Explaining Involuntary Spinoffs from Teams

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ABSTRACT

A firm consists of different teams with each of them producing a separate product (which may be related to other products of the firm). In turn, each team has individuals of different talents (though some talents may be substitutable across products) who work together to achieve synergies. Some team members may find it advantageous to induct new talents into an existing team and/or introduce new products based on their experience. The firm will efficiently integrate a new product by forming a new team if it (a) has the organizational capabilities to translate potential synergies to reality, (b) can accommodate the strategic bargaining power of the existing team members in resource allocation across talents, and (c) can attract and coordinate the efficient combination of talents. A Spinoff, i.e., the production of the new product in a separate firm, will occur if any one, or more, of these conditions is not satisfied. A variant of the CES function can be shown to provide the most efficient analytical device to examine the stability of teams and spinoffs when teams cannot maintain such cohesion.

Keywords: CES Function, Organizational Capabilities, Spinoffs, Stability of Teams, Strategic Bargaining

INTRODUCTION

A team can be generally defined as a group of individuals, often with different talents, who agree to work together to achieve an objective specified in advance. Teams have been a preferred form of organizing production in a large number of knowledge intensive industries. Similarly, team organization has been particularly significant in the IT industry where the service component of production is high. Team formation receives prominence even in activities like biotechnology where the partnership of university scientists with an industry partner has been important for its development.

The emergence and significance of teams may be explained by the observation that team production offers several advantages. First, individuals within a team acquire different knowledge sets, offer their expertise to others as required and learn from each other, and internalize organizational goals. This has been noted in deVaro and Kurtulus (2006) and Garicano (2000). Second, teams can be an important source for new ideas regarding the way a given task can be accomplished as well as new product ideas. These features suggest that innovations, that require extensive knowledge, are by necessity a result of team effort. Third, large teams with diverse talents can also prevent other competitive firms from having access to certain types of critical expertise.
This provides some monopoly advantages to the team. In general, team members share common goals and are interdependent for achieving these goals. Such an organizational mechanism has become a necessity to attract the requisite diversity of talents for corporate success. See, for instance, Milliken et al. (2003), Dahl and Reichstein (2007), and Jones (2009).²

There are many aspects of team formation and its dynamics. The present study considers only the integration, or otherwise, of new ideas within the firm. In this context, new ideas may themselves be originated either by a member of the team or someone from any other organization when either of them perceives a need for it. Two types of new ideas have been recorded. First, given a product and some team that is executing it, one of the team members or a manager at a higher level, may suggest the introduction of a new talent into the team and the corresponding reorganization as efficient.³ Second, either as a result of some members of a team perceiving it or someone from outside the organization suggesting it, a new product introduction may be considered worthwhile. The firm may conceptualize a new team and some reorganization to integrate such projects. However, there is no evidence to suggest that organizational mechanisms and team formation depend on whether the new ideas emerge from team members or they are suggested by someone outside the team. Hence, both the possibilities may be treated symmetrically. Whenever a new idea is proposed and pursued it necessitates changes in team formation. This was noted in Wruck and Wruck (2008). On occasions, the firm may also withdraw an existing product to accommodate the new idea if there is an expectation that the prospects of the existing product are poor. See, for instance, Wong et al. (2007), Bernard et al. (2010), and Thompson and Chen (2010).

The success of a team is generally assessed on the basis of the revenue it is able to generate. For, organizational capabilities and efficient coordination between team members can be judged only with reference to the revenue they generate. In this context, synergy represents an increase in revenue over and above what can be achieved if individuals function independent of each other. Synergies have been expected from team formation for three reasons. First, it is normally expected that team members will be psychologically predisposed to cooperate with one another. Hopefully this can be achieved by appropriate screening before they are introduced into the team. Their voluntary compliance to team goals leads to synergies. This was emphasized in Milliken et al. (2003), Cornqvist et al. (2006), and Magni et al. (2009). Similarly, synergy may be a result of the experience in founding similar teams, cooperating with other teams in the commercialization process, or close relationships with other related teams. Cohen and Bailey (1997), Wong et al. (2007), and Krabel and Mueller (2009) identified many other sources of such synergies. Second, Garicano and Hubbard (2009) suggested that team members prefer autonomy as far as possible. The team will accept this in the hope that synergies can be improved if individuals participate in making the decisions affecting them and/or know how they have been arrived at. Third, different talents in a team may be substitutable. Specialists, with a low elasticity of substitution among them, cooperate with others if they can improve their productivity. Lower talented workers, with a higher elasticity of substitution, may cooperate for fear that they may lose their jobs. Some rudiments of this argument can be found in Bellemare et al. (2009) and Nakamura (2009).⁴

However, when individuals have the autonomy in their decision making within the team they tend to emphasize personal gains and neglect organizational goals. Further, as Fulghieri and Hodrick (2004) noted, autonomous individuals may choose activities from which they cannot be displaced rather than choose the most advantageous activities for the team. Hence, the management may try to achieve organizational goals by appropriate coordination. Any shortage in organizational skills will inhibit the integration of new ideas and new talents into the team. In particular,
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