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Linking Team Agility to Market Performance

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Many companies turn agile in response to the rapid changes in market, technology, and workforce. Surveys conducted by Deloitte and McKinsey showed that 90% of senior executives considered going agile as their high priority.⁴ At the end of the day, the ultimate goal of agility is to achieve superior market performance in dynamic environment.

An agile organization often consists of many small “amoeba” teams responsible for their own operational decisions and performances. With Jeff Bezos’ two-pizza rule, managers are aware that that large teams incur higher coordination cost, relational loss and motivation cost of social loafing, whereas small teams lead to faster response to market, more accountability and productivity.

But how small can teams get? Conventional wisdom often calls the magic number 7 (plus or minus 2, that is, 5-9 members in a team), whereas recent study suggests that 3-person team is sufficient to solve highly intellectual problem in labs, and even lead to more disruptive innovation in science and technology than large teams do.

Small team management, though an intriguing concept with many best practices and principles across business fields, has left more questions than answers for managers. We cannot simply break large teams into smaller ones without fully understand the company internal processes for agility to work.

If sales are the ultimate success measure, how should we align employee compensation with market performance in agile teams?

More specifically, this research looks at 1) what is the impact of team structure on product innovation and sales; 2) how to form teams to achieve its full profit potential, taking into account personality and leadership; and 3) how to design the incentives for small agile teams?

Surprisingly, there was barely any empirical evidence for the effectiveness of small amoeba team management, particularly because “end-to-end accountability” requires multi-source data from HR, Product and Marketing/Sales departments. Only then can we trace each individual member and establish a clear, logical link between team structure, product innovation, incentive design and performance outcome.

We aim to bridge the gap by examining agile teams taking the above interdisciplinary approach. We studied a leading online fast fashion company known for its amoeba team structure, with each team member assigned to a unique role: a designer for product development, a marketing-sales operator, and a supply-chain support. We tracked 58 amoeba teams over 12 accounting periods. On average, each team designed 24 SKUs per month and all together contributed to total sales of USD 130 million in that year.

We collected internal salary records, identified each teams’ monthly performance, and conducted survey questionnaires to all team members as well as their supervisors, we came up with three questions to watch for in small team management:

1: Understaffing: Is Small Beautiful?

Being small in size also means that each member counts, often with distinctive expertise and broad overlapping roles. On one hand, smaller team with deeper skill sets is usually more lucrative in seeing the big picture than a larger group of specialists with narrow perspective; On the other hand, boundary in such small team setting is less clearly defined, and team members may fall into the “transparency trap” of reducing productivity and stalling innovation, especially when responding to an urgent need. ⁱ

We found that the understaffing is the bottleneck in achieving full potential of amoeba teams. Fully staffed (3-person) teams significantly outperformed the understaffed (2-person) teams that required shared roles. The reduction in productivity not only came from human capital constraint, but also team incentive design. Specifically, a regressive team bonus plan created disincentive for a 2-person team to accept the third member. A

constant or even progressive bonus scheme (bonus rate increasing with sales achievement) would be more consistent with the amoeba culture.

2. Marketing Leadership or Product Leadership?

Furthermore, research has shown that greater market instability and market presence increase the value of marketing expertise, while larger organizations, organization instability and competition decreases its value.ⁱⁱ Therefore, as agile organizations respond to changing market demand much faster, one would expect that marketing expertise would play an important role in team performance.

Our results indicate that when the teams were fully staffed with three specialists, teams with sales leadership substantially outperformed those with design leadership.

3. Pay Disparity Leads to Better Firm Performance?

Transparency also poses new challenges in incentive design. In typical agile organizations, because incentives are calculated based on team performance and individual contribution term after term, team members have more knowledge on each other's contribution, and more anxiety on each other's salary over time than in traditional organizations. While pay disparity is common in most workplaces, it may have positive or negative impact on productivity. For example, a recent research shows that finding out their managers got paid more would make employees work harder than who did not find out the true salary due to aspiration effects, but finding peers get paid more would have a negative impact on the employee's effort and performance.ⁱⁱⁱ

Our results offer some (weak) evidence that a team's performance could benefit from a very small disparity. In a small team, pay inequity is very transparent and salient to the teammates. With small income disparity, the teammates perceive the compensation as virtually equal. Thus, the disparity matters only to the extent that a team's members can be perceived as equal based on bonus allocation percentages.

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Appendix

Figure 1. Team sales (RMB) vs. Team leadership

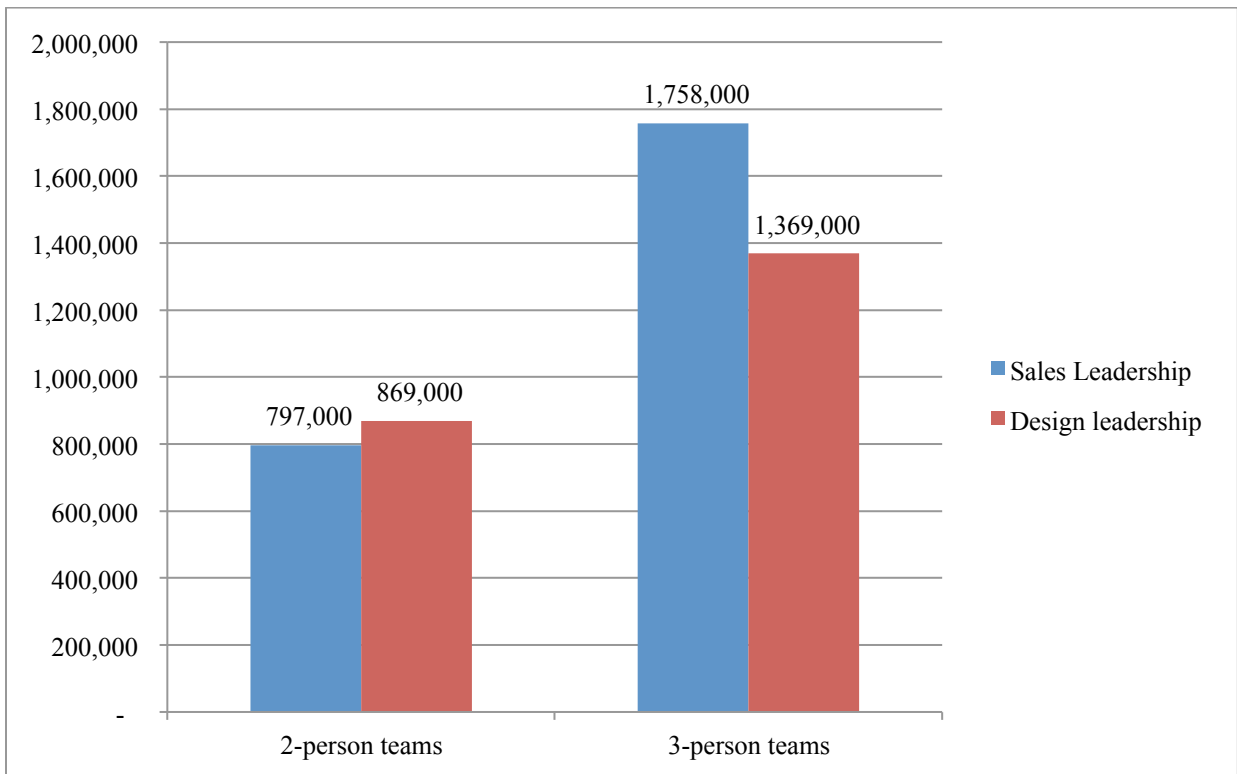


Table 1. Team Performance vs. Team Size, Leadership, and Pay Disparity

	All Observations				Months without change in team members	
	(1) <i>Sales</i>	(2) <i>log(Sales)</i>	(3) <i>Sales</i>	(4) <i>log(Sales)</i>	(5) <i>Sales</i>	(6) <i>Sales</i>
Design Leader	-379,404*** (-3.657)	-0.14** (-2.270)	-375,616*** (-3.598)	-0.15** (-2.381)	- 357,673*** (-3.060)	- 334,478*** (-2.841)
3-person Team	809,590*** (5.556)	0.59*** (6.559)	736,804*** (4.947)	0.54*** (5.913)	833,470*** (5.005)	750,440*** (4.301)
2-person Team× Design Leader	449,592*** (2.657)	0.23** (2.243)	376,314** (2.188)	0.19* (1.772)	443,084** (2.329)	363,955* (1.854)
Team Experience	10,294*** (3.447)	0.01*** (5.416)	9,913*** (3.307)	0.01*** (5.142)	10,319*** (3.060)	10,480*** (3.104)
Small Disparity			167,324* (1.934)	0.09 (1.611)		165,035* (1.716)
Large Disparity			-25,133 (-0.220)	-0.10 (-1.463)		90,111 (0.627)
Constant	501,136*** (3.389)	13.14*** (144.649)	497,225*** (3.153)	13.18*** (136.390)	498,680*** (3.029)	448,115*** (2.590)
No. of obs.	599	599	599	599	509	509
R-square	0.144	0.226	0.151	0.237	0.141	0.146

Note: t statistics in parentheses.

* p<0.10; ** p<0.05; *** p<0.01

ⁱ Accessed <https://hbr.org/2015/06/75-of-cross-functional-teams-are-dysfunctional#comment-section>

ⁱⁱ Pasa, M. and S. Shugan. 1996. "The Value of Marketing Expertise." *Management Science*. 42 (3), 307-474.

ⁱⁱⁱ Cullen, Z. B. and R. Perez-Truglia. 2018. "The Motivating (and Demotivating) Effects of Learning Others' Salaries." *Harvard Business Review*. Oct 25, 2018.