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The Identity Effect

How Identity-Based Management Drives Employee Engagement and Business Performance

By Larry Ackerman

In 1985, researchers Albert and Whetten provocatively declared that "the issue of identity is a profound and consequential one, and at the same time, so difficult, that it is best avoided" (p. 265). Since then, practical and academic interest in organizational identity has only continued to grow, as research has shown that identity influences many factors that account for an organization's success. For example, it has been shown that organizational identity affects strategy (Lawler & Worley, 2006; Ackerman, 2000; Gioia & Thomas, 1996); culture and image (Hatch & Schultz, 1997, 2000, 2002); mergers and acquisitions (Ackerman, 2000); individual identification with the organization (Dutton & Dukerich, 1991; Ashforth & Mael, 1989); and change management (Lawler & Worley, 2006; Ackerman, 2000).

The conversation around organizational identity seems to be gaining momentum today as companies face continuous changes through downsizing, globalization, and diversification. Taken together, these forces challenge an organization's sense of unity—who it is and what it stands for—and, by extension, the efficiency and productivity that unity implies. While there are numerous aspects to the study of organizational identity, I believe two of them are particularly salient to the question of unity and the benefits it brings: Flexible or Fixed; Multiple Identities or One.

Flexible or Fixed?

One of the persistent debates surrounding organizational identity is whether it is fixed and immutable, or flexible and subject to change as the company strives to meet new market demands. Definitions of identity that derive from the first school meet Albert and Whetten's (1985) three criteria: that identity is central, distinct, and enduring. Researchers who support this claim further believe that an organization's identity can, in fact, accommodate the need to respond to the external environment by reinterpreting how it is expressed (Lawler & Worley, 2006; Ackerman, 2000).

On the other hand, there are those who believe that organizational identity can, and must, evolve to allow a company to stay current with changing market conditions (Oliver & Burgi, 2005; Fiol, 2001; Gioia & Thomas, 1996). For these researchers, organizational identity shifts are necessary to prevent the organization from becoming too rigid in the face of change.

This article, and the research that anchors it, is based on the idea that an organization's identity is fixed, transcending time and place, while its manifestations are constantly changing. Nissan's former CEO, Carlos Ghosn, captured this view of identity when he stated that his goal was to "save the business without losing the company by preserving Nissan's identity but changing the company's strategy and operations" (Bouchikhi & Kimberly, 2003, p. 23).

Multiple Identities or One?

One of the more recent developments in the study of organizational identity is a discussion around whether an organization can have more than one identity. Balmer and Greyson (2002) suggested that there are five identities: the actual, communicated, conceived, ideal, and desired identities. These different identities reflect, respectively: the current, distinct attributes of the organization (actual); what the organization communicates about itself (communicated); the perceptions of the corporation by stakeholders (conceived); the optimum positioning for the organization (ideal); and corporate vision from the perspective of the CEO or board of directors (desired).

As implied by Albert and Whetten (1985) and for Ackerman (2000), an organization cannot have multiple identities. That would be akin to, and just as destabilizing as, a person who has multiple personality disorder.

Meeting profound and consequential issues, as Albert and Whetten described organizational identity in 1985, doesn't happen by avoiding them; it happens by confronting them in a manner that trades difficulty for discipline and mystery for method. In this article, I offer a way forward for executives and practitioners who want to better understand the dynamics of identity and how to apply them to shaping successful organizations.

Defining Identity for Strategic Advantage

Like most business terms, identity attracts different definitions, depending on one's experience. Among them all, I believe that there is only one definition that does justice to the inherent power of identity as a catalyst of change and growth.

First, let's clarify what identity is not. Identity is not a company's name and logo, even though that is a common association in the corporate world. Nor, is identity synonymous with business definition, as in, Maytag is an appliance company, IBM is a computer systems and services company. Further, identity is not the same as a company's values, as critical and influential, as they may be. The problem with all of these definitions is that none of them cuts to the heart of the matter; none explains how the organization makes a proprietary contribution in the marketplace—indeed, the world. And that is what identity is all about: *Identity is the unique combination of characteristics that reveals an organization's value-creating potential* (Ackerman, 2000).

Others, including Jim Collins, argue that, to be successful over time, companies must have an inviolable ideology, or purpose that never changes, despite the need to change strategies and cultures (Collins & Porras, 1994). And, in the world of corporate branding, there is the common belief that the promise a company makes to its customers and others, should be based on a solid foundation that isn't subject to the fickle whims of consumer tastes.

In both of these instances, the purpose of an organization (or its vision or mission) and its brand promise, are, typically products of executive consensus, corporate lore, and/or market research. By contrast, identity is the wellspring of value creation. Crack the code on it, and identity reveals purpose and defines promise. In my experience, identity is cause; purpose and all the other elements of a leadership platform, are effect.

This definition lends strategic significance to identity for three reasons: First, it acknowledges the uniqueness of every organization, calling for those qualities to be identified and applied in setting the direction of the enterprise. Second, it stresses potential; identity is about the future, not just today. And third, it implies constancy, alluding to the fact that a company's identity does not change over time, although how it is expressed can—and should—change, forever.

With this definition in mind, a useful way to understand how identity affects the success of an organization is to consider simple, everyday metaphors: What is an apple without its core? What is the solar system without the sun? Like these well-known metaphors, identity provides organizations with their centers of gravity and rudders (another useful metaphor).

Testing the Identity Hypothesis

Over the course of more than 25 years, working with some of the world's most influential organizations, I had come to believe that identity was key to understanding, and even predicting business success. But, despite the positive results numerous identity management initiatives had produced, the ability to quantify—and thus prove—the impact of identity remained elusive. Until now.

In the summer of 2009, we launched a research study—the Identity Impact Survey—to test the hypothesis, quantitatively, that identity strength influences employee engagement and, in turn, business performance. Recognizing that individual identity strength and organizational identity strength are distinctly different forces, we designed the survey to measure the impact

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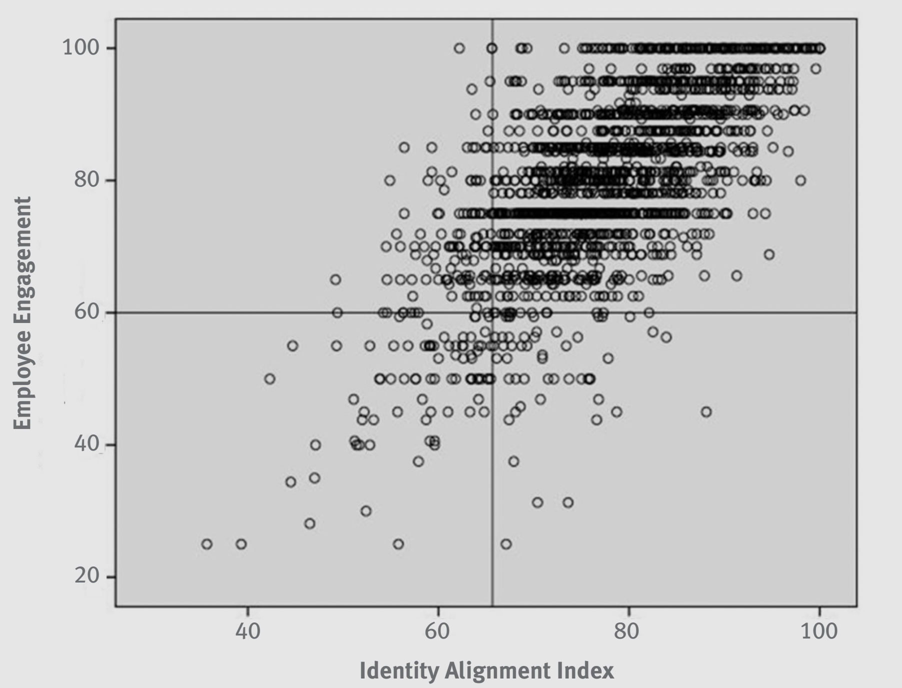
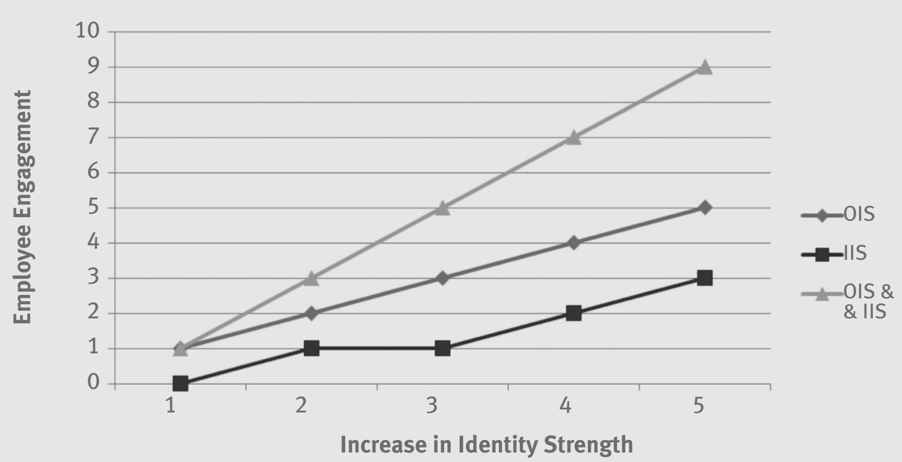
Figure 1: Impact of Identity Alignment Index on Employee Engagement



Together, organizational identity strength and individual identity strength (Identity Alignment Index) have a major impact on employee engagement (r = .686)

Figure 2: Increases in Identity Strength Drive Higher Employee Engagement



The combined effect of organizational and individual identity strength is greater than either one alone.

of each, independently, as well as together. The Survey included nearly 2,000 respondents across five companies1 which were selected for their ability to meet the following criteria:

» Industry diversity: business-to-business and consumer
» Size: Large (>$8 billion) and small (<$100 million)
» Ownership structure: publicly-owned and privately-owned
» Geography: global and domestic

The companies participating in the study represented a range of industries including global vision care, regional health insurance and managed care, global industrial manufacturing, internet media, and institutional food services. Respondents were distributed according to the size of the company, so the larger companies contributed more respondents than the smaller ones. Employees surveyed typically included a cross-section of their company's general populations; for example, vice-presidents and directors, through plant workers and claim adjusters, as appropriate. One company chose to concentrate on their field force, alone, which controlled approximately $500 million in revenues and whose productivity was vital to the performance of the organization, overall.

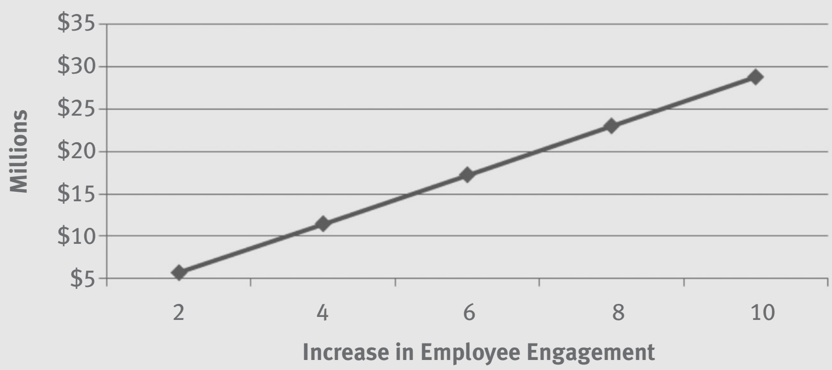
The identity hypothesis was amply supported. The correlations between identity strength, employee engagement, and business performance were very high. The notion that a company's identity drives value creation was no longer just a conviction; it now appeared to be a demonstrable fact. Here are four key findings:

1. Identity strength is a leading indicator of business performance, given its significant, positive impact on employee engagement.
2. Organizational identity strength is more influential than individual identity strength in driving employee engagement and business performance. Their combined effect, however, is greater than either one alone.
3. Increases in identity strength translate into predictable increases in revenue and other economic benefits.
4. Although organizational identity emerges as a major performance driver, employees typically don't think that their organization actually *has* a strong identity.

The last finding may sound disturbing at first but actually presents a critical opportunity. What it suggests is that there is a significant value gap between how

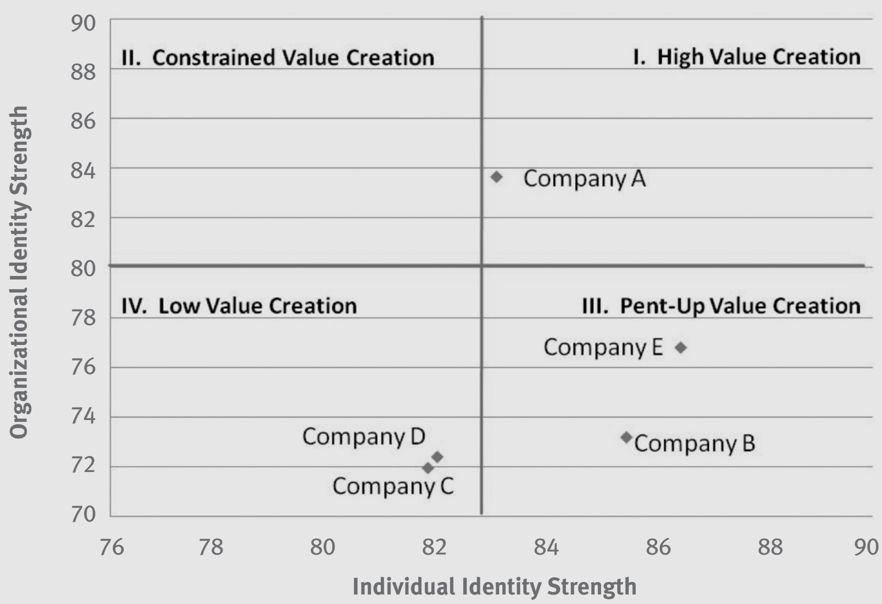
1. Why five? *In recruiting organizations for the research, we promised participants, comprehensive reports on their performance. These individual assessments provided us with deeper insights into the impact of identity and added significant, additional work, separate from the public report. Most important, we knew, in constructing the survey, that the right five (see segmentation criteria) would give us the foundation we needed to conduct a cogent analysis.*

Figure 3: Increases in Employee Engagement Drive Revenue Up



The economic benefits of identity show up in several ways, including predictable revenue increases, as engagement scores increase with identity strength.

Figure 4: Identity Leadership Matrix



The Identity Leadership Matrix highlights significant room for improvement among all but one survey participant.

companies are currently performing and how they would perform, were they to close that gap by increasing their identity strength—an entirely achievable goal. This fact is dramatized in the Identity Leadership Matrix (*Figure 4*), which shows where the five survey companies fell on this chart and what the implications are, which are called out in *Figure 5*.

The Identity Effect in Action

In order to make our research findings particularly relevant to the participants, we invited each company to describe a current challenge that the findings might help them meet. All five companies in the survey have adopted the findings as a tool for helping senior management devise strategies for bringing about desired results. Here are two cases, which illustrate how the research results are shaping the companies' thinking and actions, so far.

Challenge One—Keep Success Rolling. Sometimes, it's true: Good things come in small packages. That is certainly the case for Company A, a global vision care concern, and one of the two smallest companies in the survey. Size notwithstanding, its performance on nearly all measures out-stripped all other participants. Most notably, its organizational identity strength score (OIS) was exceptional, which may, in fact, account for its success with employee engagement (*Figure 4*).

"How to keep the party going" was, in effect, the challenge offered by top management. While that challenge may seem presumptuous before having taken the survey and seeing the results, the CEO was right: business performance including profitability, top-line growth and margins were all solid and had been for years. The company enjoyed a tightly-knit culture, possibly, due to its private, family-run status—owners who seemed to understand the connection between highly-engaged people and superior business results.

That's the good news; the bad news is that to simply keep on doing what has been done so far places the company at risk, putting them in a position to falter when they least expect it. It is common knowledge that when very successful companies stumble, it is because they have become wedded to the policies and processes that led to success in the first place. The idea of change gets lost in the shuffle.

If there are imperatives, then, that Company A's management can take away from this study, they need to center on being conscientious about documenting, promoting—and periodically testing—vital ideologies and practices. Specifically:

» Company A should codify the management practices, which have allowed it to get to where it is today. This initiative should not just be an executive committee action; it should involve employees at all levels, whose experience can shed detailed light on what makes the company work so effectively. Those practices should then find their way across the entire human resources value chain, from recruitment, on-boarding and training, to performance management and leadership development.
» The company should make identity-based management a deliberate part of its strategic and operational activities, including its talent management

processes, since identity strength correlates significantly with its success.

» Finally, the company should institute an annual "What Should We Change?" review, in which people at all levels identify practices, large and small, that call for improvement. This form of organizational innovation will help "keep success rolling," in ways that minimize strategic and operational risk.

Figure 5: Likely Outcomes

Quadrant II: Constrained value creation	**Quadrant I: High value creation**
■ Handcuffed financial performance	■ Superior financial performance
■ Inefficient strategy deployment	■ Effective strategy deployment
■ Limited innovation	■ Efficient innovation
■ Overpromise, under-deliver on brand	■ Strong brand
■ Low-traction culture	■ Strong culture
■ Lower investment value	■ High investment value
Quadrant IV: Low value creation	**Quadrant III: Pent-up value creation**
■ Sub-par financial performance	■ Limited financial performance
■ Ineffective strategy deployment	■ Inefficient strategy deployment
■ Depleted innovation	■ Limited innovation
■ No meaningful brand	■ Brand confusion
■ Dysfunctional culture	■ Diffuse culture
■ Low investment value	■ Lower investment value

Here are the likely outcomes of falling into one quadrant or another. The various elements in these different quadrants reflect a critical combination of factors influencing leadership success.

Challenge Two—Drive Top-Line Growth. If value creation is the sine qua non of business success, then revenue growth is one of its most vital measures. Either you are creating value in the marketplace, and growing as a result, or you are not. If you are not, you are stagnating. In the words of numerous pundits, "grow or die."

In the case of Company C, a $6 billion global industrial manufacturer, meaningful top-line growth had become an elusive goal. Nearly 100 years old, this well-known and highly-respected company had made its mark in transportation and numerous other markets that make the world go 'round. In the past several years, revenue growth had slowed, even as profitability expanded. Management understood its predicament: In order to deliver results to investors—indeed, even simply to stay healthy—the company had to spark top-line growth.

Prior to taking the survey, the organization had embarked on an intensive brand development effort in which "cracking the code on its identity" was regarded as a precondition for success. The effort spanned a 12-month period, during which the company was able to articulate unique, institutional capacities, and come to a new understanding of what business it really was in—an insight that transcended the markets it served and gave the company a new way to expand customer relationships and improve its employee recruiting outcomes.

In 2009, the economic downturn took a toll on the enterprise, leading to its inability to implement critical initiatives that were central to how it planned to spur growth. This key asset—its identity-based brand—lay dormant as the company took cost-savings measures to stay profitable in the face of the financial crisis.

Still, Company C elected to be part of the identity research project. The survey, they reasoned, could offer a solid benchmark for tracking progress over time, once brand implementation resumed.

The research results were disappointing. Company C discovered broad identity weakness, which was cast into sharp relief by its last place position on the Identity Leadership Matrix (*Figure 4*). Given the powerful impact identity strength has on value creation, the survey results provided revealing insight into the company's persistent lack of top-line growth, to date.

The company's low identity strength scores—organizationally and individually—point to what may be one of the most significant challenges management faces as it prepares for an economic recovery. That challenge is twofold:

» First, management must establish a clear—and clearly understood—sense of what sets the company apart as one enterprise; that is, how the organization creates proprietary value for customers and other stakeholders.

» Second, executives must enable employees at all levels to clarify and apply their own value-creating capacities to their jobs, their internal and external relationships, and their careers at the company.

While both goals are important, the first challenge is non-negotiable and, in fact, is somewhat more easily accomplished. How? By revisiting the identity and brand initiatives that were placed on hold in 2009. There is every reason to believe that, rigorously implemented, those initiatives would improve Company C's identity strength scores in material ways, along with many of the value creation outcomes identity strength affects.

Where does identity strength come from?

Beginning in the mid-1980s, I began to observe and record distinct patterns of thinking and behavior among my clients, which seemed to account for their success—or failure—over time. Over the next 20 years, these patterns revealed a set of principles, natural laws that transcended industry, size, geography, and age. I have come to call these natural laws—there are eight of them—the Laws of Identity. Without exception, so far, these laws have heavily influenced the fortunes of the organizations I have served.

Identity strength, then, flows directly from how well-aligned organizations are with these laws; more specifically, with the essential building blocks these laws imply. Here are the eight Laws of Identity, the building block each one holds, and its particular significance for leading one's company or one's self:

#1 The Law of Being—*An organization's or individual's ability to live depends first upon defining one's self as separate from all others.*

Identity building block: **Autonomy**—the degree of independence a company or individual has, which allows them to make decisions unencumbered by the actions of others.

The Law of Being implies the need for autonomy as a prerequisite to finding one's own path in the marketplace, or in life, and not being swayed or deterred by the opinions and actions of others. Without a strong sense of autonomy, leading one's company, or one's self, successfully is difficult, at best.

#2 The Law of Individuality—*An organization's or individual's natural capacities invariably fuse into a discernible identity that makes that being unique.*

Identity building block: **Differentiation** the discovery and application of a company's or individual's unique, value-creating capacities.

The Law of Individuality implies the need for differentiation—differentiation based upon one's innate capacities, not just one's strengths. While strengths clearly are important, they can be learned and do not necessarily spring naturally from who we are. Thus, they are not as powerful, or as reliable as innate capacities as the source of true differentiation.

#3 The Law of Constancy—*Identity is fixed, transcending time and place, while its manifestations are constantly changing.*

Identity building block: **Change**—a company's ability to evolve and grow, while retaining its sense of identity.

The Law of Constancy implies the need for change (corporate or individual) that is in sync with one's identity, as opposed to conventional notions of change, which imply changing everything, including identity. This law reveals a crucial paradox: The need to change from a changeless foundation, if an organization or individual is going to grow in ways that are constructive, rather than potentially destructive, which do not, in short, throw the baby out with the bathwater.

#4 The Law of Will—*Every organization and individual is compelled to create value in accordance with their identity.*

Identity building block: **Stewardship** a company's ability to steer and stay a long-term course, despite current challenges.

The Law of Will implies the need for stewardship. In the course of leading a company, or one's life, we don't always know where we are going, despite our best efforts to predict outcomes, and our resultant expectations and hopes. This lack of certainty calls for making decisions that keep us on a course we believe is the right one for creating value over time, based upon who we are, as opposed to what seems momentarily expedient. Discipline, courage, and fortitude are the leadership attributes called for by the Law of Will.

#5 The Law of Possibility—*Identity foreshadows potential.*

Identity building block: **Purpose**—a company's reason for being, beyond profit, which flows from its identity.

The Law of Possibility implies the need for purpose, as the central expression of one's identity. In articulating purpose, you are clarifying your value-creating potential organizationally or individually in relation to the marketplace and/or the world-at-large.

#6 The Law of Relationship—*Organizations and individuals are inherently relational, and those relationships are only as strong as the natural alignment between the identities of the participants.*

Identity building block: **Alignment**—the extent to which a company is connected to others, where the relationship produces value beyond the transactions it calls for.

The Law of Relationship implies the need for alignment—organizationally, with all stakeholders, or individually, with all people who are at the center of how one creates proprietary value. The leadership mandate is to be discerning about the allocation of time and other resources invested in these relationships, so that the return on these investments is as high as possible for everyone involved. Being highly selective is what alignment calls for. Proper alignment is critical to shaping an elegantly efficient organization, or life.

#7 The Law of Comprehension—*An organization's or individual's various capacities are only as valuable as the perceived value of the whole of that being.*

Identity building block: **Brand**—the promise a company makes that shapes its relationship with all stakeholders, based upon its identity.

The Law of Comprehension implies the need to shape a brand as the main way companies as well as individuals present themselves to the world and are understood in return. Building an effective brand calls for making, and delivering on a promise that shapes one's relationships with all stakeholders (or other people), based upon one's identity.

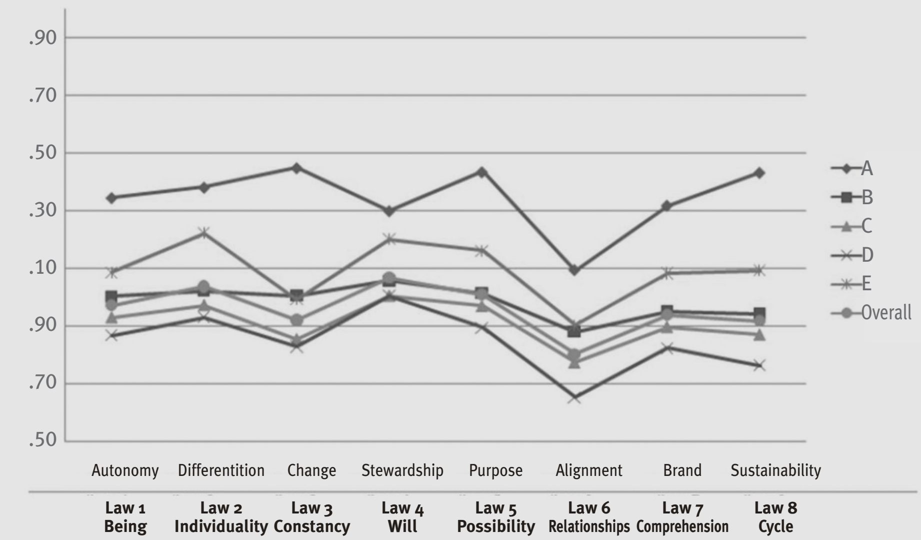
#8 The Law of the Cycle—*Identity governs value, which produces wealth, which fuels identity.*

Identity building block: **Sustainability**—a company's ability to drive growth and profitability in ways that are explicitly tied to its impact on society and the legacy that produces.

The Law of the Cycle implies the need for sustainability as the prerequisite to creating enduring value and wealth in return. Organizations that invest in their own sustainability serve all stakeholders, ranging from long-term investors and generations of employees, to customers and society, which ultimately benefits from the contributions the organization makes, over time. Individuals who seek to lead themselves in ways that make their lives sustainable act in the best interests of their peers, their families, and others who stand to benefit from their unique contributions. Operating in sync with the Law of the Cycle is the key to creating a productive, durable legacy, for both companies and individuals.

How did the five survey companies perform in terms of identity strength? *Figure 6* shows how each survey participant fared on each identity building block. Note the significantly better performance of Company A, the global vision care company. In short, this best practice organization is in an especially good position to further improve employee engagement and business results, given its high identity strength.

Figure 6: Company Ratings for Each Identity Block



The graph above shows how each survey participant fared on each identity building block. Note the significantly better performance of Company A—in particular, their far superior capacity for change.

Conclusion

Because they are designed to be self-sustaining, profit-making organizations have the potential to be the most powerful value-creating instruments on earth. Their collective ability to effect positive societal change, and get rewarded for it in return, is unmatched by any other form of institution. But, without embracing the core identity of the organization as a central, governing force, that value will never be realized.

If there is a secret to why identity is such a potent influence, it is because identity provides us with a unique lens through which to understand and respond to business as well as human challenges. For companies, the identity management discipline is the vital counterpoint to the discipline of economics. For individuals, identity connects us to the source of our authenticity, integrity, and natural capacities. For both, identity completes the picture we must see before we can make fully-informed choices.

Identity strength helps explain many things, including why some companies flourish while others fade. The Identity Impact Survey reveals not only many of the whys of success and failure, but also what to do about them, in order to reinforce or change management practices that have led to current outcomes. The science of identity-based management is emerging, and with it the chance for OD professionals to drive value creation in ways that benefit their organizations, the customers and investors they serve, and the employees those organizations count on.

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