



Identity-Based Management: The Key to Value Creation

A Conversation with Larry Ackerman, Founder of The Identity Circle LLC

What exactly do you mean when you refer to “identity?”

Not surprisingly, there are different definitions of identity, ranging from a company’s name and logo, to the culture and/or values it lives by. My definition of identity is actually one that has been at the center of human psychology and behavior for decades – only applied to corporations: It’s all about uniqueness and potential – that unique combination of characteristics that makes you who you are and, most important, reveals your potential for creating something of value in the world, or in the case of companies, in the marketplace. In short: the unique characteristics that define a company’s value-creating potential.

From this vantage point, understanding identity provides the basis for shaping a new management discipline leaders can use to set strategy, guide operations, and measure results.

Can a company change its identity?

In my experience, you can change many things in organizations – strategy, culture, factories, people, lines of business – but the one thing you can’t change is its identity, which is formed at inception, defines how the company creates value, and deepens over time.

What executives can – and should – change, however, is the *expression* of identity in how the organization engages customers, specifically, and the world, generally. It comes down to managing a key paradox: the need to change from a changeless foundation, i.e., to change *through* identity. For example, once Dow Chemical clarified its identity – *the company’s innate drive to improve what is essential to human progress* – it was able to unearth new revenue opportunities. The company re-defined the meaning of “essentials” from manufacturing essentials like styrene, polyethylene and caustic soda, to the essentials of life, such as providing drinking water, fighting disease and creating a safer food supply. Through the lens of its identity, Dow reframed how it approached customers who did business in, but were unaware of Dow’s impact on these growing markets.

The main benefit of changing through identity is that it keeps a company steady and focused, even during the most tumultuous times.

What is the difference between identity and mission, or identity and brand?

Think about these elements in terms of cause and effect. Identity is cause; mission and brand, are effects. So, by the way, are vision and purpose. Identity is the bedrock of how an organization creates value, i.e., the proprietary contribution it is capable of making in the marketplace. From this perspective, identity provides the roots from which these leadership platforms grow – or should grow. Identity lends them authenticity and integrity, enabling them to endure. Without identity at their core, these vital elements lack staying power: They are subject to the winds of change, as executive teams come and go.

In this respect, the identity discipline is strategic innovation on a grand scale. It shifts the way leaders regard their companies, fundamentally. Identity discovery can be a game-changing experience. Does Ingersoll Rand create value simply by being a diversified industrial, or by *turning work into progress*, in ways that drive profitable growth for its customers? How does Fidelity Investments make money? By offering financial services, or by *celebrating individualism* as the way into the heads, hearts and bank accounts of its investors? These re-definitions open up new conceptions of value-creating potential. Realizing that potential, of course, is all about execution.

What do you mean when you say that identity and identity-based management are “business disciplines?”

Identity provides companies with a center of gravity that acts as a rudder, keeping the organizational “ship” centered and focused on leveraging its unique, value-creating capacities, no matter how calm or stormy the weather may be. Identity-based management, then, is the process for capitalizing on this “center” in concrete and measurable ways. In this regard, identity-based management is a business discipline just like marketing, strategic planning, finance or human resources. Consider it a comprehensive *system* for aligning the interests and actions of the organization and its employees around value creation.

Going a step further, because identity is a governing force – you’re either in sync with it or you’re not – the identity discipline can be likened to the discipline of economics, which also affects all aspects of business, unconditionally. In fact, executives would do well to consciously align these two forces – identity and economics – in their efforts to improve performance.

For instance, when an executive begins to think about entering a new market, he or she should consider not only the supply and demand situation, but whether or not that market fits with the company’s core identity. If it does, terrific. If not – if it doesn’t contribute directly to building the company’s identity strength – then management should avoid entering that market, no matter how attractive the economics may appear to be.

Identity “misfits” – whether new markets, acquisitions or lines of business – inevitably sap resources, making the enterprise as a whole less efficient.

How exactly do you practice identity-based management?

In a word, comprehensively. In my most successful engagements – many of them centered on building the corporate brand – the process obviously began by discerning and articulating the organization’s identity. In turn, identity *implementation* involves linking all functions and businesses to identity, so that how they operate reflects as well as deepens this prime asset. Implementation includes detailed business process alignment, say, in sales, marketing and human resources.

For example, a company looking to make product innovation more strategically relevant would begin to guide and gauge all of its R&D efforts within the context of the organization’s identity. No rogue projects. To get funded, every initiative would have to show, in advance, how it will directly contribute to how the company creates proprietary value. Every effort, then, will need to demonstrate progress that is in sync with this criterion. And the results of those efforts will need to yield not only economic rewards, but also deepen the building blocks that underpin identity.

How do you know if your company's identity strength is high or low?

Up until now, you didn’t. At least, not quantitatively. It was a guessing game and, depending on whom you asked, you were likely to get different answers: Executives might believe their company had a strong identity, but front-line employees might think otherwise. And customers could have an all-together different view based on their experience.

Today, with the Identity Impact Survey, companies can actually measure identity strength in ways that provide concrete answers. In fact, they can measure identity strength across the enterprise to see which businesses are stronger and which are weaker on this key metric. This new diagnostic gives managers a critical window, not only on where improvements can be made, but on the likely economic benefits of making them.

Further, executives can discover answers to nagging problems that traditional research just doesn’t help them solve. For example, one of the companies in our survey – which fared poorly – had struggled for years, without success, to serve two distinctly different sets of customers. The CEO had pegged it as a “customer management” problem. Survey results, however, put the “customer” problem into an entirely different context – the context of identity. The customer management challenge quickly became a strategic management challenge – the need to accept the fact that the organization lacked a coherent and unifying identity – a center of gravity for making key decisions.

As counter-intuitive as it may seem, when presented with the findings, the CEO was delighted. Not to see that his company did so badly, but to see *why* his organization had been struggling for so long. Now that that problem had been illuminated, management could begin to take steps to remedy it.

If organizational identity strength is low, is there anything you can do about it?

Absolutely. Most low identity strength scores are what I term passive outcomes. They result from companies that simply haven't gone through the process of clarifying and operationalizing their identities. And that's what they need to do: take deliberate steps to discover who they are at their core – to crack the code on their identity. The way to do this is by answering one critical question: *How do we create proprietary value?* Getting there isn't easy, but it's worth it. Once that answer is clear, it's time to align strategic and operational decision-making and actions around it. That's how to build identity strength.

Why don't more leaders and management gurus talk about identity and identity-based management?

I believe there are several reasons. First, in some quarters, "identity" has come to be equated with a company's name and logo, with design and with other branding elements. These elements, while important to effective communications and marketing, short-change the deeper meaning of identity, keeping it in a box that isn't necessarily on executives' day-to-day priority list.

Second, when identity *is* discussed in broader terms, it is still often seen as an elusive, or soft, concept. This fact limits its appeal to metrics-minded leaders and management thinkers who want to be able to point to concrete business outcomes.

There is a third, related reason. It's hard to expect results-oriented men and women to spend a lot of time talking about something that lacks discernable form and structure. We all look to understand how things work, as a pre-condition for accepting and applying them. The Identity Impact Survey advances identity-based management by giving it the solid, quantitative foundation it needs to be recognized as an emerging science and, consequently, a focal point for conversation and executive action.

In addition to taking the Identity Impact Survey, what can companies do to make the identity discipline more front and center – an activity leaders can act on?

Put identity on the management agenda. Executives can start by raising three questions. But, first, they should frame these questions by defining exactly what they mean by identity so everyone's clear – and, yes, they should invoke the definition that is at the roots of the discipline: *Identity is the unique set of characteristics that reveal the company's value-creating potential.*

The questions are: One, what is the identity of our company? Two, are we managing to this reality? And, three, how has our identity influenced our strategy, brand, culture, reputation and, performance, to date?

Asking these questions can be a revealing exercise. The senior team of one financial services concern I know couldn't agree on even the first question, which led to some long-overdue soul-searching and, ultimately, replacing one of its executives. In another case, the management team of a well-known consumer products company understood, and was firmly aligned around, how the company made a difference in the lives of

consumers. They were able to use this foundation to make major changes in the organization's marketing strategy and sales operations, which were considered, up until then, sacrosanct.

Can you describe a company that's really good at identity-based management?

I must admit there aren't many and those that are probably don't recognize that that's what they're really good at. Dow Chemical, whom I mentioned earlier, has done a noteworthy job of living up to the tenets of identity that they defined some years ago. In fact, today, 10 years after that work began, the company's identity-based mission remains the same – *to constantly improve what is essential to human progress by mastering science and technology* – and its 2015 sustainability goals are built squarely around it.

One of the keys to successfully leveraging the discipline of identity-based management is leading the company as an institution, not just a business. The distinction is crucial: An institution is an organization that has a robust relationship not just with its customers, but with the culture or society of which it is *necessarily a part*. Dow understands this very well.

Can you describe a company that's not in touch with its identity -- and struggling as a result?

Right now, I'd have to turn to General Motors. Based upon what I can see and read, GM lacks the vital institutional core it must have if it is going to rebuild its relationship with existing and potential customers. *Making great cars* isn't an identity statement. In fact, the company's identity most likely isn't about cars at all: automobiles and trucks are, at best, "vehicles" (no pun intended) for delivering on the societal promise GM's identity most certainly contains, but hasn't yet been clarified. Put in other terms, cars are the currency in the social and economic relationship the company has with consumers. GM needs to figure out exactly what that relationship is, or can be.

Is there a connection between identity strength and the economy as a whole?

Indeed, there is and it's simple math. The economy is comprised of thousands of companies, large and small, all of which have an identity that reveals their value-creating potential and, thus, influences their performance. From experience – and the results of our survey – it is safe to say that identity strength in most corporations is modest, at best.

Study results demonstrate that when identity strength is high, employee engagement is 18% higher than when identity strength is low. Given the known relationship between employee engagement and productivity, this finding tells us that firms with low identity strength are less productive, which lowers GDP. The U.S. GDP per capita is \$46,000, which ranks the U.S. eleventh in the world, according to the International Monetary Fund. If U.S. firms raised their identity strength 18%, per capita GDP would likely increase \$2,300, contributing \$69 billion to U.S. GDP, annually.

Can you demonstrate the economic benefits of identity-based management?

Yes, we can. Identity-based management is the pathway to building identity strength, which yields clear business benefits given its powerful impact on employee engagement, a prime mediator of business performance. These benefits show up in several ways, including predictable revenue increases as employee engagement scores increase with identity strength. For a 5,000 person organization, for instance, increasing identity-based employee engagement scores, by 8 points can boost revenues by about \$30 million.

Further, as a driver of business performance, identity strength influences all companies, large and small. But, that influence becomes exponential in terms of revenue growth as the size of the group – i.e., the company, or a division of a company – grows. In short, the more people who take part in the “identity experience,” the greater the business impact will be.

Why does the identity discipline work? What’s the secret?

It’s really no secret, at all. Consider this quote from Einstein: “Problems cannot be solved at the same level of awareness that created them.” The reason why identity is such a potent force is because it provides us with a wholly different lens through which to understand and respond to conventional “problems.” As I suggested earlier, identity is the vital counterpoint to economics, completing the picture we need to see before we can make fully-informed choices. Identity-based management creates a new awareness of how value is created – one that takes us below the surface of the problems we seek to solve, enabling us to understand and address them, comprehensively.

There’s another reason why identity-based management works. By cracking the code on value creation, identity resolves the seeming conflict between profit and purpose, between making money and making a difference. Remember, creating value is about making a *proprietary contribution* in the marketplace and the world, which produces wealth in return.

Some years ago, before it was acquired by Whirlpool, Maytag Corporation bought several white goods brands including Hoover, Jenn-Air, Admiral, and Magic Chef. Was Maytag now simply a bigger player in the appliances business? No. Maytag, the corporate parent, was driven to improve the quality of home life. They were, in short, in the *home management business*. This insight not only changed how they managed their portfolio – resource allocation, branding, etc. – it illuminated Maytag’s inherent purpose, while opening up new avenues for profitable growth.

To receive a copy of “The Identity Effect: Cracking the Code on Value Creation – How Identity-Based Management Drives Employee Engagement and Business Performance,” contact Larry Ackerman at lackerman@theidentitycircle.com or call him at 203 227 8589.