Reward performance. Don’t incentivize it.

Hitting schedule and product-quality targets in cross-functional product teams · lateralworks FTTM methodology · August 2026

The fast-team research points one way: teams that deliver the right product at the right time **reward** performance. Recognition comes after the fact, at the team level, for the whole outcome. Teams that **incentivize**, paying against pre-announced metric formulas, get the metric and lose the cross-functional cooperation that makes the date. The distinction matters most under schedule pressure: that is when an organization reaches for the schedule bonus first, and the product is what pays for it.

1 Two different instruments

An incentive is a formula announced in advance: hit this number, receive this payment. It steers behavior before the fact, toward the number as written, defects included. A reward is recognition after the fact of an outcome judged whole, with room for the judgment a formula cannot hold.

Steven Kerr documented the failure mode in 1975: organizations hope for teamwork but pay for individual results; hope for candor and early bad news but pay for reported good news; hope for total quality but pay for *“shipping on schedule, even with defects.”* People do what pays, to the near-exclusion of what doesn’t. Twenty years on, 90 percent of an executive panel said the folly still ran their companies.

His diagnosis explains why cooperation is the first casualty: managers gravitate to objective, quantifiable criteria and to behaviors that are easy to see. Cross-functional cooperation is neither. A date is both.

2 The schedule-only trap

Schedule is the most visible, most quantifiable number in a program, so it becomes the incentive by default. A team paid on the date will make the date. What moves to protect it is everything the formula doesn’t price: qual scope, test coverage, NUD scrutiny, the honest red.

This is why **right product** sits inside the target at equal weight with **right time**. A milestone paid as a date is an invitation to redefine doneness. A milestone judged on its doneness criteria (qual results, yield, customer acceptance) protects the product while the schedule discipline protects the date.

Every speed measure needs a counterweight or it produces the behavior it was meant to prevent: cycle time alone buys cut corners, gap-to-target alone buys padded plans. Pairing is cheap in a review and nearly impossible inside a pay formula.

Money also corrupts the measurement. The moment a red trend triggers punishment, the reds stop being honest and the chart goes green and useless in the same quarter. The lateralworks control-systems research found high-control organizations were not the fast ones; the fast ones paired autonomous teams with honest, frequent, low-ceremony measurement. Keep that measurement out of the pay formula and it stays honest.

3 Team outcome vs individual function

Kerr’s sports example is the sharpest version of the choice: coaches preach teamwork, rewards follow individual statistics, and the player who passes instead of shooting doesn’t get drafted. Putting yourself first becomes the rational move. Swap in the functional version and it reads like a swimlane org: the engineer paid on functional output is rational to optimize the silo.

A product is an indivisible team outcome. No function can ship a product alone, and the result is only measurable at the team level. Individual functional rewards carve that outcome into slices and pay each person for theirs, which rebuilds the swimlane inside the team.

The benchmarks back the team side: in the APQC study, genuinely cross-functional teams were present in 79.3 percent of the best-performing businesses and 7.7 percent of the worst. Katzenbach and Smith drew the harder line: a real team is defined by mutual accountability to common goals, and people accountable only for their functional slice are a working group wearing a team’s name.

The split that works: the team earns the product reward together, and the function develops the individual. Technical competency, craft, and career path stay with the Functional Manager. Recognition and development are different channels; conflate them and the raise pulls the lead back to the silo.

4 What to do

1. Reward the core team as a team, after the fact, on the whole outcome: the product qualified at the customer and the date it shipped, judged together. Every core seat earns from the same event at the same weight, the quality lead alongside design. Criteria stated as principles, never as a formula.

2. Never pay on a date alone. A milestone counts when its doneness criteria are met, not when its box turns green. Any schedule recognition carries its quality pair or it doesn’t exist.

3. Keep the wigglechart out of the pay system. It exists to make slip visible as it forms. Recognize pull-ins and early bad news in the room instead: name them in the refresh, in front of the team.

4. Route recognition through the product, not the function. In the heavyweight model the team leader conducts or influences 50–100 percent of core-member reviews; that influence is the designed counterweight to functional pull, while the functional manager keeps development and craft. Used fully, the raise follows the product outcome.

5. If executive pay must move, move it late and move it together: one shared slice on the same portfolio numbers, at the same weight, for the whole leadership team, only after the definitions have survived several quarters. Function-by-function bonuses rebuild Kerr’s folly at the top of the house.

Sources: Kerr, "On the folly of rewarding A, while hoping for B," Academy of Management Journal 1975; republished AME 1995 (provided copy)
lateralworks: Twelve numbers (Aug 2026; carries the APQC and Katzenbach & Smith citations), Integrated Core Team (2019), control-systems research — lateralworks.com/papers