

# **Motivating High Performance in Pharmaceutical Sales Teams: Key Compensation and Team Process Factors**

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## **Abstract**

Motivating high performance in pharmaceutical sales teams is a growing issue in the pharmaceutical industry. The challenges facing the pharmaceutical industry in motivating sales teams are compounded by a variety of factors that many other industries do not face including: government regulation of sales practices, non-direct tracking of sales results, and the impact of managed care on sales performance. By impacting a few key team process and compensation elements pharmaceutical companies can have a significant impact on team performance. This paper explores the background of sales teams in the pharmaceutical industry, research on team motivation and compensation factors, findings from four pharmaceutical representative interviews and details a few of key team performance factors and how they can impact team performance.

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## **Motivating High Performance in Pharmaceutical Sales Teams Key Compensation and Team Process Factors**

Motivating sales force representatives to perform at a high level of performance is a challenge that all companies in all industries have. The pharmaceutical industry is no different in this aspect. In fact, the challenges facing the pharmaceutical industry are compounded by a variety of factors that many other industries do not face including: government regulation of sales practices, non-direct tracking of sales results, and the impact of managed care on sales performance. In addition, over the last five years many of the leading pharmaceutical companies have moved towards a team based sales structure (Best Practices, 2002). This creates a new motivational situation for pharmaceutical companies: how does an organization design systems and processes to motivate a pharmaceutical sales force team to achieve its peak potential?

### **Pharmaceutical Industry Overview**

The pharmaceutical industry is changing fast. Research done by IMS Health (2003) shows that since 1997 the pharmaceutical industry in the United States has grown from a sales force of just over 52,000 sales representatives to a sales force of over 74,000 sales representatives. This represents a total growth of 51%. IMS (2003) also found that while the overall number of sales representatives has increased, the calls per representative have decreased, from an average of 808 calls per representative a year in 1996 to 529 calls per representative a year in 2002. Of those 529 calls, only 20 percent result in face to face interaction with the physician and this face to face interaction lasts on average only 2 minutes

(IMS Health, 2003). Much of this has to do with the 1996 Health Insurance Portability and Accountability Act's (HIPAA) rules and regulations as they pertain to safeguarding patient information which limits sales representative's access to doctors (Centers for Medicare and Medicaid Services, 2002). Additionally a majority of pharmaceutical sales representatives have moved from a single product portfolio to a multi-product portfolio with the average portfolio size growing to 3 products in 2002(Best Practices, 2002).

In response to these facts, many pharmaceutical organizations have moved to a team sales approach selling model. This team concept is referred to as a "mirrored sales" force approach and has been partially adopted in at least 10 of the top 12 pharmaceutical companies in the U.S. and is growing in acceptance and implementation worldwide (Best practices, 2002). A "mirrored sales" force offers pharmaceutical companies the opportunity to increase the call frequency and differentiate product messaging that physicians receive by pharmaceutical representatives.

Sales processes and compensation aimed at improving sales performance have been seen as the key to increased productivity and performance throughout the industry. However, the reality is that most pharmaceutical companies have not refined their compensation strategies nor have they developed team processes to accommodate this new team structure (Best Practices, 2002). This has led to many of the "mirrored sales" forces not achieving the desired performance results that had been expected of them by management. Indeed, one mirror force sales representative put it this way, "They thought that by teaming us up we'd produce more, but they just threw us together in this team with no training and no incentive to work together - and we were expected to work out all the kinks ourselves" (personal communication, rep 1, December 9, 2003). To maintain competitiveness, pharmaceutical companies will need to adapt their processes and motivational techniques in response to this changed work environment.

### **Team Motivation and Performance Theories**

Research on workplace performance and motivation has been going on since the early work of Elton Mayo at the Western Electric Hawthorne Plant in the late 1920's and early 1930's (Franken, 2002). This research jumpstarted research into worker's motivation and performance that has continued throughout the last 70 plus years. In the 1930's and 1940's Skinner's (cited in Stajkovic & Luthans, 2003) operant conditioning looked at motivation and performance from a behavioral perspective while in the 1940's and 1950's Maslow presented and expanded on his "hierarchy of needs" outlining human motivation as a stepped process that began with the motivation for safety, shelter and food and worked up through self-actualization (the desire to reach one's full potential) (Shermerhorn, Hunt and Osborn, 2003). Both performance and motivation theory has progressed and grown from all of these histories. Recent work has focused on intrinsic versus extrinsic goals, goal congruency, situational motivation, expectancy-value, goal setting, and self-efficacy (Cameron & Pierce, 1994; Bandura, 1991; Stajovic & Luthans, 2001; Franken, 2002; Schermerhorn, Hunt & Osborn, 2003)

Literature surrounding motivational theory for teams is less prevalent since most of the research has focused on individual motivational factors. While these individual factors can, to a degree, be

generalized to a team, they do not represent the entire spectrum of influence that impact a team's motivation.

Research suggests that team performance and motivation are influenced by team dynamics that include but are not limited to: team-efficacy beliefs, role ambiguity, social loafing, team cohesion, and goal congruency (Karau & Hart, 1998; Franken, 2002). Group-efficacy is defined as "a group's shared belief in its conjoint capabilities to organize and execute the course of action required to produce given levels of attainments" (Bandura cited in Seijts, Latham, & Rotman, 2000). Seijts et al. (2000) research indicates that the performance of the group is positively correlated to its group-efficacy beliefs. Thus a group that believes it will do well, usually does.

Role-ambiguity works in a similar manner in that individual team member motivation is decreased when role-ambiguity is high, and increases when role-clarity is present (Franken, 2002). Thus a team that has clearly defined and understood roles will outperform a team with ambiguous roles or misunderstood roles.

Research done by Latane, Williams and Harkins (cited in Messe, Hertel, Kerr, Lount, & Park, 2002) has shown that individuals frequently reduce their effort in a group setting as compared to when they work alone. This effect has been labeled "social loafing" and has been replicated in other studies. This is in contrast to research by Messe et al. (2002) that demonstrates the "Kohler effect" in which people tend to exert more energy and effort when in a team or group setting than when alone. Messe et al. (2002) attribute these contradictory findings to the type of tasks that the team had to perform as to either being conjunctive-tasks or additive-tasks.

Conjunctive-tasks are tasks in which the group can do no better than the poorest performing member of the team. Additive-tasks, in contrast, are tasks where the team's performance is the combination of each individual's input into a single output. The Kohler effect is more likely to occur in teams that are working on conjunctive-tasks (Messe et al., 2002). Social loafing occurs more often in teams that are performing additive-tasks where the individual's performance is part of the overall sum of the team performance. Social loafing has been found across most populations and tasks. In addition, social loafing occurs at higher levels when more people are added to a team where the extent of any one person's input cannot be as easily identified (Karau & Hart, 1998).

Research done by Karau and Hart (1998) indicates that group cohesiveness is a moderator on social loafing. Thus members of a high-cohesive group or team are less likely to engage in social loafing as opposed to members in low-cohesive groups when the individual's efforts are viewed as important to the overall group's performance. They also found that internal group competition decreased the cohesiveness of a group and thus had a positive correlation to social loafing.

Goal congruency is thought to be beneficial to performance with a slight correlation to team motivation. Differences in team member's goals often lead to conflicts within the team which has a negative effect on performance and on motivation (Dixon, Gassenheimer, & Barr, 2002). Team trust is a factor in motivation since it impacts how well teams work in conjunction with each other and to what degree they feel comfortable in delegating tasks that moderate team cohesion. Trust is defined in two

elements of task trust and interpersonal trust. To be effective, teams need to build trust in both areas with task being the more important of the two for creating high-performance (Dixon et al., 2002).

### **Compensation Research**

There is a wide scope of research into compensation practices and subsequent performance. Much of this research has focused on incentive or performance based types of compensation. A study done by Mistretta and Muciscko (2003), for Deloitte and Touche, LLP, indicated that 56% of 130 companies surveyed felt that their sales compensation could be improved and that 79% of these companies had made six or more changes to their compensation plans in the last two years.

Compensation for sales representatives inside of the pharmaceutical industry typically is composed of three elements: base pay, incentive pay, and benefits (Best Practices, 2002). While the combination of all three is vital to successful motivation, all things being equal, incentive pay has the most variable impact on performance (Churchill, Ford, Hartley, & Walker, 1985). Typically inside of the pharmaceutical industry the percentage of incentive compensation is around 30% of base pay with high end achievers being able to achieve 100% plus of base pay as incentive compensation (i.e. more than double their salary) (Best Practices, 2002).

According to behavioral management theory, contingent rewards drive performance. In a meta-analysis of a variety of organizational studies, contingency (or incentive) pay has been shown to have a positive impact on performance on average of 23% (Stajkovic & Luthans, 2003). Behavioral management theory postulates that the unique motivational effect of this contingent pay is based on its (a) outcome utility, (b) informative content, and (c) regulatory mechanism.

Money's outcome utility is based on its exchange value for goods, services and privileges (Stajkovic & Luthans, 2001). While money itself has little or no outcome utility, it is its ability to be exchanged for something that someone wants that motivates. People are attracted to well paying jobs and perform extra activities that bring them more pay (Stajkovic & Luthans, 2001).

Deci, Ryan and Koestner (1999) point out that rewards (i.e. money) may have both positive and negative effects on motivation, with some aspects of rewards being perceived as controlling thus decreasing intrinsic motivation and some aspects being seen as providing evidence of competence and thus increasing intrinsic motivation. Money's informative content is dependent upon how it is received. If money is received in varying amounts that reflect performance then it is seen as more informative than if a set amount of money is given for completion of a task. Money can have an ordinal ranking of how one is performing that can give information regarding performance standards (Stajkovic & Luthans, 2001).

The theories imply that behavior can be positively influenced by external influencers and extrinsic rewards, however if the reward is seen as controlling, the long term effect on intrinsic motivation (thus, long term behavior change if the external stimuli is removed) can be negatively impacted to the detriment of long term performance sustainability and growth.

The regulatory mechanism of money is both instrumental and symbolic in form. Instrumentally money motivates because it can "provide outcomes that satisfy physiological or psychological needs" and symbolically money "generates social comparison information, which can indicate a person's standing

regarding psychological aspirations" (Stajkovic & Luthans, 2001. p. 581). In other words, the regulatory aspect of money can give direction as to appropriate behavior, comparisons and ideals.

Stajkovic and Luthans (2003) suggest that rewards (i.e. incentive compensation) that account for all three aspects of outcome utility, informative content and regulatory mechanism will lead to higher overall performance.

Team compensation research has suggested that while all of the individual factors are relevant, team compensation has more intricacies that impact its overall effectiveness as compared to individual compensation (Zobal, 1999). Compensation goals need to be aligned so that individuals are rewarded for cooperation and joint achievement. Research by Hom and Berger (1994) contends that cooperative rewards aid in building intrinsic motivation in individuals. Work done by Locke, Durham, and Knight (2001) indicate that team incentives influence how people work together to choose and implement tactics. This suggests that team compensation goals need to be carefully chosen since they affect how teams work together and not just how individuals work.

Many studies that have demonstrated the efficacy of group compensation goals (e.g. Locke, Durham, & Knight, 2001; Campion, Medsker and Higgs, 1993). In one example, the cycle times of departments using group rewards were an average of 2.7 times faster than departments using individual rewards (Majchrzak and Wang, 1996). According to the researchers, employees that were rewarded for reducing process times at their individual workstations were not as motivated to examine ways to reduce overall cycle time as those motivated through group rewards.

Disadvantages of focusing on the individual compensation in a team environment include the fostering of competition and a reduction in information sharing between team members. It can also prove extremely challenging to divide out an individual's contribution within a team environment (Zobal, 1999). This could lead to difficulty in gaining accurate measurement of individual effort and might result in inaccurate assessments that could de-motivate team members.

### **Sales Representative Interview Findings**

Interviews conducted with four pharmaceutical sales representatives offer a unique view at how they perceive their team environment and the contributing factors of its successes and challenges. These four representatives were from a major pharmaceutical organization that had implemented a mirrored-sales force structure in the past year. The individual's represented four distinct teams and did not have interaction with each other. The size of each of these teams were three reps each. These particular representatives were chosen because of their inclusion in another research program where these questions could be added into the already scheduled interview. All of the interviews were conducted in November and December of 2003. The protocol consisted of six main questions with a series of probes (see appendix) that focused on how effective they felt their team was, what factors went into being effective, how they felt about the team process and team members, what could be improved on their team, how the optimal team should be set up and how the team should be measured and rewarded.

Particularly interesting insights from these interviews was the perceived need for the team to be able to effectively communicate and share information, desire to have each team member be able to

perform their role effectively (team-efficacy), the understanding of the importance of team training, team goals and procedures and the need for a team-based incentive system. One interesting finding was that role-ambiguity did not seem to be an issue with these representatives. They all felt very comfortable with understanding their own role and the role of their teammates. This probably has to do with the nature of their position and the clarity of the job requirements.

Communication between team members was deemed to be vital to the team's success. One rep stated, "I can't move the ball unless I know what they [other team members] did on the last call..." (personal communication, rep 1, December 9, 2003). Another rep stated that "I need to work with my partners on an ongoing basis so that we are constantly in the know as to what we have done, what the physicians said, and any information that might be relevant to the next call – regardless of who does it" (personal communication, rep 2, November 24, 2003). The importance of this ongoing communication involved three specific activities: (a) updating call notes in the companies computer system (i.e. this is an electronic database that each rep can access and gives information regarding physician interaction, prescription patterns, and a variety of other sales tools), (b) updating each other via phone mail or cell phone on a daily basis, and (c) weekly or bi-weekly face-to-face meetings typically held over breakfast. While the first two are standard operating procedures at this company, the third element, face-to-face meetings, is new and three of the four representatives were doing it. This simple procedure they claim has been an effective tool in creating a sense of one team and developing team objectives and goals, sampling strategies, sales routing, and physician messaging.

Another key component that was highlighted was the need to feel like the other team members were contributing and could effectively do their job. This aligns with the team-efficacy theory of Bandura (cited in Seijts et al., 2000). As rep 2 (personal communication, November 24, 2003) put it, "It's good to know that my partners are good at what they do and that we all get the job done." Rep 3 (personal communication, December 8, 2003) put it this way, "I need to know that my teammates are pulling their weight. If I thought I was the one doing all the work it would seem unfair. I'd probably be looking for a new job right away." This feeling was expressed by all four reps that were interviewed. The interesting element was they all felt that their team members were effective and that as a team they were effective. A quote from Rep 4 (personal communication, December 9, 2003) sums it up nicely, "Just like on a sports team, everyone has to be good at their job or the team suffers. One person can bring down everybody."

In regards to team-training the four interviewees felt that more should have been done up front in order to ease the transition. For instance they mentioned that there was no training as to how they should operate together particularly in regards to routing and sampling. Rep 2 (personal communication, November 24, 2003) said this about training, "We are all type A players and it's hard to get anything done. We've been able to work through that but it would have been nice to have some help with it up front." Elements of team training that the representatives indicated were important included: team building skills and processes, specific team processes and procedures (i.e. team charter or protocol), and personality training.

Team goals and processes were thought to be an important contributor to overall team effectiveness. The reps that held face-to-face meetings felt that these were great opportunities to determine team goals and processes. One rep stated, "We put together a 'process agreement' that we all signed that outlined how we work together, what our routing strategy was, how we communicate, and how we want to handle difficulties" (personal communication, rep 3, December 8, 2003). Group goals that the reps thought were important focused around sales growth, physician messaging strategies, call routing, and sampling practices.

Finally in regards to compensation the key element was to ensure that the team was compensated fairly and as a team. The structure currently has a base salary with benefits and an incentive portion. The incentive portion is comprised of two main areas: quantitative and qualitative. The overriding opinion of the interviewees was that the qualitative aspect did not help the team, even though it was supposedly geared toward compensating qualities such as teamwork, quality, and customer focus. Since the qualitative portion of the incentive compensation was determined by the manager, these representatives felt that it was subjective and did not correlate to actual performance. The quantitative portion of the incentive compensation plan was seen as more fair and one that promoted teamwork. In essence, the quantitative portion paid the individuals on how well their teams territory performed (the measure was share growth of products). Rep 4 (personal communication, December 9, 2003) stated, "I think our IC (incentive compensation) helps us work as a team. We all know that we have to grow share and that's what we focus on." Rep 1 (personal communication, December 9, 2003) stated "The comp plan makes it so we have to work as a team, we don't get paid on what we do individually."

Two of the interviewees stated that they felt their incentive compensation was a way to "gauge" their performance and used it as a way of motivating themselves to improve their efforts. All four of them stated that the reward aspect (typically a trip) for the top achievers was very motivational. Rep 2 (personal communication, November 24, 2003) stated, "My wife asks me every year after we get our plan where we are going [on the compensation trip]. I feel like I have to win it or else..."

Some reps brought up the fact that the pay plan could allow for "social loafing" or the fact that a team member could "ride coattails" and still be rewarded the same as the members who worked hard. They saw the potential for this, but didn't feel that it would be an issue on their team because as rep 1 (personal communication, December 9, 2003) said, "I'd never allow that to happen. That's what the face-to-face meetings are for – to make sure everyone is on board and working."

### **Key Elements of Team Process and Compensation**

The research and interviews suggest that there are specific key team process elements that pharmaceutical companies can implement to help create a highly effective sale's team. These elements are focused on: (a) communication processes, (b) team-training, (c) team-goal setting, and (d) and a team compensation structure.

Communication processes should be built into any pharmaceutical team sales structure. Communication is essential to a pharmaceutical sales team. While their work is additive in nature it also has elements of conjoint processes with one rep building off of another reps sales call (e.g. a physician

needs clinical data before supporting a drug therapy that the next rep needs to bring on his or her next call) (Messe et al., 2002). This dependency requires a high level of coordination and sharing of information that can only be accomplished through an effective communication process. At minimum a pharmaceutical company should have the following team systems and procedures in place in order to maximize team efficiency: (a) call notes sharing software and database where reps can instantly update call notes on a doctor that can be viewed by anyone on the team instantly, (b) call protocol for team (i.e. daily voice mail messages for routine updates, cell phone call for urgent matters, group call for sharing pertinent information and (c) mandatory face-to-face meetings with scheduled topics and agenda's.

Team training should be conducted with all mirror teams. Best done at the formation of the new team, this training would be useful throughout the life of the team. This training should be facilitated and designed to achieve the following: (a) understanding team decision making processes and setting up standard operating procedures (i.e. routing schedule, sampling procedures, etc...), (b) discovering team member's personality styles that can be beneficial in working together as a team, and (c) increasing team- efficacy beliefs. This team training can help the team overcome communication, decision making, goal- planning and other challenges in the long run.

Team goals are another component that can help create a high performing sales team. These goals should have a stretch element to them that is perceived to be attainable by the team members. The attainability aspect helps not only in increasing motivation, but also in helping build belief in the team's efficacy. Team goals can be management mandated or self-selected by the team as long as they are stretch goals and the reps "buy-in" to them.

Compensation plans should be reflective of the team nature of the sales process. While qualitative measures are often designed to foster teamwork from a motivational standpoint, the representatives from this survey felt that qualitative was too arbitrary and dependent upon a manager's whim. Therefore, it is recommended that most of the incentive compensation for a sales team be structured around the quantitative aspect of sales revenue that is team or territory based. Any incentive compensation structure should take into account the motivational aspect of the plan's outcome utility, informative content, and regulatory mechanism (Stajkovic & Luthans, 2001).

The outcome utility for a sales team will be determined by how well the team performs, but the possible income generated by achieving the quotas should be equivalent with similar pay plans in the industry. Additionally, the pay period for the incentive portion of the compensation plan should be as short as possible. While sales data issues in the pharmaceutical industry make weekly and even monthly payouts difficult, the shorter the timeframe the more utility the compensation has.

The informative content of the pay system should have teams understanding where they fall in relationship to other teams as well as against their quotas or targets. This informational aspect of their pay should help them stay motivated throughout the year.

Finally the regulatory mechanism of the sales plan suggests that the incentive compensation plan should include symbolic awards and recognition aspects (Stajovic & Luthans, 2001). Part of this is motivational and part of it is social comparison for those teams that do not achieve this award.

While there are many things that can be included in the compensation plan, there are definite elements that should be excluded. The compensation plan should not have an individual component to it. This impacts how the qualitative parameters should be designed and implemented. By introducing an individual element pharmaceutical companies could potentially disrupt teamwork, reduce overall communication and limit team's goal planning effectiveness. Additionally, while capped incentive programs (i.e. no matter how much you sell, the top amount you can make is X) offer a company a safeguard in how much they pay out, it also limits the utility value and motivational effectiveness of the sales plan.

### **Conclusion**

Mirrored sales forces are growing in numbers and importance in the pharmaceutical industry. This growth requires that pharmaceutical companies take steps to increase the effectiveness of these teams. The impact that these teams can have is vital given the downward trend in face time with physicians and the increasing complexity of laws regulating sales practices. By creating systems that enhance team motivation, pharmaceutical companies can positively impact team performance and their own bottom line. Some of main factors that pharmaceutical companies can impact include improving communication processes, developing and implementing team training, creating group or team goals, and developing a team based incentive compensation plan.

The findings in this paper have many limitations. The most glaring is that the representative interviews are so few in number that their insights cannot be considered reliable when generalized to the larger pharmaceutical sales population. The pharmaceutical industries unique qualities may moderate some of the research findings (i.e. the lack of role-ambiguity in the sales force). There are a number of other aspects that were not covered in this paper that would have an impact on mirrored sales force teams including training, corporate culture, sales force automation, sales reporting and non-financial rewards. Non-financial rewards are an interesting topic that could be impact many of the intrinsic and extrinsic elements, the utility outcome of the reward, and the social recognition aspect of motivation that were explored in this paper. More research needs to be done in exploring how these factors play into the larger picture of sales force motivation. Much more research needs to be done on this subject in the future particularly around the areas of team training effectiveness and compensation structure.

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**Appendix**

## Interview Protocol

Question 1: How effective do you think your current team is?

Probe: What makes it effective?

Probe: What has the company done to help your team be effective?

Question 2: What are the specific elements or factors that make your team effective or not effective?

Probe: How does [insert element] impact your teams performance?

Question 3: How do you feel about how well your team is working together? How do you feel about the other members of your team?

Probe: What specifically makes you feel that way?

Question 4: What are things that could be improved on your team?

Probe: How would these help make your team more effective?

Question 5: What is the optimal way that a team should be set up and operate?

Question 6: How should the mirror teams be measured and compensated?

Probe: How is measurement and compensation done now?

Probe: What effect does [insert element] have on your ability to work together as a team?

Probe: What compensation elements could detract you (or one of your teammates) from being a team player?