introduction

Leadership Challenges in the Age of Identity

Welcome to the Age of Identity. The central premise of this book is that we are in the midst of a transition on a global scale from an era in which the vast majority[1] of individuals and human groups lived with a sense of clarity, continuity, and consistency about their identity—their notion of who they are and how others view them—to an era in which identity is increasingly problematic across all levels of human organization, from the individual person[2] to entire nations or civilizations.[3]

This shift has profound implications for leaders in all walks of life, and particularly in business. To some extent, identity issues and crises in religious, educational, or human service organizations, although potentially highly consequential, are not particularly surprising. These are, after all, organizations that have a strong sense of mission, and as traditional underpinnings shift, you might expect them to be particularly vulnerable to this increasing volatility. You might think that business organizations, with their strong economic orientation and their focus on the bottom line, would be more or less

immune to identity questions. Not only is this not the case, but our thesis is that in the Age of Identity, businesses of all kinds are facing identity issues that they do not fully understand and are often ill-equipped to deal with.

The goal of this book is to sensitize you to the central importance of identity in your business and to give you some tools that will enhance your ability to lead in this new context. To set the stage, we highlight ten trends that have characterized the close of the twentieth century and that, together, have created an environment in which organizations of all sorts—businesses, churches, universities, and hospitals—have to cope with essential questions about who they are, who they want to be, and who they can be. Will you be effective as a leader in the Age of Identity? Do you understand the identity issues your business faces? Let's begin with the challenge of globalization.

Globalization

The transition from an environment in which the majority of businesses—especially small and medium-size—were confined to, and often protected in, domestic markets to an environment in which goods, services, and capital flow across borders simultaneously creates new opportunities and poses new challenges. Globalization enables firms to move freely into new markets and geographic areas, but it also brings to the surface questions about who they actually are.

The expansion of McDonald's outside the United States is a particularly good example of the business opportunities and identity challenges that accompany globalization. McDonald's operates the biggest restaurant chain in France and is led by a French management team. The restaurants are owned by French franchisees. Almost all supplies are sourced in France, and the workforce is obviously French. McDonald's France thus has all the attributes of a French organization and is certainly more French than many companies whose products or services are sourced outside of France. And yet McDonald's is widely

perceived by French people, and treated by the French media, as an American company spreading "mal bouffe" (the French phrase for junk food) and threatening the French way of life.

In response to a European ban on imports of U.S. hormone-treated beef in 1999, the U.S. government heightened import tariffs on a variety of European products, including *Roquefort* and *foie gras*.[4] Because McDonald's is identified so intimately with the United States, it was subsequently a natural target for the hostility and anger of the French Farmers Confederation, led by the colorful José Bové.

To change the French public perception of the company, the management of McDonald's France launched a massive advertising campaign to stress that it sources 80 percent of its purchasing in France and Europe and that its purchasing power contributes to the welfare of thousands of French farmers.[5] Despite these efforts, the company is still identified with the United States, and the management of McDonald's France has yet to square a difficult circle: persuading the French public that McDonald's France, the organization, is French, although McDonald's, the brand, is American.

The challenges faced by McDonald's as it has expanded globally are hardly unique. The political and psychological resistance encountered by Chinese companies as they enter or make acquisitions in Western markets is the most recent, large-scale illustration of how identity can be a liability. Lenovo, the company that acquired the PC business from IBM, negotiated the right to continue to make and sell PCs under the IBM name for five years[6] after the transaction. However, a firestorm of controversy was created when Lenovo won a contract to supply computers to the U.S. government, with critics raising the specter of threats to data security posed by use of Chinese equipment. In another case, to overcome the liability of "Chineseness," TCL, the second-largest manufacturer of TVs in the world, chose to market consumer electronics gear outside China through well-known Western brands under its full or partial ownership such as RCA, Thomson, and Alcatel.

Although its efforts to acquire the U.S. energy group Uncoal made a splash in the global media village, the China National Off Shore Oil Company (CNOOC) was hindered by its identification with the Chinese government. In an interview with the *Financial Times*[7] a few days after Chevron won the fight for the control of Uncoal, Fu Chengyu, CNOOC's Chairman and Chief Executive, acknowledged that his company failed to change the perception that it was operating on behalf of the Chinese government.

Mergers and Acquisitions

The spectacular growth of corporate mergers and acquisitions in the last quarter of the twentieth century reflects a relatively recent view of firms as commodities that can, and must, be bought, sold, and combined whenever such actions serve the interests of their shareholders. However, the consistently high rates of poor performance of mergers and acquisitions, as documented by dozens of empirical studies, have raised questions about the firm-as-commodity theory.

Although cultural differences are widely cited as a principal factor, little attention has been paid to the more important role of identity. Culture and identity are not synonymous. To illustrate, let's say that two firms with seemingly compatible cultures are merged. Management and employees in both firms value customer orientation, technological innovation, entrepreneurship, value creation for shareholders, and internal cooperation. From a cultural perspective, therefore, post-merger integration should be smooth. At a deeper level, however, we also find that the firms are viewed by their respective members as unique. This sense of uniqueness means that, comparatively, the firms are actually seen as quite different from one another. This view may have been reinforced by several years of intense rivalry between them. Throughout their histories, each of the firms defined its identity, in part, in opposition to the other. The identity of each firm is, to a significant extent, anchored in not being the other. Therefore, despite the fact that their cultures are expressed through similar values, merging them will be a daunting task.

Cultural alignment may mask deeper differences in identity, and for a merger to be successful, managers must find a way to make "one" identity out of "many." Identity integration is achieved when insiders and outsiders "forget" about the identities of the original firms and come to see the result of their combination as a single reality. The challenge of achieving identity integration is dealt with in detail in Chapter 5.

Spin-Offs

The same shareholder value creation logic that has intensified merger and acquisition activity is also behind increasing numbers of corporate spin-offs. Spin-offs, however, have apparently been no more successful than mergers and acquisitions. A study of 232 spin-offs by S&P 500 companies in the 1990s conducted by the Booz Allen & Hamilton consultancy in 2002,[8] for example, revealed that 74 percent underperformed in the stock market. The authors attribute the high rate of failure to suboptimal strategic and financial management of spin-offs. More recent research, however, suggests that performance problems in spin-offs are attributable to more than flawed strategies and financial management practices, and in fact involve identity issues that require proactive management.[9] Even though some spin-offs hit the wall because they were set up to fail,[10] others may fail because the spun-off firm does not develop a viable identity of its own, independent from its former parent. Visteon (Ford) and Delphi (General Motors) are good illustrations of spin-offs where the spun-off companies failed to establish identities of their own, continue to be closely associated with their former parents, and share their destiny. On the other hand, Infineon (formerly a unit of Siemens) and Freescale (formerly a unit of Motorola) were more clearly separated from their former parents at the outset and have, more successfully, established themselves as independent, self-contained organizations. Chapter 6 explores the identity dimension in spin-offs and how managers can help a spun-off company develop an identity of its own.

Disruptive Innovation

The twentieth century ended with a flurry of technological and marketing innovation across major industries: steel, computing, telecommunications, financial services, retailing, health care, and imaging, to cite but a few. In each of these industries, incumbents who thrived on traditional technologies or business models were suddenly attacked by new entrants with very different views of the world—different objectives, strategies, and operating principles. Within the traditional strategic logic, all players are assumed to have access to the same strategic options repertoire, and what separates the winners from the losers is execution. However, this logic misses a significant factor: the way in which identity influences the strategic options that firms consider and implement.

In the steel industry, for example, large integrated steelmakers across the globe used all the strategic weapons at their disposal (consolidation, capacity reduction, exit from commodity low-margin market segments, process innovations) and yet were unable to contain a new breed of steelmakers, the "mini-mills." These mini-mills were built around much smaller and less costly plants and therefore could offer much cheaper prices. For integrated incumbents, it appears that the only effective way to compete against mini-mills would be to become mini-mills themselves or to exit the steel industry altogether. In either case, they would have to radically change who they are. Because changing identity is more difficult than adjusting strategy, large steelmakers have either died (as was the case for Bethlehem Steel[11]), consolidated with other integrated steelmakers to reduce costs and preserve pricing power,[12] or radically redefined themselves (as in the case of the German steel conglomerate Preussag, which morphed into a travel and leisure group [TUI]). What happened in the steel industry also occurred in the computer industry, where the makers of PCs overtook established makers of mainframes and minicomputers. Most of the latter either died (DEC) or reinvented themselves as service providers (IBM and Unisys). In the computer industry, as in the steel industry, identity issues were critical in determining winners and

losers. Another example can be found in the imaging industry. Polaroid, at one time the worldwide leader in instant film, collapsed because it was too deeply tied to its conception of itself in instant film.

The examples of IBM and TUI show that disruptive innovation does not necessarily lead to the destruction of incumbent firms. Survival depends on the ability of senior management of the incumbent to sense when an innovation is potentially disruptive and to put their firm through the deep and often painful changes required to succeed in the new era. Those who fail to perceive the magnitude of the disruption and who fail to understand the inertial character of identity put the future of their firm at great risk.

Deregulation

Sparked by the realization that state ownership and monopolies tend to inhibit competition, innovation, consumer choice, and cost effectiveness, the recent wave of deregulation and privatization around the globe has been highly disruptive for many established firms and their sense of themselves. As these efforts unfolded, many incumbent organizations, with identities forged under monopolistic conditions, found it difficult to compete effectively. Deregulation enabled the entry of new competitors with superior marketing, technological, operating, and managerial prowess and forced incumbents to face fundamental identity questions. A few industries that have been hit by massive deregulation include electricity, transportation, banking, and telecommunications. Companies that have successfully adapted to the new competitive environment were able to make the transition, more or less quickly, from thinking of themselves as monopolies serving the public good to viewing themselves as businesses that have to compete for the hearts and minds of customers on the basis of superior value propositions.

The threats to long-established monopolies posed by deregulation are well illustrated by the examples of AT&T in the United States

and Electricité de France (EDF) in France. In the ten years following the 1996 federal deregulation act, AT&T went through several gut-wrenching strategic and operational changes aimed at defining a new AT&T. Although repeated downsizing, numerous reorganizations, and various investments, divestments, and spin-offs under Robert Allen (Chairman and CEO of AT&T from 1988 to 1997) raised hopes, AT&T did not find new life. Despite being hailed as an outstanding choice to replace an embattled Allen in 1997, Michael Armstrong was no more successful at establishing a viable identity for AT&T. After two good years in which AT&T's stock was carried to incredible heights by the dot-com tide, Armstrong witnessed the free fall of the stock price (see Figure 1), a trend that continued under his successor, David Dorman, who took the helm in 2002. In an ironic turn of events, AT&T was eventually swallowed by SBC, one of the Baby Bells forced out of its corporate family by the telecommunications act.

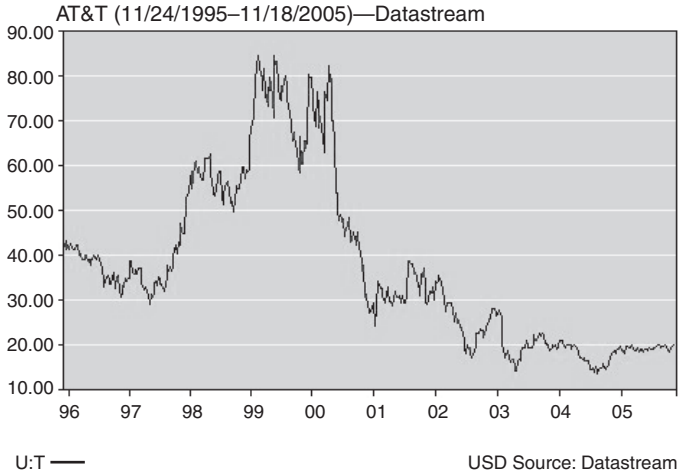

Figure 1 **AT&T stock price after the Federal Deregulation Act**

The challenges faced by EDF, the French electricity monopoly, provide another good example. The deregulation of electricity production and distribution in the European Union compelled the French government to open the domestic market for

competition and to privatize EDF. However, the transition of EDF from a monopoly to a free-market player provoked numerous strikes and protests orchestrated by labor unions and leftist political parties. Although the center-right government led by Dominique de Villepin floated a portion of EDF shares on the Paris stock market in 2005, a law passed in 2004 does not allow the government to own less than 70 percent of the shares and voting rights in EDF. As a result, EDF today is neither a private company nor a public-sector organization. Furthermore, the ambiguity about the identity of EDF has exposed France to criticism from other European countries for several reasons:

- The French former monopoly is seen as behaving as a free-market player abroad, where it has made many investments and acquisitions[13] thanks to easy access to state aid and government-guaranteed borrowings.
- At the same time, however, electricity distribution is still a monopoly in France, and it is still difficult for a non-French competitor to enter the domestic market.
- It is impossible, by law, for a foreign investor to acquire a significant stake in EDF.

In contrast with EDF, which is still struggling to shed its public-sector identity and to embrace a free-market-based identity, other European companies such as BT (the former British Telecom) and Air France have successfully completed their metamorphoses and are leaders in global, highly competitive industries.

Strategic Alliances, Organizational Networks, and Boundaryless Organizations

The evolution in many industries from integrated, self-sufficient firms to networks of interdependent organizations blurs organizational boundaries and brings identity issues to the forefront. The typical biotechnology firm, for example, draws its

revenue from partnerships with several big pharmaceutical companies that require strict firewalls to be erected between projects and teams to protect their investment. In the automobile and electronics sectors, the adoption of lean manufacturing with its zero inventory and just-in-time systems has led suppliers to build dedicated units and organizations on clients' assembly sites. A similar evolution is observable in information technology services, where outsourcing means that service providers build dedicated, permanent units with their own management structure on clients' premises.

People who operate in these new, "boundaryless" organizational contexts are often unclear about who their employer really is and where their loyalty must lie. When much of a firm's competitive advantage resides in the knowledge, skills, and commitment of its workforce, leaders must ensure that employees have no doubt who their employer is. And herein lies a major challenge. Although they have to open the firm's strategic, operational, and physical boundaries to enable close collaboration with multiple partners, managers must also erect thick *psychological* boundaries and build a distinctive organizational identity that people can identify with and feel loyal to regardless of who they work with on a daily basis or where they work from. The paradoxical demands of networks are taken to an extreme in virtual organizations. The more virtual an organization is, the more it must rely on psychological processes to create and maintain a sense of togetherness and belonging among employees who operate in multiple workplaces and time zones.

Chapter 7 elaborates further on identity issues in the specific context of strategic alliances that may or may not require the creation of a separate organization.

A Society of Organizations

A hallmark of the Age of Identity is the increased prevalence of organizations everywhere in society.[14] Organizations are involved in every aspect of our existence, from birth to death.

In traditional societies, individuals inherited much of their own identity from the social milieu (family, place of birth, tribe, religion) into which they were born. In an organizational society, individuals are defined by the organizations in which they participate. The firm, therefore, is no longer just a workplace but a socially and emotionally loaded entity. The firm has become, perhaps unintentionally, a supplier of individual and collective identities. This evolution brings new demands and responsibilities to management. When employees, and often other stakeholders, draw much of their sense of self from belonging to, or buying from, a particular organization, they tend to be anxious about and resist changes that may alter what, in their eyes, is the very soul of that organization.

Because they did not appreciate the significance of identity, the trustees of the Milton Hershey School Trust were surprised and overwhelmed by hostile reactions to the proposed sale of the trust's holdings in the Hershey Company (formerly Hershey Foods and Co.) in the summer of 2002. The trust owned 31.4 percent of Hershey's outstanding common shares and 76 percent of voting rights,[15] and it intended to diversify its holdings. At the time, analysts estimated that competition among potential buyers, including Nestlé, Kraft Foods, and Cadbury Schweppes, could lift Hershey Foods' price tag to as much as $12 billion.[16]

The decision to put Hershey Foods up for sale provoked a hostile chain reaction that took the trustees by surprise. Opposition to the sale came from many quarters: employees, residents, former trustees, high-profile alumni of the Milton Hershey School, judges, the Pennsylvania Attorney General, and the state's lawmakers. All feared that the sale of Hershey Foods to one of its major competitors not only would endanger 3,000 jobs but would also betray the legacy left by Milton Hershey, who dedicated his life to using business for the pursuit of common good. After two months of fierce fights in the courts and in the media, the trustees conceded defeat and declared that the trust's share of Hershey Foods was no longer for sale. You

can get a sense of the depth of people's feelings about the sale in the following excerpt from a *Fortune* magazine story by John Helyar:[17]

> Late that night a resistance leader named Bruce McKinney got the news (of the canceled sale) at home. He went outside and clanged a bell to wake his neighbors with the glad tidings. They came out to dance and drink in front of the DERAIL THE SALE signs that lined the street. It was like V-J Day in Chocolatetown Square the next morning, with citizens whooping and drivers honking.
>
> The townspeople, you see, felt they hadn't just saved an estimated 3,000 jobs; they had reclaimed their legacy. Hershey is one of the last company towns in America in an age when most have gone the way of the nickel candy bar. But Hershey is much more than that. It's a unique place where company, community, and charity intertwine in a remarkable century-long social experiment.

The conflict surrounding the proposed sale reflected diverging definitions of Hershey Foods. To the trustees, Hershey Foods was a business that could be bought and sold as any other. They did not see the business as central to the philanthropic mission of the Hershey Trust. On the opposite side, employees, residents, and Milton Hershey school alumni viewed Hershey Foods as more than just a business and emphasized its centrality to the "social experiment" initiated by Milton Hershey and to the identity of the community that grew around the chocolate business.

Although the cool-headed analyst may have been appalled by the rejection of the price offered by Wrigley and Nestlé for the company's stock, people who drew their sense of identity and community from the company were more sensitive to a different calculus. To them, Hershey Foods was a central institution in their lives and thus could not be bought and sold as though it were a commodity.

To avoid the complications faced by the Hershey trustees, leaders must understand when a change initiative is likely to alter the essence of the organization in the eyes of key stakeholders. Leaders who pursue this sort of change must be prepared and able to deal with collective psychological and emotional phenomena that are very different in nature and implications from mechanical calculations of value creation.

Reputation and Accountability

In a society in which who makes a product has become as important as, if not more important than, the intrinsic characteristics of the product itself, leaders must ensure consistency between the firm's view of itself and how it is viewed in the outside world. Inconsistencies in these views will inevitably lead to problems.

A good example of the detrimental effects of misalignment between a firm's sense of itself and how it is perceived externally is the widely publicized controversy in which Degussa, a German chemical company, found itself embroiled during the construction of the Holocaust Memorial in Berlin.

After a TV documentary revealed that Degussa had owned Degesch,[18] the firm that supplied the Zyklon-B used by the Nazis in extermination camps, the foundation overseeing the construction of the "Memorial to the Murdered Jews of Europe" voted against using an anti-graffiti coating made by Degussa to protect the thousands of concrete slabs erected in memory of Holocaust victims.[19] The 22-to-1 vote by the foundation's trustees came after weeks of heated public debate and reflected the view, held by the trustees and a wide section of the general public, that the Degussa of 2003 was the same as the company that owned the maker of the deadly gas six decades before.

The trustees' decision came under criticism from many circles. In an interview with the German newspaper *Tagesspiegel,* Avi

Primor, the former Israeli ambassador to Germany, saw no rational reason for excluding Degussa from construction of the Memorial and added that "Degussa today has nothing to do with the Degussa of the Nazi era."[20] Peter Eisenman, a U.S. architect with a Jewish background, was less diplomatic. He criticized the decision as "political correctness" and said that "Germans today should not all continue to be held responsible for the actions of their parents."[21] In an interview[22] with National Public Radio (NPR), he added, "I think (the trustee's decision) is allowing us to be held hostage to history. And, you know, had I thought that this was an issue, I would never have gone into this project in the first place."

How should top management react to a potentially damaging crisis they neither provoked nor anticipated? Should they argue that equating Degussa with the Nazi Era was unfounded, or accept it? Dismissing the equivalence could be seen as additional evidence of the company's guilt. Accepting it, on the other hand, could upset employees and other stakeholders and threaten their identification with the company. The company's statement, made the day following the trustee's decision, shows how fine a line the company's leadership had to walk:[23]

> Degussa is aware of the past of its predecessor companies. Chairman Prof. Utz-Hellmuth Felcht comments: "Actively working through and coming to terms with the history of our company is a matter of central concern for us." ... Moreover, Degussa is one of the founding members of the "Remembrance, Responsibility and Future" Foundation...Today's Degussa Group employs a workforce of 48,000 worldwide—of all religions, including members of the Jewish faith. It is no easy matter to explain to the employees why they are facing this decision, given that they know about the history and also how the *"new"* [our emphasis] Degussa is actively working through and coming to terms with it.

This statement shows that the company's leadership was aware that a rational, analytical reaction to the crisis would not be appropriate in a highly charged emotional context. The chairman

did not seek to challenge the identification between the old and the new Degussa on rational grounds. Instead, he empathized with those who felt offended by the company's involvement in the Memorial and sought, at the same time, to reassure employees by stressing the "new," guilt-free Degussa.

The decision to change the company name of the well-known cigarette manufacturer Philip Morris to Altria illustrates a different—and, in our view, less effective—handling of identity in a context where accountability and reputation issues occupy a central place in a firm's life. As the tobacco industry came under attack almost everywhere across the globe, the management of Philip Morris adopted a new name, hoping to reduce the company's exposure to negative comments. This kind of maneuver can buy time, but its effects will not last long, because the company remains committed to cigarette manufacturing and the high margins it provides. Altria will continue to be perceived, internally and externally, as a cigarette company and will continue to be held accountable for the consequences of its behavior. To change its public perception and reduce its accountability, Altria would have to go through genuine identity change, either by exiting the tobacco industry altogether or, at least, inventing a radically different, less controversial, way of making and selling cigarettes.[24]

The Advent of Alternative Social Identities in the Workplace

In the industrial age, workers were grouped and managed within occupational categories represented by unions in collective bargaining processes with management. Individuals belonging to the same occupational category received the same rights and were subject to the same obligations.

The decay of this model over the past few decades is persuasively argued by Michael Piore of the Massachusetts

Institute of Technology (MIT) and his colleague Sean Safford of the University of Chicago in an article published in a recent issue of the journal *Industrial Relations*:[25]

> Under the New Deal era of collective bargaining, the broader storyline—the one with which workers ultimately identified—presumed the Weberian distinction between the rational economic realm and the irrational social realm...It is impossible in today's world to imagine one's work career without incorporating one's social context into it: that is, such aspects of life as parenthood, health, and the social stigma that may attach to one's race, religion, or gender.... Social identity, in this context, serves as a ready alternative to a work-centered plot and, therefore, to work identities as an axis of mobilization. (p. 319)

The trends encapsulated in this quote from Piore and Safford entail new challenges for management and labor unions. The interpenetration of social and economic spheres enables multiple social identities to be carried into the workplace. These social identities put new claims on management for recognition and tailored treatment and challenge the foundations of occupational-based labor unions. In the Age of Identity, business leaders need to be alert to and manage the identity of the organizations they are entrusted with. At the same time, they are increasingly under pressure to acknowledge and respond to the manifold social identities carried into the workplace or projected onto the organization by outside groups.

The Self-Aware, Empowered Consumer

The salience of multiple identities within the workforce is paralleled by increased self-awareness among consumers for whom buying and consumption decisions are becoming occasions for expressing, asserting, and reinforcing personal and

social identities. Even though the share of "identity-based" consumption is still low, it is growing and will inevitably challenge mainstream suppliers of products and services to reckon with the identities of customers who feel increasingly empowered as a result of the following factors:

- The availability of products and services that are explicitly designed to fit with their self-identity
- The availability of real-time information on competing products and their suppliers
- The availability of opportunities to communicate instantly with other members of their reference groups

To cope effectively with this trend, managers need to master "identity marketing."[26] Consider, for example, the challenges posed to Coca-Cola and PepsiCo by the rapid growth of Mecca Cola, a soda launched in France in 2002 by a Tunisian-born lawyer. The militant founder wanted to offer French Muslims an alternative to Coke and Pepsi, pledging, in the process, to give 10 percent of the profits to Palestinian charities and another 10 percent to charitable works in Europe.

As long as the new soda was not available through mainstream French retail channels and could be bought only in ethnic stores, the market leaders, Coca-Cola and PepsiCo, did not need to worry about its popularity within a small consumer segment that identifies strongly with its militant agenda. But the swift international expansion of Mecca Cola can no longer be ignored by established competitors. The company recently relocated its headquarters to Dubai, in the Middle East, and is building a large industrial complex. The company is now marketing a range of soft drinks in 64 countries and sold 1 billion liters worldwide in 2005.[27] The founder boasts that Mecca Cola has become the third-world brand for cola after Coca-Cola and Pepsi.[28]

The success of Mecca Cola and the proliferation of other militant soda brands have forced Coca-Cola and PepsiCo to

reconsider their marketing and advertising strategies in Arab and Muslim countries. In a story commenting on the legacy of former Coca-Cola Chairman and CEO Douglas Daft, the *Financial Times* wrote:[29]

> Mr. Daft also consciously played down Coca-Cola's American image. Its Coke brand has been a particular target for Muslims fighting against perceived American imperialism. Several private cola brands, including Mecca Cola, have emerged in the region to challenge Coke's business. Now the company has adopted a "think local, act local" mantra throughout its sales and marketing teams. Rather than depend on the Atlanta headquarters to create one advertising theme, Coca-Cola's local offices create commercials tailored to local tastes and sensibilities.

In addition to producing local commercials, Coca-Cola is said to counter Mecca Cola's assaults through pricing power, credit facilities, and other weapons that its size and economies of scale afford it. Will this be enough? The long-term answer will depend on how deep and how long the new competitors will be able to capitalize on Arab-Muslim self-awareness and turn consumers away from established brands by merely presenting themselves as ethnically compatible Arab-Muslim products.

Our view is that Coca-Cola and PepsiCo and other mainstream businesses threatened by identity-based competition must learn how to compete on this new terrain. Commercials featuring local faces are a step in the right direction, but this may not be enough. To cope effectively with identity-based competition, mainstream players must consider launching brands anchored in the same identity or react on the basis of alternative desirable identities. To Coca-Cola and PepsiCo, the first strategy means working with local business partners to launch brands that can make comparable, though less radical, identity claims and that will have easier access to technologies, marketing expertise, and mainstream retailing channels. The second strategy means competing on the basis of alternative social identities within the

Arab Muslim world. One can think, for example, of brands that would appeal to women or to the large section of the population that thinks of itself as modern but feels equally distant from radical nationalistic, often fundamentalist, claims and Western lifestyles.

The Pervasiveness of Branding

Because traditional references and labels are losing their effectiveness in defining individuals, organizations, and even countries, a focus on branding has become a central feature of the Age of Identity. In business, the need for effective branding is compounded by intensifying competition between firms offering increasingly comparable products and services. In this context, the identity of the firm that makes and stands behind a product or service is becoming as important as the intrinsic attributes of that product or service.[30] Corporate branding, a fast-growing activity, enables leaders to use the firm's identity as competitive weapon. In addition to competitive differentiation, leaders use corporate branding to position the firm favorably vis-à-vis its stakeholders: current or prospective employees, investors, analysts, journalists, or activist groups. Business leaders who are attracted to corporate branding should know, however, that corporate branding is a double-edged sword and can sometimes make them easy targets for adverse activist groups. The following quote from an article published by Naomi Klein in *The New Statesman* captures the paradox of branding:[31]

> I doubt this current surge of anti-corporate activism would have been possible without the mania for branding. Branding, as we have seen, has taken a fairly straightforward relationship between buyer and seller and—through the quest to turn brands into media providers, art producers, town squares and social philosophers—transformed it into something much more intimate. But the more successful this project is, the more vulnerable these companies become to the brand boomerang. If brands are indeed intimately

entangled with our culture and identity, then, when they do wrong, their crimes are not easily dismissed as another corporation trying to make a buck. Instead, many of the people who inhabit these branded worlds feel complicit in their wrongs, both guilty and connected. And this connection is a volatile one, akin to the relationship of fan and celebrity: emotionally intense but shallow enough to turn on a dime.

If you are tempted to use the identity of your firm as a basis for competitive advantage, you need to be aware of some common risks and pitfalls:

1. Be sure that the organizational identity projected through branding efforts is real. If it is not real, if it is mere sloganeering, your competitors, or other unfriendly stakeholders, may turn these branding efforts against you. Failure to observe this rule exposed the British Petroleum Company (BP) and its top management to a storm of criticism after an explosion at the Texas City, Texas, refinery in 2005, where 15 workers lost their lives. The following quote[32] provides a good illustration of how BP management's presentations of BP as a "green" and socially responsible company are being used against it in the media:

Another day, another battering for BP. The final report from the US Chemical Safety Board on the Texas City refinery explosion in 2005 made some pretty unpleasant reading for the UK supermajor, which prides itself on corporate social responsibility. Men working 29 days of continuous 12-hour shifts, as was highlighted in the review, sits uneasily with claims of a safety-first regime. Many of the report's findings have been aired before and BP "strongly disagrees" with some of the conclusions, but the tragedy in which 15 people died has been one major wake-up call—both for BP and the industry.

2. Ensure the consistency of corporate branding efforts targeted at various stakeholders. The risk in adapting each message to its recipients is that multiple, and sometimes conflicting, images may be projected, leading to confusion in the marketplace.

3. Carefully align your own behavior and decisions with the organizational identity claims you make inside and outside the firm.

4. Strive to realize synergies between handling identity at the level of the organization as a whole and at the level of the individual brands under which your firm's products and services are marketed. Chapter 8 deals with this topic in more detail and suggests managerial strategies for maximizing synergies between organizational and brand identities.

This introduction highlighted a number of trends that together constitute significant challenges for firms doing business in the Age of Identity—challenges that confront leaders of these firms with tough questions about the essence of the organizations for which they have responsibility. Although these trends represent different and, *a priori*, unrelated phenomena, they have one thing in common: They are about changes in the business environment that leaders cannot respond to by merely adjusting business strategies or operating systems and routines. To respond effectively to these changes, leaders have to reach much deeper, to the firm's identity, and determine whether it is an asset they can leverage to bring about change (as you will see in Chapter 2) or a liability they must address to avoid being obliterated by new competitors (as discussed in Chapter 3). To assess how much of an asset or liability your firm's identity might be, you first need to know precisely what identity is. So read on.

Endnotes

1. Although uncertainty about the identities of some individuals and groups is probably as old as mankind, it must be stressed that identity used to be problematic only for individuals and, often oppressed or suppressed, minorities in societies whose mainstream had little doubt about collective and individual identity.

2. The British sociologist Anthony Giddens discusses issues of individual identity in late modernity. His arguments are developed in *Modernity and Self-Identity,* a book published in 1991 by Stanford University Press. Richard Sennett elaborates on the same phenomena in his popular book *The Corrosion of Character: The Personal Consequences of Work in the New Capitalism* (1998, W.W. Norton & Company).

3. An insightful discussion of these identity issues in the twenty-first century can be found in two books by Samuel Huntington: *The Clash of Civilizations* (1997, Simon & Schuster) and *Who Are We? America's Great Debate* (2004, Simon & Schuster).

4. *Dow Jones Business News,* August 31, 1999: "French Farmers Protest Against McDonald's, U.S. Trade Sanctions."

5. *La Tribune,* August 20, 1999: "McDonald's France achète 80% de ses produits agricoles dans l'Hexagone."

6. *Financial Times,* November 9, 2005: "Anatomy of a Deal."

7. *Financial Times,* November 8, 2005: "CNOOC Bloodied but Unbowed."

8. Lucier, C., J. Dyer, and G. Adolph. 2002. "Breaking Up Is Hard to Do—and to Manage." *Strategy+Business,* 28:1–4.

9. Corley, K.G. and D.A. Gioia. 2004. "Identity Ambiguity and Change in the Wake of a Corporate Spin-Off." *Administrative Science Quarterly.* 49:173–208.

10. This is the case of spin-offs for which the main motive is to rid the parent company of a doomed business unit or to clean its balance sheet.

11. Bethlehem Steel was liquidated in 2003 after selling industrial assets to International Steel.

12. The combination of Arcelor and Mittal Steel is a perfect illustration of this path. Arcelor was formed by merging the French Usinor with the Spanish Arceleria and the Belgian Arbed. Mittal Steel grew through successive acquisitions and consolidations of ailing steelmakers in Eastern Europe and the United States.

13. In Europe, EDF made full acquisitions or bought significant stakes in electricity utilities in Germany, Hungary, Italy, Poland, Spain, and the United Kingdom. EDF is also actively involved in Africa, in the

Americas, and in Asia. In 2004, EDF generated $17.5 billion in revenue (out of $47 billion) outside France and $4 billion (out of $12 billion) in earnings before interest, taxes, depreciation, and amortization (EBITDA). Source: The EDF Group, *Annual Report,* 2004.

14. The advent of a society of organizations was first articulated by William Whyte in his classic book, *The Organization Man* (1956, Anchor Books). For a more recent discussion of the role of organizations in society, see Perrow, Charles. 1991. "A Society of Organizations." *Theory and Society,* 20:725–762.

15. The *Wall Street Journal,* July 25, 2002: "Sweet Deal: Hershey Foods Is Considering a Plan to Put Itself Up for Sale."

16. Dow Jones News Service, August 7, 2002: "Hershey School Group Requests Lawmakers to Stay Any Sale."

17. *Fortune* magazine, October 14, 2002: "Sweet Surrender. There Was Much Rejoicing When the Town Founded by Milton Hershey Blocked the Sale of His Chocolate Company. But Was It Really a Victory?"

18. Degussa owned, until 1986, a 42.2 percent share in Degesch, which delivered Zyklon-B cyanide tablets to the Nazis for use in the death camps' gas chambers.

19. *Western Daily Press,* October 27, 2003: "Holocaust Firm Banned."

20. *Agence France Presse,* October 29, 2003: "L'architecte du mémorial de l'Holocauste soutient le groupe chimique Degussa."

21. *Agence France Presse,* November 5, 2003: "Nazi-Linked Firm Helped Build Holocaust Memorial Foundation."

22. NPR Radio, October 31, 2003: *All Things Considered.*

23. Degussa company press release, October 28, 2003.

24. Ways to change public perception may include inventing a nicotine-free cigarette, or allocating a large portion of the profits to a charitable foundation dedicated to cofunding health care for heavy smokers, among other options.

25. Piore, M., and S. Safford. 2006. "Changing Regimes of Workplace Governance, Shifting Axis of Mobilization, and the Challenge to Industrial Relations Theory." *Industrial Relations,* 45:299–325.

26. For a discussion of identity marketing, see Reed II, Americus, and Lisa Bolton. 2005. "The Complexity of Identity." *MIT Sloan Management Review,* 46/3:18–22.

27. *FOOD,* May 24, 2005: "'Mecca Cola': A Sign of the Times."

28. Mecca Cola company Web site (www.mecca-cola.com), accessed March 20, 2007.

29. The *Financial Times,* March 10, 2004: Wall Street is convinced that Steven Heyer, the company's president and chief operating officer, is the man for the top job. But the board is conducting an unprecedented external search, and some believe Heyer has other goals.

30. On the benefits and approach to corporate branding, see Aaker, David A. 2004. "Leveraging the Corporate Brand." *California Management Review*, 46/3:6–18.

31. Klein, Naomi. 2000. "The Tyranny of the Brands." *The New Statesman,* 129/4470:25–28.

32. Upstream: "BP living dangerously," March 23, 2007.