



From the library of The Identity Circle — Insights and ideas about leading, managing and living through the lens of identity.

Reframing the Rules of Value Creation

Synopsis:

For all the time and attention paid to sophisticated economic analysis, market trends and technology, creating successful business strategy designed to drive long term value is never a sure thing. Where value creation is the goal, however, managers must begin with a clear understanding of the source of that value — the identities of their organizations — or risk putting their companies on a path to inevitable decline.

Reframing the rules of value creation: leading through identity

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For all the time and attention paid to sophisticated economic analysis, market trends, and technology, creating successful business strategy designed to drive long-term value is never a sure thing. Where value creation is the goal, managers must begin with a clear understanding of the identities of their organizations – or risk putting their companies on a path to inevitable decline.

For all the financial sophistication, business knowledge and executive experience that go into forging business strategies, little, if any, attention is paid by managers to the extraordinary impact an organization's identity has on strategic outcomes.

When I refer to identity, I am not talking about corporate names, logos or advertising themes. I am speaking of the unique characteristics that define a company's value creating potential, just as they do an individual's. It is in this realm – the realm of identity – that the interests of an organization and the interests of its employees must align, if strategy of any kind is to going to be successful.

Put simply, identity, or identity-based management, reframes the strategic dialogue, from one focused on purely economics, markets, technology and competition to one focused on a company's innate human capacities and how they can be best applied to benefit customers as well as the company.

This seeming shift from focusing on the outside to focusing on the inside may seem radical, given the need to respond to external forces in strategy development. It is not. It is entirely logical.

A company's untapped potential

This "inside-out" approach helps ensure that the company's principal asset, its people, not only understand, but are able to deliver on the promise strategy holds. Why is this? Because, crafted through the lens of identity, strategy becomes an outgrowth of the organization's natural strengths and untapped potential, both of which flow from a company's human capital. Applying this capital to meet external demands makes perfect sense – it is a naturally efficient process.

Realizing the state of efficiency identity suggests, starts with taking a close look at the "radical logic" of identity-based management and how it governs the lives and fortunes of organizations and individuals alike.

Why don't they get it?

In a recent article about missions and their impact on the health of companies, Stephen Covey wrote that: "When employees are all on the same page, it can create some awesome capabilities." While he is correct in theory, and there may be some organizations where employees march in lock-step with management, Mr Covey's

vision is the organizational version of searching for the Holy Grail – an ideal state few companies ever achieve.

The reality in most companies today is closer to the following scenario. Months of hard work, sweat and analysis, have led senior executives to point the company in a bold, new direction that appears sound, if challenging. Management then communicates its strategy to employees, knowing how important it is for people to sign on and buy in. But surveys show that a large percentage of employees are still in the dark; either they do not understand, or they do not support the strategy. The question from the corner office comes as no surprise: Why don't they get it?

Meanwhile, employees, from mid-level managers and sales people to shop floor workers and call-center staff are scratching their heads. For them, management seems out of touch. The new plan is not just bold; it seems extreme, detached from the core strengths of the organization. It seems, in a word, inauthentic. And so, the question circulates on the grapevine: why don't they get it?

To a lesser or greater degree, this is the reality most companies endure. It drains enthusiasm and destroys productivity. Well-intended strategies suffer. Nobody wins. Why this situation persists is worth examining, for it exposes the problem as well as the solution, both of which have surprising roots.

The “problem” is this: from the time we are born, we are told by loving parents, devoted teachers, well meaning friends and larger-than-life public figures that we can be anything we want to be in life. We can be that airline pilot, that wealthy business entrepreneur, that Nobel prize-winning scientist, maybe even that first female president, or other head of state, if we aim high, work hard and stay the course.

The promise of personal freedom is very seductive. Boosting our egos, it fires our imaginations and fills us with hope, confidence and drive. We come to believe we are free to make choices about our lives that are wide open, unrestricted. By the time we have established our career, we are following this now, deep-seated dream in earnest – the dream that the only order life has, is the order we give it.

It is no wonder, then, that well meaning CEO's feel empowered to set bold courses for their organizations. The prerogative is theirs. Proclamations, such as, we're going to change this company from top to bottom, echo in the hallways.

The myth of changing one's identity

The idea that you can be whatever you want is a myth. One's identity has a profound bearing on what you can and cannot do with your life. This holds for companies as well as people. Years later, left unchecked, this view of personal freedom can lead savvy, but unsuspecting, managers to set strategies, which are

“ Whether an individual or organization, you can never be someone, or something, you're not – but you have far more potential than you know. ”

wholly disconnected from the identity of their institutions. As a result, they do not work. Such strategies lack integrity.

The central theme of identity is that you can never be someone, or something, you are not, but you have far more potential than you know. This fact applies to companies as well as people.

Identity is destiny

To realize the business value of identity means retreating for a moment from the notion that identity is a business concept at all. It requires acknowledging that, first and foremost, identity is fundamentally a human concept that defines the essence of what it means to be an individual. At its most basic level, identity speaks to the uniqueness and potential of a person. (What makes someone special and what it is he or she is capable of being and doing as a result.)

In my book, *Identity Is Destiny: Leadership and the Roots of Value Creation*, I presented eight natural laws – the laws of identity – which profoundly influence an organization's ability to grow and prosper. In short, I proposed a significantly new way of understanding the dynamics of business success and failure, based on the human model of identity.

The laws of identity are:

- 1 *The law of being*
 - One's ability to live depends first on defining one's self as separate from all others.
- 2 *The law of individuality*
 - One's natural capacities invariably fuse into a discernible identity that makes that person or organization unique.
- 3 *The law of constancy*
 - Identity is fixed, transcending time and place, while its manifestations are constantly changing.
- 4 *The law of will*
 - Every person and organization is compelled to create value in accordance with its identity.

- 5 *The law of possibility*
 - Identity foreshadows potential.
- 6 *The law of relationship*
 - Individuals and organizations are inherently relational, and those relationships are only as strong as the natural alignment between the identities of the participants.
- 7 *The law of comprehension*
 - One's various capacities are only as valuable as the perceived value of the whole of that individual or organization.
- 8 *The law of the cycle*
 - Identity governs value, which produces wealth, which fuels identity.

Identity provides what amounts to a framework for living that encompasses organizations as well as people. For organizations, specifically, identity constitutes a dynamic, self-perpetuating system that holds out the promise of making management a fundamentally more effective discipline, when used to inform strategy and engage employees in its implementation.

Powerful as the laws of identity are, they are only the beginning. Their practical value emerges in the answers to eight universally important questions, which flow directly from them:

- 1 *The law of being* – who am I?
- 2 *The law of individuality* – what makes me special?
- 3 *The law of constancy* – is there a pattern to my life?
- 4 *The law of will* – where am I going?
- 5 *The law of possibility* – what is my gift?
- 6 *The law of relationship* – who can I trust?
- 7 *The law of comprehension* – what is my message?
- 8 *The law of the cycle* – will my life be rich?

A look at how Norsk Hydro applied these principles

Answering these questions is the only way to set a strategy that makes sense today and will have staying power tomorrow, whether that strategy is for business or for life. Consider how these eight questions led Norsk Hydro to create a strategy that served the needs of the institution, its people and outside stakeholders as well.

Defining and living the Hydro way

Norsk Hydro, or Hydro, as it is better known, is one of Norway's oldest and most successful industrial concerns. At the time of our engagement, which concluded a year ago, Hydro was

composed of three fundamentally different businesses: oil and energy (natural gas), aluminum, and fertilizer, or Agri, as it was referred to. Operating globally, Hydro had \$23 billion in revenues and 50,000 employees scattered around the world.

Under pressure from shareholders, management was considering breaking up this highly decentralized organization. The thought was that such diverse businesses had nothing in common and that investors would be better served if this 100 year-old concern were disassembled. Ostensibly, that was the burning platform that led to our engagement – to determine if the whole of Hydro was, indeed, greater than the sum of its parts, and if so, what to do about it to help avoid dissolution.

The identity-based methodology we employed, to arrive at the answers we needed, revolved around the eight questions presented above, sometimes directly, at other times implicitly. Here is the story behind these questions, what they mean for people and organizations, and how they helped shape the direction of Norsk Hydro.

Who am I?

Following the course charted by the laws of identity, this question calls for people to define themselves as separate from all others. What this means is that before you can know who you are, you need to know who you are not. Without thinking, most people define themselves by the labels they grow up with: their family names, their religions, their jobs, even the sports they play. Despite their importance in helping us navigate our relationships, these labels do not define the essence of who we are.

Likewise, companies are quick to define themselves within the frame of competitors, or peer organizations, with whom they feel affiliated. Hydro considered itself “like” such companies as Statoil, the leading Norwegian oil producer, Alcoa and Pechiney, two major aluminum manufacturers and Potash a large and powerful Canadian fertilizer concern.

The first order of business was to get managers to realize that being similar to any of these companies held little relevance to discovering what made Hydro, Hydro. The first thing our client needed to do was to stop and realize that Hydro was, simply, itself. They needed to carve out a place of their own, from where they could get an unbiased view of the institution, unencumbered by assumptions about who they were.

What makes me special?

Many people cast about, attempting to answer this basic question by looking into their careers, the clubs they belong to, and their hobbies. They are looking in the wrong places. For people, the answer to the question, what makes me special?, can only be found by unearthing what you love. The things I am referring to are the natural capacities and passions that lie

beneath the surface of our lives. In the course of my life, for instance, I have come to see that I “love” light in all various forms and expressions. Equally, I love the process of discovery and building things that give me a sense of completion.

Hydro found its uniqueness

What made Hydro special was not to be found in its products and services, or its foundries, oil rigs, or even its culture – the most visible, palpable, or talked-about aspects of the organization. Hydro’s specialness was evident on two dimensions. First, we found that each Hydro business created value in a unique way. Oil and energy drove economic and social progress in its key markets. Aluminum shaped patterns of living in the worlds of transportation, building and leisure. Agri was, effectively, a guarantor of the world’s food supply, given its size and reputation among the world’s farmers.

Second, we discovered that Hydro had four institutional talents, which cut across the enterprise. The first of these talents was a genius for developing “source businesses.” Hydro was expert at building businesses that govern the creation of future value and which have a fundamental, rather than an incremental, influence on society (e.g. aluminum).

The second talent was a drive to optimize, wherein the company was exceptionally skilled at making the most of what it has by way of resources. The third talent was an instinct to commercialize. Here, Hydro displayed an uncanny knack for pursuing new applications and markets that served customer needs. (Hydro Precise[®], for instance, is a potent fertilizer distribution system that responds to farmers’ need for variable seeding, under different climate conditions around the world.)

Hydro’s fourth institutional talent was a passion for “social commerce.” Since its inception, Hydro had fused business performance and societal contribution into a single management discipline. This talent went well beyond popular notions of sustainability, based on triple bottom line accounting, or corporate social responsibility as a way to balance profit with doing good. Social commerce, as we defined it, was truly a way of life at Hydro that governed decision making and had driven value for the better part of a century.

Answering the question, “What makes me special?” is as pertinent to companies as it is to people. For organizations, the corollary to unearthing what you love is threefold: suspend disbelief. Do the research. Tease out what is invisible.

Is there a pattern to my life?

Yes, there is. But most people never see it. In truth, many people believe there is no pattern at all, that their lives are composed simply of random events, where they move from job

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to job, or place to place, as opportunity knocks, or as fate would have it. For them, choice and free will rule. These are people destined to go through life having missed the big picture – their own.

The pattern I am talking about comes clear in connecting the various “dots” of our lives, particularly, those achievements that constitute important milestones from the time we are children. The story revealed in that pattern brings order and meaning to our lives – the sense that we have not wasted our time, that our efforts, our successes as well as our failures, add up to something essential and telling about who we are.

For people, finding this pattern requires making the connections that explain past events and foreshadow the future. If we know where we have been, then perhaps, we will have a better idea of where we’re capable of going. For organizations, finding this pattern means analyzing the past as well as the present.

Standard operating procedure called for us to dissect Hydro’s history to uncover clues to what the company was really good at. This analysis led us to discover many institutional achievements and actions, which began to paint a broad picture of Hydro’s view of value creation.

We learned, for instance, that building communities was always as important to Hydro as building its business, as the company established itself within and outside of Norway. In Angola, a major oil producing nation, Hydro made a point of developing both oil fields and oil experts, who could operate on their own after the company had left.

A long-standing belief in science

As we discovered in Hydro’s archives, Sam Eyde, the company’s founder:

... believed in science and wanted to use it to improve whatever could be improved in nature. It was only through the application of artificial fertilizer that the forests could become as valuable as they could be ... Hydro wanted to improve nature’s performance.

Hydro lived a pattern of value creation that was all about the natural integration of people, nature and profit. That pattern shed important light on the identity of the institution, which was slowly coming clear.

Where am I going?

Most people ask this question out of frustration: they do not really know where they are going, as much as they would like to. Walking down the street, people ask themselves this question in their minds, even as they engage in conversations with friends. Managers are no different. I have met many, seemingly confident executives who, privately, are not entirely sure where their company is heading, despite all the work that's gone into setting its course.

Complexity and uncertainty are facts of life

The answer to the question, Where am I going?, is not simply I do not know; the correct answer is: I do not know, but that is all right. This holds for business executives as well as individuals. There is no need – in fact, there is no way – to know everything about tomorrow all at once. Complexity and uncertainty are the state we live in today. Dealing with uncertainty is a measure of your maturity. It is an act of trust in yourself and, because of the self-confidence it demonstrates, actually draws people to you. Paradoxically, admitting that you do not have all the answers is an act of leadership.

In a conversation with Hydro's chief executive, I asked what had led him to decide to search for the identity of his institution. While his desire to respond to investor pressure was certainly enough, I sensed there was more.

Search for one's identity helps stay the course

The essence of what he told me was this: for years, he had been struggling to answer employees' questions about what the company really stood for, what it was all about, beyond the lines of business it contained and the customers it served. His inability to provide what he felt was an adequate answer weighed on his conscience. How could he legitimately lead people if he could not answer such a basic question? Here is what he said: "I need a north star. I need to know where we are going besides simply making more money. I need to know what our identity is."

For individuals, the way to answer the question, "Where am I going?," is to commit to the path revealed in what you have learned so far – trust in the capacities you have uncovered that make you special and the pattern of your life, as you have come to see it, and what it suggests about what you might do tomorrow. For leaders, listen to your gut and stay the course. Have faith in those special strengths your company has and learn from the past about opportunities for the future.

What is my gift?

Of the eight questions that frame identity-based strategy, none is more important than this one in linking identity to the creation of value – that proprietary contribution a person, or company, is capable of making in the world.

Organizationally speaking, the kind of gift I am speaking of should not be confused with a competence such as manufacturing excellence, superior software engineering, or low-cost, 24/7 service delivery. These competencies are expressions of a company's gift. They are not the gift itself.

Finding the gift that defines everything else

Further, while your company may have several impressive competencies, it has only one gift of the type I am referring to. This gift flows from, and blends, the capacities that make the organization special and the focus the pattern of its life reveals. Just as there is only one company, there can be only one gift.

For individuals, finding that gift is a matter of following the signs of joy – those aspects of life to which you are instinctively drawn and that stir you deeply. For companies, no matter how large or complex, the process is straightforward: clarify your value creating potential as one enterprise. Hydro's "gift" explained its value creation story in ways that answered several needs: those of investors, top management and the company's rank-and-file employees, among others.

In short, the process we used was akin to solving a simultaneous equation. We cross-referenced the unique, value-creating capacities of each line of business with the talents of the institution, which resulted in a picture of Hydro that went far beyond its various operations. Hydro, we concluded, was driven to create a more viable society by developing natural resources and products in innovative and efficient ways.

As an encapsulation of Hydro's identity, "enhancing viability" explained many things. The company had been working toward this end since its inception, but had never seen itself in this way. To deliver on the promise of viability, it had needed to manage multiple businesses that shared a common focus on societal value as well as customer value. Further, Hydro now clearly recognized the opportunity it had to apply its identity in ways that could make their customers more self-sufficient. Not just through competitive prices, but by helping customers improve certain manufacturing processes which, in turn, made their employees more productive.

Perhaps, most important, Hydro's CEO had found his north star and was now able to explain to investors, and others, the logic of keeping the company intact: disassemble the company and value creation would erode, if not die.

Whom can I trust?

For individuals and organizations alike, the answer to this basic question bears heavily on one's health and welfare. For people, answering it requires taking stock of who matters and why. Once you know your identity, you have a new filter through which to gauge the strength and value of your relationships,

whether with those are with your family, your friends or in your workplace.

Building the “A” team, based on one’s identity

The challenge to organizations is similar and the goal is precise: to build your “A” team. This team includes people inside the company and outside. Aligning yourself with others who understand and can benefit from your company’s identity is one way to make the organization far more efficient, since your interests are naturally aligned.

One of the first steps Hydro’s management took was to rethink its relationships with various stakeholders. Deciding, for instance, which financial analysts and investors understood and supported the company’s identity helped executives determine where to spend their time. Hydro’s identity also became a lens for changing management’s dialogue with employees at every level of the company. Based on their responses to the identity work, management would now have a framework for assessing which people were best suited to take on corporate responsibilities.

What is my message?

The question, What do you stand for?, is asked time and again by people wanting to know what cause or purpose fuels the choices you make in life. In asking the question, what people ultimately want to know is whether they can relate to you, and if so, how. No matter what the outcome may be, they are looking for a frame of reference they can count on.

Telling people what you stand for explains you in your entirety. Not trait by trait, skill by skill or competence by competence, but you – the individual, or organization – as a complete and undivided being.

Knowing your message means declaring yourself on the strength of your gift, letting people in on who you really are and your capacity for making a contribution in the world. The same is true for companies. Once organizations understand their identities, they must go public with them, if they want stakeholders to fully appreciate their strengths and their potential for value creation.

Communicate the story

For Hydro, “going public” was a key imperative. On the strength of the work we had done, Hydro took a number of visible steps to ensure that its strategic story got told. Management adopted the identity statement as its mission, along with five values it knew were necessary to get people to deliver on its mission. These were courage, respect, cooperation, determination and foresight.

The company has taken other actions as well. It has revamped its leadership development, recruiting and performance management processes to align with its identity. It has

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launched a brand campaign that revolves around identity and its impact, internally and externally. And it has adopted a new management approach, moving toward becoming an integrated operating company, rather than a de facto holding company.

Will my life be rich?

The first and most obvious image this question brings to mind is money. There is nothing wrong with money; it is what shareholders want and the company needs to generate growth and future returns.

Much as wealth may be about money, however, it is equally about those things that, like a magnet, draw people back to you over and over again. For instance, the sincere recognition you receive from important people, that fuels your determination to redouble your efforts at whatever you did to win that recognition in the first place. Such people can be family and friends, or customers and suppliers. Recognition, as measured by reputation, is vital to living a rich life for individuals and organizations alike.

The question, “Will my life be rich?,” is not just about today; it is equally about tomorrow. It is about how you will be remembered and what you will be remembered for. In business terms, this is all about stewardship. For leaders, the idea of attaining a “rich life” for the institution you lead is an invitation for you to decide what truly matters. What are the things that, when combined, will add up to a life your company will be proud to call its own?

Arriving at an answer to the question calls for you to surrender to the pull of identity. Not in the negative sense of admitting defeat, or giving up; but in the sense that you allow yourself to make your identity your center of gravity. Figuratively speaking, you are handing over the reins to that part of yourself you can count on the most to make wise decisions and build meaningful relationships. In business terms, surrendering to the pull of identity means committing resources to bring identity to life, companywide.

The Hydro way

Hydro has taken this seminal step. The organization's identity strategy has evolved into what is now simply referred to as the Hydro Way – a way of thinking, behaving and communicating that has become codified in writing as the cornerstone of Hydro's management doctrine. The wealth Hydro is realizing from its efforts ranges from an increasingly efficient enterprise to one that, at bottom, is still here today.

Hydro is finding new ways to build stronger customer relationships, recruit and retain better-suited talent, and communicate more effectively than ever before. Career development practices are being modified to better align personal identity with organizational identity. People now have the opportunity to determine personal "fit" and to reconsider and refine their individual roles, based on how they contribute to Hydro's institutional talents.

Conclusion

Identity aligns the interests of employers and people by humanizing corporations and honoring the human being inside every "employee."

On its own, each of the questions I've addressed here holds important implications for leading companies, just as it does for leading lives. But, it is in combination with one another that their true power emerges. Taken together, these eight questions open up new possibilities for helping to envision and achieve future states of business activity that capitalize on the unique, value creating capacities – the identity – of the enterprise.

To realize these benefits, managers need to rethink how they make decisions, why they are doing what they are doing, and whether the results they seek are actually worth pursuing. In short, managers need to adopt the radical logic of identity-based management. ■