

IDENTITY ROOTS OF COMPETITIVE ADVANTAGE: A RESOURCE BASED VIEW

S. Jeyavelu

Indian Institute of Management Kozhikode

Competitive advantage is the Holy Grail in strategic management research and practice, the bone of contention in many a theoretical debate and the seed of inquiry for both researchers and practitioners. Competitive advantage eludes definition but can be broadly defined as the quality of an organization that enables it to outperform its competitors. Porter (1985) states that "competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it." Porter's analysis was at industry level and he assumed homogeneity within an industry and also imitability across organizations. From industry analysis and competitive strategy, strategy research evolved to the resource based view of the firm in the 90s (Barney 1991). Resource based view postulates high performance as a function of both competitive positions in industries and endowments of valuable resources. These resources are heterogeneously distributed among firms and unique to each. Resources that are complex, casually uncertain and ambiguous tend to be unimitable and lead to competitive advantage. Much of strategic management research in recent years focused on identifying unique, valuable, complex and unimitable resources such as organizational processes and socially complex resources.

Organizational identity is *a socially complex resource* that can be the source of competitive advantage by allowing an organization to do things that its competitors can not do, do some things better than its competitors and preventing it from succumbing to fads (Reger 1998). Organizational identity is the members' shared answer to the question 'who are we as an organization?' (Gioia 1998). Albert and Whetten (1985) in their landmark paper defined organizational identity as the characteristics of the organization that are collectively claimed to be *central, distinctive and enduring*. Later empirical studies found that organizational identity is flexible, less central and even less distinctive than originally defined (refer Corley 2004 for a review). However there is an inherent need among organizations to maintain *continuity* in their identity over past, present and future and be *distinctive* (Whetten & Mackey 2002). The need for continuity ensures that even if the *shared labels* remain the same, the *meanings* associated with the labels evolve and adapt to the changing requirements of the environment, (Gioia et al. 2000). This paper assumes that organizational identity is distinctive and continuing.

I argue in this paper that organizational identity is a socially complex resource that can be source of competitive advantage. Organizational identity is characterized by *homogeneity* (shared beliefs about the organization's identity), *intensity* (strength of conviction/belief & degree of positive affect towards identity), *complexity* (number of beliefs & the number of identities), *abstractness* (extent of use of abstract language in identity), *content* (what the identity is), and *context* (the internal and external context). There are inherent contradictions in assuming coherence among these characteristics. Organizations that have a simple vision and values that are shared by its members survive longer (Collins & Porras 1994). Hence an organizational identity that is homogeneous and evokes intense positive affect will endure over time. It is not rigid and permanent but malleable and continuing (Gioia et. al. 2000). The change and continuity in organizational identity are not distinct but exist simultaneously as a duality in organizational identity narratives (Chreim 2005). For this duality to exist an organization's identity has to be complex enough to hold many beliefs of identity as well as many identities together, and the narratives has to be abstract enough to provide for changes in *meanings* associated with organizational identity *labels* (Gioia et al. 2000). An organization that has survived for long and outperformed its competitors then would have had a homogeneous and intense organizational identity, which at the same time had been complex and abstract enough to survive over time. Then organizational identity necessarily would have to be

simultaneously loose and tight coupled for it to survive long and can be a source of competitive advantage (Orton & Weick 1990).

Proposition 1a: *Organizational identity is a source of competitive advantage if it is **homogeneous** enough to prevent cognitive dissonance; complex enough to hold a number of beliefs of identity or number of identities together; intense enough to promote strong identification and positive affect towards it; abstract enough to permit meaning making in a variety of diverse contexts; and fluid enough in content to match changing contexts.*

Proposition 1b: *Loose and tight coupling of organizational identity characteristics is a source of competitive advantage if organizational identity is homogeneous and intense and these are tightly coupled; and complex, abstract and fluid and these are loosely coupled.*

Organizational identity is expressed to the stakeholders and the external environment as organizational image and defined as what the members want the stakeholders to consider as the organization's identity (Whetten & Mackey 2002). Stakeholders provide feedback on these identity claims in terms of the reputation the organization has in the environment. If the customers and the context find the organization's reputation valuable then the organization charges a premium for its association and can be a source of competitive advantage.

Proposition 2: *Organizational image (hence organizational identity) is a source of competitive advantage if it is perceived to be valuable and worthy of a premium.*

People are a source of competitive advantage to an organization (Pfeffer 1994). Attracting and retaining talented employees is one of biggest challenges in modern times. Prospective employees are attracted to an organization if they positively identify themselves with the organizational identity's proxy - its image. If the positive identification is more valuable than their identifications with other organizations, then these prospective employees are likely to join this organization. A larger pool of prospective employees enables an organization to select the best talent and leads to competitive advantage. An employee remains in an organization only as long as he positively identifies with the organizational identity or its essence in terms of vision or values, and this identification is more valuable than identification with other prospective employers' identities or their proxy - images.

Proposition 3a: *Organizational image (hence organizational identity) is a source of competitive advantage, if it promotes positive identification and that identification is perceived to be of comparably higher value by prospective employees.*

Proposition 3b: *Organizational identity is a source of competitive advantage, if it promotes positive identification and that identification is perceived to be of comparably higher value by employees.*