a portion of it was awarded based on how that team judged my performance against the team's objectives.

*How do you decide what your contribution to the pool is?*

We kept it simple. We had this customer focus team. And there were two kinds of players on this team. There's the primary player where the team becomes his or her major work focus. And so that person has a larger proportion of his or her incentive plan allocated to the team. Then there were the enabling players, recognizing that their level of contribution was enabling rather than primary. In this case, they bring in a lesser percentage of incentive to the team. Now there was a third participant on the team who could be either major or an enabler, but they were not engaged in any organizational incentive plans. An example would be a lab technician. Lab technicians can be major contributors to the team, but they are not involved in any of the company-sponsored incentive programs. Therefore, they have no funds to contribute.

*How did you handle this situation where a team member had no points to contribute?*

We literally fabricated an incentive portion for that person. For the purpose of the customer focus teams, we arbitrarily established a point pool for that person to carry with them into the team. The funds came from our back pocket. We recognized from an equity point of view that it was important that all team members be involved.

*Were primary team members serving on multiple teams?*

Yes, but we restricted them to no more than two teams. Another element of our pay design was that we always held out a few points from everyone's incentive plan and related it to the whole organization's performance. We wanted team members to keep the whole organization in focus and foster cutting across boundaries.

## Rewarding Teams at Engelhard (continued)

*What other factors went into the calculation of the final pay distributions?*

The first step was to link the financial objectives of the team to the performance of the overall organization. Let's say you had three teams in the Southwest region. Each team's performance was linked to the total region performance. If a team was very successful, but the region's performance was marginal, the pay-out of the team would be lower than if the region had also exceeded its performance level.

The second step is to place the final value on the points brought in by the individual team members. Let's use a hypothetical case. Say the total number of points put into the team was 50 points. The question to be answered is what portion of the 50 points would be used at the end of the year based on the performance of the team against their objectives. If the team achieved their stretch goals then all 50 points would be multiplied by a multiplier. The adjustment of the value of the points goes either up or down based on achievement of financial targets. The result is the pool that the team has to work with for member allocation.

*Once the final team pay out was decided upon, how were incentives allocated to individual team members?*

Using the same hypothetical case as above, let's say that out of the 50 points I bring 15 points into the team because I am a primary member. The team at the front end is asked to devise a method of redistributing those points based on my achievements and performance. We wanted each team to establish criteria for making those decisions. Each team was asked to submit the methodology by which they would redistribute points. Let me tell you, it was a difficult, but important process. We gave them considerable guidance, including team leadership and interaction training.

*What was the final outcome?*

Eighty percent of the teams concluded that the points you brought in were what you could take out as the method by which they would redistribute. They took the easy road out. Some teams said "we'll tackle this", and they tackled it. And they struggled, but they did tackle it to their credit. In their case, they established a review process to evaluate each individual's contribution. If the team decided that a member did not achieve the proper level of contribution, a percentage of his or her points was taken away and redistributed to the rest of the team.

*What have been the reactions to this team reward program?*

The teams' reactions to the concept has been mixed. Some teams, because of their individual leadership

and the quality of team leadership, actually made this concept work. Other teams, because of the dominance of a few of the participants, found themselves being driven by the different agendas rather than looking for ways to create more of a team agenda and more of an agenda with the customer.

*What is the future of teams at Engelhard?*

Once we created team approach to doing business, the approach has lived by itself beyond the design of "customer focus teams". And we've gone out and talked about it, and in fact, one of the highest ratings that we received in this past year's employee survey, is our ability as an organization to pull together teams to address customer problems. So teams are alive; you know it's different today. Alive, and supported and cherished. No one has told me that they want to go back to the one-on-one transactional relationships with customers.

*What is the future of rewarding teams using alternative pay methods?*

Well, the concept of team pay is spreading to other areas of the organization. We introduced the idea from a gain sharing point of view to the manufacturing organization. They too, have demonstrated their willingness to have some of their measures related to how they serve customers and have pay allocated on a team basis.

*In the development of the team pay program that you have in place for manufacturing, are there elements of this past program that you adopted?*

Conceptually I think there are some elements in terms of the formation of the team, the empowerment, the understanding of what the broader business goals are and aligning the team's activities to achieve and be measured by the achievement of those broader business goals. The peer evaluation has definitely been carried forward and we're reaching a point where it's getting dealt with in a more comfortable way.

*Frank Pickett has been with Engelhard Corporation for twelve years in Human Resource generalist roles for a variety of different businesses. Currently, he has human resource responsibility for the Chemical Catalyst and Petroleum Catalyst Groups, employing 2000 employees.*

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