

## c h a p t e r 2

# The Bright Side of the *I\*Dimension*

Think of companies as diverse as IKEA, The Body Shop, Bang & Olufsen, Harley-Davidson, Southwest Airlines, Starbucks, Ben & Jerry's, McKinsey, W.L. Gore, and Toyota. All operate in intensely competitive markets through increasingly commoditized products or services. Yet all are enduring global leaders in their respective industries. Unsurprisingly, these companies, and many others that share the same attributes, have generated a great amount of interest among managers, consultants, journalists, and management researchers. The “secret” of their enduring market leadership and economic performance has been explored in hundreds of books, articles, and case studies. This activity has created a “market” of business success factors where the products, or theories of success, are profoundly marked by the disciplinary or professional backgrounds of their authors: strategic innovation, superior execution, progressive human resources management, effective knowledge management, customer relationships management, smart branding, charismatic

leadership, cohesive organizational culture, lean manufacturing, and efficient supply-chain management, to name only a few.

Although each of these factors can be found in one or more of the companies in the preceding list, none by itself captures the whole picture. Take the example of Southwest Airlines. Does it owe its success to its low-cost business model, to the way it targets particular geographic markets and routes, to its branding and marketing strategy, to its people-oriented human resources management, to its fun culture, or to the personality of its founder? The answer is probably all of the above.

Now think of Toyota. Does it owe its success to the much praised and copied lean manufacturing system, to its volume-driven strategy, to its obsession with quality, to its Japanese roots, to its emphasis on job design and training, to its brand management, to its tight management of distribution channels, or to its human resources management system? Again, the answer is all of the above, enveloped in the legendary “Toyota Way.”

This exercise can be repeated endlessly, but you can see where we are heading. The success of these firms is not to be found in single factors but in the way all dimensions of the firm are held together and mutually support one another. In other words, success is systemic and lies deeper than its superficial manifestations. If it were otherwise, many competitors would have been able to imitate and supersede Toyota, IKEA, Starbucks, McKinsey, or Southwest Airlines.

These companies have remained out of the reach of their competitors because during several decades of consistent behavior vis-à-vis their internal and external constituencies, they have acquired a unique and enduring identity that sets them apart from their competitors and makes them difficult to imitate. For example, many Western managers have learned that Toyota’s lean manufacturing model is not easy to emulate because it is part of a system that goes beyond manufacturing. You can copy Toyota’s manufacturing model, but you cannot copy the special

status the firm has acquired in the eyes of its employees, customers, suppliers, distributors, and investors.

The examples mentioned here suggest that as technologies and industries mature, and as products and services become increasingly comparable, sustainable competitive advantage cannot be built on easy-to-imitate business strategies or operating systems. The more comparable products and services are, the more managers will have to build competitive advantage on inimitable attributes of the firm or, we contend, its identity.

In the remainder of this chapter, we explain in more detail how identity can be an enduring, hard-to-imitate source of competitive advantage by exploring the internal and external benefits of clear and consistent identities.

## The Internal Benefits of Clear, Consistent, and Valued Identities

### Identification

People who work for companies that have a clear, consistent, and valued identity are easily induced to identify strongly with their employer and to draw a significant part of their personal identity from the firm. The beneficial by-products of strong identification are many. Employees draw a feeling of pride from belonging to a particular organization and are encouraged to project a positive image of the organization to the outside world. An organization that enjoys strong identification among its employees has many ambassadors and advocates and needs less help from PR (public relations) experts to project a positive company image.

W.L. Gore, the company that invented the GoreTex fabric, has no advertising or corporate branding budget. Yet, the firm has enjoyed a great amount of positive free publicity thanks to its

consistent ranking at the top of the “Best Companies to Work for” in the United States and Europe.<sup>1</sup> Why should the managers of W.L. Gore spend money to promote the company when it is so well promoted by its employees?

On the opposite side, firms with an unclear, inconsistent, or socially problematic identity cannot enjoy positive identification from their employees and may even suffer from deliberate efforts of their members to distance their self-identity from that of their employer. These firms cannot fully engage the hearts and souls of their employees and have to invest time and resources in promoting themselves to not only external but also internal constituencies.

## **Loyalty and Commitment**

Organizations with a clear and valued identity inspire feelings of loyalty and commitment among their employees because their consistency fosters trust and reliability. The behavioral manifestations of loyalty and commitment are multiple and beneficial. Loyal employees are less easily lured away from their employer by other employers for a higher salary. Hence, the firm can invest confidently in the development of its people’s technical and managerial skills. Loyal employees are also mindful of the interests of their firm without being guided or constrained to do so. Loyal employees can make concessions and sacrifices more easily when the company faces difficulties. For example, to help Southwest Airlines<sup>2</sup> cope with the difficulties challenging the airline industry, the unions made salary concessions without going through the usual labor/management arm-twisting so characteristic of the U.S. airline industry.

## **Cooperation**

When employees at all levels identify with and have a strong sense of belonging to the same organization, management needs to spend less time and energy designing and enforcing

formal systems and procedures of cooperation. The sense of common destiny and the willingness to preserve the interests of the organization provide natural incentives for cooperation. The strength of the organization's identity works as insurance against the emergence of parochial ways of thinking and doing that are so common in organizations with highly fragmented identities.

## **A Guide for Problem Solving and Decision Making**

A clear and consistent organizational identity provides employees with a framework for decision making and problem solving. Because managers cannot and should not specify how employees should make decisions in every possible circumstance, a clear organizational identity is an effective guide for dealing with problems and decisions. For example, the centrality of the environment and social responsibility theme in the identity of the Body Shop sets clear boundaries regarding which strategic and operational decisions can be made by employees in different roles and capacities throughout the organization.

People who have a clear understanding of and agreement with their firm's identity do not need to be told what they should do in particular circumstances. The answers lie in their interpretation of their company's soul.

## **Legitimacy**

Because managing a firm requires establishing priorities and sometimes making tough decisions, the perceived legitimacy of priorities and decisions is vital to their acceptance and implementation. In this respect, companies that have a clear, consistent, and socially valued identity worry less than others about the legitimacy of their managers and the decisions they make for the organization. The managers are promoted on the basis of their identification with the organization and embody it.

The legitimacy of their decisions is unquestioned because their decisions are aligned with the firm's established identity.

## **The External Benefits of Clear, Consistent, and Socially Valued Identities**

The external benefits of identity are not fundamentally different from those that are primarily internal, and the two are mutually reinforcing.

### **Recognition**

In an economy where many competitors offer comparable products and services, it is important for firms to make themselves easily recognizable to customers, prospective employees, investors, and opinion makers. Companies such as Starbucks, IKEA, and The Body Shop have achieved high levels of external recognition through a unique combination of physical aspects (design of outlets, visual identity), product selection, marketing strategies, and corporate values. Bang & Olufsen has distinguished itself from all other makers of consumer electronics through consistent emphasis on design, careful management of the brand and the distribution network, and projecting to the outside world its unique philosophy and management practices (relaxed working atmosphere, care of its people).

A firm that enjoys a high level of recognition thanks to a unique and valued identity does not need to promote itself in the usual ways to relevant constituencies.

### **Attractiveness and Loyalty**

A clear and positive identity acts as a magnet for employees, customers, investors, and other business partners who are

attracted to deal with the firm. The process creates a sort of halo effect and enables the firm to build a loyal audience in the circles whose input it needs for its survival and growth. For example, when it has achieved a high level of external recognition, it is much easier for the firm to attract new talent.

## Trust and Predictability

With a consistent identity, a firm can nurture a feeling of trust among its employees, customers, and investors. Employees know who their employer is and do not fear overnight changes in corporate goals, strategies, and management practices. Customers come to and keep buying from the firm because they trust it and expect it to stand behind its products and services. Investors support and remain loyal to the company because they perceive it as reliable and predictable.

## The Virtuous Cycle

The firms mentioned in the opening of the chapter have all achieved a high level of clarity and consistency between their internal and external identity. These companies are taken in a virtuous cycle where external reputation fuels internal pride and vice versa. The question now is whether managers can proactively shape the identity of their firm and create the kind of virtuous cycle enjoyed by the likes of Starbucks or Southwest Airlines. The short answer is that managers can shape the identity of their organization to a significant extent if they keep in mind that identities, individual or collective, can never be entirely specified and unilaterally engineered. We reserve the development of this argument for Chapter 11, “Strategies for Leading in the Age of Identity.” We invite you to see, in the next chapter, the different ways in which a firm’s identity can be a major liability rather than a decisive competitive asset.

## Endnotes

1. For the eighth consecutive year, W.L. Gore & Associates, Inc. earned a position on *Fortune's* annual list of the U.S. "100 Best Companies to Work For."

Gore ranks second overall and first among mid-sized companies in the magazine's January 24, 2005, issue. For the second year in a row, Gore-U.K. ranked No. 1 among the "100 Best Places to Work in the U.K." (2005).

Gore-Germany is ranked in the Top 10 in the overall ranking and No. 5 in mid-sized companies among the "50 Best Places to Work in Germany" (2005).

In 2004 Gore-Italy ranked in the Top 20 among the "35 Best Places to Work in Italy" (2004). Source: W.L. Gore & Associates company Web site, [www.gore.com/en\\_xx/](http://www.gore.com/en_xx/).

2. Southwest Airlines obtained salary concessions from its unions.