# Escaping the Identity Trap

Organizations, like people, have essential natures defined by their formative experiences, their beliefs, their knowledge bases and their core competences. Attempts at change that are in conflict with this core identity are often doomed to failure. Managers can learn to recognize such conflicts and initiate identity change to make their companies more adaptive.

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To stay competitive in a changing environment, many companies attempt radical transformation by adopting a brand-new business model, entering a different industry, merging with another firm or deploying a new global strategy. Often, these efforts fail. The management literature offers many explanations, focusing on issues such as sunk costs, cognitive inertia, organizational routines, resource bases, core competences and organizational politics, among others.[1] While none of those explanations is wrong, per se, none recognizes that an organization's fundamental identity can be the primary constraint on its adaptive capacity.

Just as individuals develop, often unconsciously, a narrative of who they are,[2] so do organizations, reflecting the context of their founding and the identities, motivations and values of their founders.[3] Just as individuals with ambiguous identities have trouble maintaining internal balance and healthy relationships with people around them, so organizations with ambiguous identities have trouble maintaining internal balance and building lasting and productive relationships with vital stakeholders. And, just as the identity of individuals may come to be anchored in some combination of gender, nationality, profession, social group, life style, educational achievements or skills, so an organization's may be anchored in some combination of geographical place, nationality, strategy, core business, technology, knowledge base, organization design, operating philosophy or governance structure.

For each organization, its particular combination of identity anchors imbues it with a set of distinctive attributes that key stakeholders (employees, owners, suppliers, customers, bankers and shareholders) view as *core, enduring* and *distinctive*.[4] The respective weighting of these anchors may vary considerably from one organization to another. For example, Polaroid's identity has been intimately tied to its core competence in instant film; by contrast, Hershey Foods' identity is closely linked to its geographic location; and the identity of the Public Broadcasting Service (PBS) is anchored in its commitment to commercial-free, quality programming for mature audiences.

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A company may explicitly articulate its identity or it may remain, as is more frequently the case, tacit and unquestioned — that is, until some event, such as a new strategy or a radical shift in the environment, makes it problematic. The significance of Hershey Foods' location as an identity anchor was not an issue until preliminary talks between the Hershey Trust and potential buyers became public, sparking vigorous opposition to the sale by local unions, community leaders and politicians. Similarly, recent efforts by PBS to appeal to younger audiences have raised questions about whether that strategy was in conflict with its identity.[5] When former CEOs John Sculley and Gilbert Amelio launched a series of strategic and operational initiatives designed to restore Apple Computer's competitiveness and profitability, they ran aground — not so much because the initiatives were intrinsically flawed but because key constituencies (employees, customers, retailers and software developers) had perceived those initiatives as a betrayal of Apple's heart and soul.

By reflecting on the experiences of such companies, managers can better sense when their firm's identity ceases to be a competitive asset and becomes, instead, a liability. They can then decide, when necessary, to lead a process of identity change to help their companies escape the trap.[6]

## The Importance of Identity

The dominant view of firms as flexible economic entities whose strategies can be continuously adapted to the evolving environment downplays the importance of organizational phenomena such as collective memory, values, history, politics, habits, emotions — as well as identity. However, everyday life in organizations is made up of just such phenomena, and they often prove to be sources of inertia. Our research suggests that the most deeply rooted, yet least well understood of these, is company identity. (See "About the Research.")

Why should this more-or-less conscious and shared answer to "Who are we?" and "Who are they?" be of concern to managers? Because identity sets boundaries on how much an organization can change and still remain the same in the eyes of its key constituencies. Think of identity as an envelope within which the organization can accomplish change without threatening its perceived essence. When the envelope is too constraining or becomes irrelevant, effective strategic change is impossible until the envelope itself is redefined.

How does a collective psychological construct such as identity constrain change? Prior research has shown that people draw much of their personal identity from that of the organizations to which they belong.[7] For example, a man who works for many years in a steel company is likely to develop a sense of himself as a steel worker. Hence management attempts to de-emphasize steel in that company are likely to trigger emotional stress in such individuals. By clinging to a definition of their organization as a steel company instead of learning to regard it as, say, a manufacturing-services company, they preserve their personal identity and their emotional equilibrium. At the same time, they reinforce the steel-company identity of their employing organization. Add up all such employees and other stakeholders and you have a major potential roadblock to transformation.

An organization's identity also shapes how its members view the world and frame issues.[8] Companies with an identity anchored in manufacturing, for example, tend to pay extra attention to engineering, production capacity, productivity, quality, product innovation and long-term investment; companies with an identity anchored in a brand concern themselves with differentiation, brand awareness and consistency, customer loyalty and communication; and companies anchored in egalitarian values may emphasize policies that ensure equal treatment (and hence may be biased against policies like pay-for-performance).

Organizational identity has important political implications, too, in that it influences the distribution of resources and power among stakeholders, both internal and external. Changing a company's identity disrupts the balance of power between the constituencies that have vested interests in the current identity and those whose interests would be better served by a new identity. The vested interests of employees and managers of the French smart-card manufacturer Gemplus are seen in their 2001 legal action against Texas Pacific Group (TPG), which bought 26% of the company. The litigants suspect TPG of a long-term plan to move the core of Gemplus out of France. The significance of its location in France as an identity is captured in an interview with the French business newspaper La Tribune in which the leader of the local union representing not only the rank and file but also many executives said, "At every level of the managerial hierarchy, Gemplus rejects the American management. They must go. We are ready to discuss everything, including layoffs, but France should remain the core of Gemplus."[9]

Identity is powerful. As Jim Collins and Jerry Porras convincingly argue, organizations cannot endure without developing a solid core from which they can confront a changing and often hostile environment.[10] However, a strongly anchored identity can become a trap when it so constrains strategic options that the organization cannot cope effectively with a changing environment. In such cases, unless managers work to transform the company's identity, genuine strategic change is not possible or may never result in sustained improvements in the company's performance.[11]

## About the Research

Our research approach is field-based and clinical. The significance of identity for organizational change first became apparent to us in an action-research project with a global building products company some 10 years ago. Interviews with its senior management team and with personnel in the field revealed a number of internal "fault lines." As our analysis deepened, we recognized that these fault lines were tied to issues and choices made much earlier in the company's history and which substantially influenced decisions made later, often without being acknowledged explicitly. Our appreciation of the significance of what we came to call identity and identity anchors was reinforced and refined in subsequent research and consulting projects in the automotive, electronics, health care, higher education and retailing industries. These projects grew in scope as we recognized the importance of both internal *and* external perspectives on the firm and its essence. Today, a full identity audit (see "The Identity Audit") involves collection and analysis of data from the entire set of stakeholders defined as relevant by the senior management team (and subsequently expanded, when appropriate, by us).

## Victims of the Trap

When yesterday's recipes are no longer valid, businesses must reinvent themselves to stay in the game. But do they? Apple Computer seems stuck in its uniqueness theme. Xerox, despite significant investments in technology acquisitions, is still a wallflower at the digital ball. AT&T cannot break away from its identity as a long-distance carrier.[12] French retailer E. Leclerc has missed out on European retail consolidation because its members' commitment to cooperative ownership and governance mechanisms allow it neither to make acquisitions nor to be acquired. Its identity, therefore, precludes the strategic options that other retailers are following to survive.

Two companies that reigned supreme in their industries for years, in part because each had an identity that all stakeholders understood, are Moulinex (small appliances) and Polaroid (instant photography). For each, however, the assets that identity provided became liabilities when changing circumstances required changes that would undermine that identity. A brief analysis of each illustrates how.

### Moulinex

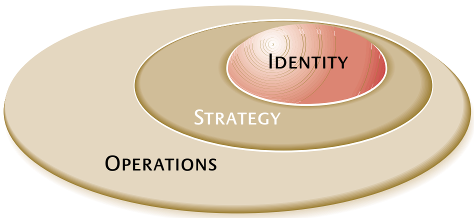
In 1997, Moulinex, a company that embodied the postwar French industrial renaissance, was honored as Brand of the Century in France.[13] In 2001, however, after two decades of losses, changes of ownership, management turmoil and painful attempts at restructuring, the company was in liquidation. The decline and fall of Moulinex had roots in the inability of founder Jean Mantelet and the four CEOs who succeeded him over 15 years to break away from an identity shaped by earlier growth, innovation and international expansion.

After founding Moulinex in 1932, Mantelet put emphasis on building a large, modern, French industrial base. From that base he sought to gain world dominance of small appliances. However, in the early 1980s, just when Western markets were reaching saturation, imports from low-wage countries increased, undermining his formula for innovation, growth and extending production capacity. An identity anchored in a strong French industrial base, having once served the company well, had become a liability by the 1980s.

Successive CEOs sought to reduce the payroll burden, rationalize manufacturing, launch new products, make acquisitions

## A Layered Model of Organizations

An organization's dynamics can be viewed as mutually dependent, concentric layers. To be successful, change initiated at any level must be in synch with the characteristics and imperatives of the more central layers. If the organization's core — its identity — is in conflict with operational or strategic initiatives, it can be a fundamental impediment to change.




(Krups) and joint ventures (in the United States and the U.K.), and streamline the organization's structure, but none questioned the company's commitment to small appliances and manufacturing in France. Moreover, the social and political environment in Normandy, the part of France where Moulinex's plants are located, conspired against a radical revision of the company's identity. Being a major industrial employer in the area and having received generous public subsidies to save jobs, Moulinex could not easily transfer work to low-wage countries or exit the small-appliance business altogether.

Suppose management had been able to redefine Moulinex as a "household brand"? That change in identity could have allowed contracting out manufacturing to improve cost structure; it could have permitted focusing on brand management, new-product innovation and distribution. Then, Moulinex could have leveraged its brand name beyond the small-appliance segment (to incorporate stoves, dishwashers, refrigerators, air conditioners and the like). The company's strong French industrial identity and the equally strong coalition of unions and politicians, once assets, paradoxically led to the demise of Moulinex.[14]

### Polaroid

From the beginning, Polaroid founder Edwin Land created a strong and distinctive identity for his instant-photography business based on its core competence and business model. The premise was to focus on self-developing film technology, garnering healthy profits on the film while earning relatively little on the cameras. This worked well until the advent of digital photography, which offered instant photographs but made film unnecessary. Once considered a model of innovation, Polaroid filed for Chapter 11 bankruptcy protection in October 2001.

The company's initial exploration of digital technology failed to marshal enough support from senior managers to challenge the company's identity effectively. When managers finally made a push into digital photography, it was too late. What if Polaroid had learned to think of itself as an imaging company? A broader identity would have enabled a new set of strategic options and might have resulted in a range of technologies and strategies for a greater variety of markets without provoking anxiety about cannibalizing the instant-photo business.

## Operational, Strategic and Identity Change

As they seek to change, companies can work on three separate, intimately connected levels: operations, strategy and identity. (See "A Layered Model of Organizations.") The outer, or surface, layer of any organization consists of its operations — its structures, systems and processes. In many instances, quick performance improvements can be achieved here, through, for example, new information systems, cost-cutting measures, tighter reporting or better synergies.

Operational changes don't require a change in strategy, and results tend to materialize relatively quickly. But if the performance improvements don't prove lasting, executives may scrutinize the next organizational layer — its strategy. A company can adapt and align its strategy with its operations without altering its identity. Often this is not only sufficient for sustained performance improvement but also the appropriate level of initiative. For example, in attempting to restore Nissan's competitiveness and financial health, president and CEO Carlos Ghosn emphasized that his efforts were mainly directed at strategy and operations and that he was eager to preserve what he understood was Nissan's distinctive identity.[15] His stated goal was to "save the business without losing the company." In other instances, such as that of the British retailer Marks & Spencer, top management may seek to realign a company's strategy and operations with its "historical" identity after a period of unsuccessful drift away from what it had considered its roots.

Operational change, strategic change or both together may yield the desired results. Those kinds of initiatives are easier to undertake and have the short-term advantage of not altering the foundations of the company. But too many companies attempting transformation focus only on the operational and/or strategic layers, unaware of the ways identity — the organization's innermost layer — can impede change and result in inertia.

Identity change, because it takes the company away from familiar territory, should not be undertaken lightly. The disruptions are many and might include exiting a business, using cash flow to make acquisitions instead of reinvesting it in the operations it came from, moving manufacturing to another country, reducing one work force and hiring another with new skills, changing the official language or giving key management jobs to foreign nationals. However, if a company needs an identity change but does not seek it, it may over-invest in the other two types of change, hoping for improvements that never materialize.

## Evolutionary and Revolutionary Identity Change

While the identity trap threatens every organization, escape is possible. Our research has led us to identify two scenarios of identity change: *evolutionary* and *revolutionary.* In the evolutionary scenario, identity change is a more or less consciously sought byproduct of successive strategic and organizational changes over a long period of time. In other words, consistent change at the outer layers — strategy and operations — inevitably spreads to the inner layer — identity — and eventually reshapes it. In the revolutionary scenario, change begins at the inner layer and bursts up through the outer layers. The change process begins with a swift redefinition of the company's identity and then proceeds with realignment of strategy and operations with the newly defined identity. In this scenario, identity change is explicitly sought to enable further strategic and operational change.

### The Evolutionary Transformation of Identity: Groupe Danone

In 1994, BSN, the French glass company formed from Boussois and Souchon-Neuvesel in 1966, was renamed Groupe Danone. Former Chairman and CEO Antoine Riboud decided to change the name of his company from BSN to Danone as a way to recognize two decades of company-transforming acquisitions. No longer just in glass manufacturing, BSN was now a global food-and-beverage corporation that included Dannon yogurt, Evian mineral water and Kronenbourg beer.

At first, Riboud attempted to turn his midsize family business into a global manufacturer of all types of glass, but changed course after his failed hostile takeover of rival Saint-Gobain in 1969. Facing the high energy costs and recession of the 1970s, Riboud got out of the plate-glass side of the business entirely and sought to defend the glass-bottle side of the business against the development of alternative and disposable packaging by investing in downstream users. BSN acquired mineral water, beer and baby food companies, thereby "making the contents for its containers."[16]

Danone did not start with a vision of being a global food-and-beverage company. As Riboud has acknowledged on several occasions, he entered the business almost by accident as he sought outlets for glass bottles. The new vision of BSN as a food-and-beverage company emerged only after the success of the first diversification steps. Overall, the transformation of BSN to Danone took more than two decades.

Riboud's legendary prudence allowed him to manage the transformation of BSN cautiously. Because he perceived the creation of new brands as too slow and too risky, he consistently diversified through acquisition of established brands. To further minimize risk, Riboud always paid for acquisitions with BSN stock. When he retired, after more than three decades at the helm, he handed his son a company markedly different from the family business he himself inherited in the late 1950s.

### The Revolutionary Creation of a New Identity: Aventis

Although it took many by surprise, the sudden announcement in 1999 of the merger of France's Rhône-Poulenc (RP) and Germany's Hoechst is just another episode in the ongoing consolidation of the global pharmaceuticals industry. The merger had a classic rationale: catching up with a rapidly consolidating industry and improving performance through cost synergies and better R&D spending.

In contrast to the merger of Daimler-Benz and Chrysler, in which the German and American operations remained essentially separate, Rhône-Poulenc and Hoechst were blended to create Aventis. To ease the creation of the new identity, the former RP and Hoechst leaders made a series of symbolic and substantive decisions. Jürgen Dormann from Hoechst and Jean-René Fourtou from RP shared the executive suite until March 2002, as chairman and vice chairman of the management board. The new, neutral company name and new headquarters in Strasbourg, France (on the Franco-German border) allowed the French and Germans alike to feel at home. English became the official — and neutral — company language. Dormann and Fourtou also employed a consulting company to review the qualifications of 800 French and German managers and help Aventis hire the best. Meanwhile, they started divesting sideline businesses such as animal nutrition and agrochemicals to focus on pharmaceuticals.

The profitability figures for 2000, the first year in the life of Aventis, and the subsequent stock-market reaction indicated that the merger of two big organizations with long histories and deep national roots was succeeding. Although it's too soon to make a definitive judgment about how the identity transformation contributed, it appears that the success will continue. In 2001, net income went up 38.8%, and the company projects 25% earnings growth annually over the next three years.[17]

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## The Identity Audit

For all companies, but especially for companies that have consistently failed to improve performance despite attention paid to operational and strategic issues, a periodic identity audit can be a valuable tool. Open and candid reassessment of identity, as outlined by the questions that follow, can give managers and relevant stakeholders a clearer view of the route to regeneration. In seeking answers to these questions, managers should involve people with fresh perspectives whose own identities are not tied to that of the company.

- What is our identity? (That is, what do internal and external stakeholders think is the essence of our company?)
- Is there internal convergence on our perception of, and commitment to, our identity?
- Are the internal and external perceptions of our identity consistent?
- Is our identity enabling us to keep up with external change?
- Are there internal or external signals that our identity might be blinding us to technological or market trends and/or structural performance problems?
- Can we go on as *who we are* or do we need to break away from our identity?
- Who would be threatened and who would be served by a change in our identity?

Vivendi Universal is another, more problematic example of revolutionary change. In the first years of his tenure, Jean-Marie Messier undertook an extensive and rapid restructuring of the old Compagnie Générale des Eaux, transforming it from a French municipal services company into a global media and communications company. To achieve the transformation and give substance to the new identity, Messier embarked upon a string of mergers and acquisitions in the media and entertainment business. The burst of the Internet bubble and subsequent depression of financial markets raised questions about the financial viability of Messier's vision and cost him his job. Whether his successor will reinforce the new global media and entertainment identity is, at the time of this writing, an open question.

### The Process of Changing Identity

The experiences of such companies as Moulinex, Polaroid, Xerox, and AT&T indicate that managers should pay attention to identity issues as well as to more traditional strategic and operating matters. To preempt the transformation of what was once a valuable asset into a liability, they should periodically assess the degree of fit between their company's identity and its environment, and initiate change when necessary. (See "The Identity Audit.")

When managers decide to undertake an identity change process, they should be aware that it is not merely a matter of finding a new name and designing a new logo for the letterhead and business cards. These symbolic actions help to express and give a face to a new identity but they are obviously not enough. The purposeful creation of a new identity requires leaders who are able to articulate a simple, consistent and compelling "who we are" narrative and align strategies and operations accordingly, a process that may require painful and radical decisions.

Because identity change can be painful, it is inevitably met by resistance from those whose own interests and identities are threatened. To preempt and overcome resistance, leaders need above average political skills. The hostile reaction of influential members of the Hewlett and Packard families to the Compaq-Hewlett-Packard (HP) merger is illustrative. Although chairman and CEO Carly Fiorina's management skills are widely recognized, she clearly underestimated how deeply rooted HP's identity was in the personalities and values of its co-founders and, therefore, did not anticipate the amount of resistance she encountered. Similarly, Jean-Marie Messier underestimated, and failed to counter, the hostility of French intellectuals, artists and politicians to what they perceived as the Americanization of a French corporate icon.[18] However, as the death of Moulinex shows, the personal qualities of CEOs are only part of the story. Stubborn opposition from employees and union leaders, supported by local and national politicians determined to protect jobs, can outweigh the forces of change.[19] And as former chairman and CEO Thomas Middelhoff learned the hard way at Bertelsmann, a company deeply rooted in its origins as a family business, the commitment of key stakeholders to an organization's identity can weigh heavily in strategic decisions. Middelhoff's commitment to listing Bertelsmann publicly conflicted with its strong identity anchor and ultimately cost him his job.

A compelling "who we are" story, a consistent new strategic and operational blueprint and effective political skills are necessary but not sufficient for successful change. Creating a new identity also requires time, continuity and a great deal of support from key stakeholders to overcome inevitable resistance. Moreover, the transformation of a company's identity may be easier when its financial conditions allow bold experiments without increasing the immediate risk of bankruptcy. However risky Messier's media strategy was, the utility business that he spun off and de-emphasized still delivered strong cash flow.[20] And, although Aventis looks like a big leap of faith, the new company can count on revenue from the combined drug portfolio and market share of Rhône-Poulenc and Hoechst.

The transformation of a company's identity is easier when key stakeholders understand the need for radical change of the organization but feel relatively secure about the continuity of its business. Thus, managers who want to help their organizations achieve substantive, but peaceful, change need to be aware of, and anticipate the possibility of, identity obsolescence just as they anticipate the obsolescence of products, systems or business strategies. By doing so, they can prepare internal and external stakeholders to cope with identity change as a normal event in an environment where operational and/or strategic change may not be sufficient for survival. Carlos Ghosn has been fortunate to be able to "save the business" without losing Nissan's identity. In other cases, however, saving the business may not be possible without the death of an old identity and the birth of a new one.

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**3.** J.R. Kimberly and H. Bouchikhi, "The Dynamics of Organizational Development and Change: How the Past Shapes the Present and Constrains the Future," Organization Science 6 (January-February 1995): 9-18.

**4.** Those three criteria were first articulated in S. Albert and D. Whetten, "Organizational Identity," in "Research in Organizational Behavior," eds. L.L. Cummings and B.M. Staw (Greenwich, Connecticut: JAI Press, 1985): 263-295. The respective weighting of different identity anchors may vary considerably from one organization to another (core competence may be more important in Polaroid's identity; French nationality weighs more in the identity of Moulinex). Reciprocally, any aspect of an organization that can be changed without altering the essence of an organization is not part of its identity. Culture is derived from identity. A change in identity entails a change in culture, but the reverse is not necessarily true. (Developing a culture of quality in a manufacturing-driven company requires a new mind-set among employees but would not affect in any significant way the manufacturing identity of the company.)

**5.** J. Weber, "Public TV's Identity Crisis: Can PBS Reach New Viewers and Still Stay PBS?" BusinessWeek, Sept. 30, 2002, 65.

**6.** We have collected material on company identity for several years through both consulting work and research collaborations in industries including automobiles, building materials, electronics, health care, higher education and retailing.

**7.** B.E. Ashforth and F. Mael, "Social Identity Theory and the Organization," Academy of Management Review 14 (January 1989): 20-39.

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**9.** G. Tur, "Franck Casalini: Le Goût du Pouvoir" (Franck Casalini: The Taste of Power), La Tribune, Thursday, Dec. 6, 2001, 32.

**10.** J.C. Collins and J.L. Porras, "Built To Last: Successful Habits of Visionary Companies" (New York: HarperCollins, 1994).

**11.** Over two decades, many leading European business schools and universities have aspired for recognition as international entities, launching new programs, hiring American-trained faculty and engaging in a frantic search for strategic alliances. So far, few of those initiatives have succeeded, because most schools have not sought to (or been able to) escape the identities that, having served them well in their home markets, continue to anchor them in local institutional and social environments and keep them from becoming truly international.

**12.** In selling AT&T Broadband to Comcast, the senior management of the company implicitly admit that they have not been able to invent a new AT&T by means of cable networks.

**13.** This award is based on opinions gathered from a panel of 5,694 French families and 11,438 individuals aged 15 and up.

**14.** Interestingly, circumstances eventually forced Moulinex to become a brand after more than 20 years of desperate efforts to keep it as a French industrial organization.

**15.** C. Ghosn, "Saving the Business Without Losing the Company," Harvard Business Review 80 (January-February 2002): 37-46.

**16.** The most important milestones were the acquisitions of Evian in 1969, Kronenbourg and European Breweries in 1970, Gervais Danone in 1973, Generale Biscuit in 1986 and Nabisco's European business in 1989.

**17.** V. Fuhrmans, "Aventis Expects Earnings Growth of 25% Annually," Wall Street Journal, Thursday, Feb. 14, 2002, sec. B, p. 9.

**18.** Jean-Marie Messier's December 2001 statement in New York about the "end of the French cultural exception" provoked a storm of indignation in France and added credibility to his opponents' claims.

**19.** Through the years, the French government and local authorities had given Moulinex more than €400 million to save jobs.

**20.** The transformation of Vivendi Universal into a global media and entertainment corporation will be achieved after the sale of Vivendi's majority stake in Vivendi Environment, its utility subsidiary. However, some board members are presumably opposed to what they perceive as a high-risk scenario, given the relative uncertainty of cash flow and profits in the utility sector.

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