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Firms as Teams

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Abstract – This paper proposes the concept of a firm being totally constituted by a team over time and sketches some of its consequences.

1. The concept of firms as teams

In this paper, we build on the definition of team presented by Katzenbach and Smith (1993):

> *A team is a small number of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they are mutually accountable.*

Teams are currently viewed as high-performance working groups *inside* larger organizations, be these public or private. Despite high-performance, team members are dependent on the organization they are in for *income*. One can ask "What if one would conceive of teams that would ensure the income to their members?" Under reasonable assumptions, it comes out that such teams should present themselves in markets as *firms*. This means that the "common purpose" of team members must be to ensure income to their members, or better, financial independence, in the condition of the team operating as a firm in a market.

A team can constitute a firm and, indeed, that must be a common phenomenon (Murta, 2011). Yet, once constituted, it is not of necessity that the firm in the overall continues to be a team. Therefore, one can ask another question: "What if once established as a firm, the team deliberately chooses to maintain the firm as a team?" Requiring that the firm continues operating as a team introduces a novel dimension for what a firm can be and for its relations to other firms.

This paper proposes the concept *of a firm being totally constituted by a team over time*. It sketches some consequences of this concept, namely:

– Its size and the fundamental interpersonal relationship of a firm as a team;
– The creation process and reproducing the firm as another firm;
– Interactions of such firms with other firms and their association in networks.

2. Small size and partnership

It is an established fact in literature that a team can only accommodate growth in the number of people up to a small number threshold, typically somewhere in the interval of ten to twenty. Past the threshold, the group of people no longer functions as a team, mainly due to natural limitations in the human capabilities of perception, cognition and communication. These limitations make practically impossible that the group remains "committed to a common purpose, performance goals, and approach" maintaining "mutual accountability". Therefore, if a firm must be a team, then the number of persons in it must be small.

Being a team dictates the firm has a small size and also requires that the employer-employee relationship (Ellerman, 1992) cannot exist inside the firm. The team in a 'firm as a team' has as top common purpose to realize financial independence for its members, with a common approach and inside a frame of mutual accountability. An employee in such a team could not share the common purpose because, by definition, being an employee means that one is not financially independent. If the common purpose is not shared, sharing the approach and performance goals does not make sense.

Furthermore, mutual accountability in the frame of an employer-employee relationship is severely limited. The accountability of the employer is limited to pay the wage or salary if the employee performs a stream of specified services; the accountability of the employee is limited to perform the stream of specified services for the contracted pay or salary. Such limited mutual accountability is not enough for the high levels of mutual accountability that characterize teams. Therefore, firms as teams should only count *partners* as their members or, in other words, realize *complete partnership* inside the firm.

In the literature, teams are consistently referred as attaining superior performance to any other organization form of small sized groups. Firms as teams should then be more efficient than same sized firms that are not teams. Complete partnership appears then as a necessary correlative of the firm being more efficient than same sized firms that are not teams.

3. Creation processes of firms as teams

For a firm as a team to come into existence, two processes come at mind. These are the only processes available if firms as teams do not exist. In the first process, a group of people working in a given organization, having attained the team level of collaborative work and decision, abandons the organization and establish itself as a firm. Changes implied in the team relate to acquiring and maintaining competences to realize financial independence status. In the second process, a group of people can intend to create a firm as a team, without previously having attained the team level of collaboration. Such a group must become a team along the firm's creation process.

In any case, if the group of people is successful in creating and maintaining a firm as a team, then, as any other firm, it will grow in business volume and that requires more people in the firm. As referred above, a given team can only accommodate growth in the number of people up to a small number threshold. Having attained the threshold, a firm as a team must stop growth in the number of people.

A firm as a team must stop growth in the number of people to avoid losing its team condition and consequent high efficiency advantage. This can occur naturally if the firm exhausts its market potential growth at below or the threshold number of people. But if the firm has ample potential to grow, stopping growth appears as a frustrating decision that can undermine the team's cohesion. How can this problem be solved?

Out of buying other firms, firms grow by establishing a positive feedback with the market they operate in. The value they generate for customers elicits from the market a response of growing demand for the firm's products or services. This, in turn supports further investment of the firm in itself which serves the increased demand. The process can be abstracted to a growing firm creating a surplus for itself that feeds its growth. Now, if the surplus exists and growth is limited where the surplus can go?

An answer inspired from biology is that the surplus should grow to the creation process of other firms as teams. This preserves the team condition and can strengthen the firm's position in the business ecology by changing the ecology in a direction especially favourable to the firm. As the number of firms as teams increase, so resilience and efficiency of individual firms do, through the twin processes of cooperation and competition.

Therefore, solving the problem of stopping growth reveals a third process creation for firms as teams.

4. Networks of firms as teams

To keep itself as a team, a firm as a team cannot hire people. Therefore, it must contract with other firms or individual professionals the provisioning of any services that it cannot provide to itself. There is no reason to believe that the relationship of a firm as a team with other firms in the market should present characteristics markedly different from those that we observe now.

The high efficiency of teams should give to firms as teams a competitive advantage over usual firms of the same size. Therefore, in the business ecological niche of small size, firms as teams appear well positioned not just to survive but also to prosper. The limiting factor to the spread of such firms will be the capability of people to become a team in the process of firm creation. No doubt, many of such processes can fail, as creating a team is not a trivial process and as long as the knowledge about teams remains restricted.

Yet, if firms as teams spread, then a supply of firms with a distinctive common culture emerges. These firms will share high-efficiency, small size, complete partnership, and a team way of doing things. It is to expect that they will associate themselves in networks. Through this process, associations or partnerships of teams of firms can address higher business volumes.

Networks of firms as teams open the possibility to address business volumes that individual firms cannot address. Higher business volumes together with cooperation and competition intra and inter networks will feedback positively on the resilience and efficiency of individual firms. Therefore, prospects emerge for firms as teams to become a sustainable and stable part of the business ecology.

5. Conclusions and research

This paper proposed the concept of a firm being totally constituted by a team over time and sketched some of its consequences. The motivation to start with is the recognition that a (true) team has greater performance than a comparable group of people that does not work as a team. Therefore, all other things equal, such a firm must have superior performance and competitive advantage.

The paper sketched the consequences of the concept in terms of firm's size and the fundamental interpersonal relation of complete partnership among members; creation processes pointing to reproduction; the character of interactions of such firms with others and the potential of firms as teams structuring themselves into associations or aggregates.

In a social situation where unemployment is high, especially for young people including those with tertiary education, the concept of a firm as a team can help to find ways for people to become financially independent.

Creation of firms by teams should reveal to be a not uncommon process. If the process is successful and firm's business grows, then the firm begins hiring and a usually organized firm appears. But, if the team decides to keep the firm as a team, growth of the firm is limited and must metamorphose to facilitating the creation of other firms as teams. Potentially, the usual ecology of businesses can change as firms as teams replicate and structure themselves in networks. Immediate research on the concept should consider:

– The creation processes of firms as teams in detail;

– The formation of networks of firms as teams, their structuring, operation and capability to grow.

References

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