Organizational identity as an anchor for adaptation: an emerging market perspective

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Abstract

Purpose – There is little doubt that organizational identity – that which is central, distinctive, and enduring about an organization – mediates in adaptive processes. Exactly how this mediation takes place, and whether it is favorable or unfavorable to adaptation, must still be fully established. The purpose of this paper is to add to the literature on identity and adaptation by exploring the relationship between these two constructs in family firms operating in an emerging economy. Based on measures of strength of identity, the authors examine how identity affects the adaptive processes of issue identification, strategic impulse definition, and implementation, where the authors look at pace of adjustment.

Design/methodology/approach – Longitudinal and comparative case studies were conducted of polar types presenting two pairs of organizations in two separate industries. These organizations faced the challenge of founder succession and a radical shift in macroeconomic conditions over a period of three decades. Through these four cases the authors hope to provide clear pattern recognition of strength of identity and adaptation – and of the relationship between these two constructs – in the face of severe internal and external shocks. The approach seems adequate in the larger context of inductive theory development and particularly suitable to the exploration of theoretical constructs, as it allows the researcher to unravel the underlying dynamics of path dependencies and/or evolutionary processes.

Findings – It is found that strong-identity organizations are able to foresee relevant changes in their industries, define adequate strategic responses, and implement them in an evolutionary (i.e. smooth) manner. Conversely, loose-identity organizations misread industry trends, incur strategic paralysis, and must eventually enforce revolutionary (i.e. violent) changes in order to ensure survival.

Originality/value – The paper addresses a critical issue for the advancement of organizational theory: the relationship between organizational identity and adaptation in emerging economies. In addition, it has important practical implications for managers doing business in turbulent environments. It makes a sound theoretical contribution and has important managerial implications.

Keywords Argentina, Emerging economies, Family-owned firms, Change management, Organizational culture, Succession planning, Firm capabilities, Adaptation

Paper type Research paper

Organizational identity seems to play a role in the way organizations and their managers interpret issues (Dutton and Dukerich, 1991), identify threats (Elsbach and Kramer, 1996), manage change (Reger *et al.*, 1994), and frame strategies and responses (Fiol and Huff, 1992). Over the past two decades, identity has emerged as an important antecedent of organizational strategic actions and, as such, as a potential enabler of organizational adaptation. As shifting environmental conditions challenge organizations' identities, identity mediates between environmental pressures and firms' strategic responses.

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Exactly how this mediation takes place must still be elucidated. Identity appears to act as a double-edged sword: it has been widely recognized as a source of rigidity and structural inertia (Dutton and Dukerich, 1991; Stimpert *et al.*, 1998; Reger *et al.*, 1994) and at the same time acknowledged as the foundation upon which radical change can be effected (Collins and Porras, 2000; Volberda, 1999). From a theoretical perspective, identity and strategic change are two constructs still ambiguously related. Conclusive evidence of a strictly favorable or a strictly unfavorable relationship between organizational identity and organizational adaptation has not yet been found. The purpose of this study is to further explore the relationship between these two constructs, analyzing the mediating role of strength of identity on adaptation upon the occurrence of severe shocks. For that, we follow an inductive, theory building approach.

The relationships that emerge are somehow puzzling. Contrary to most of the prevailing literature, we found that a strong organizational identity favors instead of inhibits adaptation to severe shocks. We go even further, showing that the organizations in our study that maintained strong organizational identities managed to adapt in an evolutionary (i.e. gradual, non-turbulent) manner. Conversely, organizations with loose identities could only adapt in a revolutionary (i.e. sudden, almost violent) way, prompted mainly by the need to survive. These findings are in accordance with recent studies that stress that small changes promote radical transformations (Plowman *et al.*, 2007).

Identity, adaptation, and their interrelations

Albert and Whetten (1985) characterize organizational identity as a three-dimensional concept: identity is associated with what is considered central, distinctive, and enduring about an organization, as perceived by its members. The interpretation of this seminal definition has been refined in recent times. Despite its character of permanence and endurance, identity has emerged as a dynamic concept, a subjective, socially constructed phenomenon (Scott and Lane, 2000) that varies with context (Gioia *et al.*, 2000). Because identity is imprinted in the very fabric of the organization, it provides a lens through which managers interpret organization-level issues and conceive and disseminate strategic impulses to address them. Dutton and Dukerich (1991) define an issue as an event, development, or trend that the members of an organization collectively recognize as being of consequence to the organization. The appearance of an issue on an organization's radar can be expected to trigger adaptation processes of varying scope and, ultimately, a change or actualization in organizational identity.

While there is little doubt that identity mediates between environmental pressures and organizations' strategic responses, the literature is inconclusive as to whether the strength of an organization's identity may be considered an asset or a liability in this mediation. Identity can provide an important psychological anchor for members of an organization in times of uncertainty but it may also prove a source of resistance to change (Dutton and Dukerich, 1991) and of inertia (Stimpert *et al.*, 1998; Reger *et al.*, 1994). Fox-Wolfgramm *et al.* (1998) explicitly referred to "identity resistance" as resistance that results from non-convergence between a firm's current identity and its envisioned identity. At any given time, identity influences the way organizations understand and address environmental threats and opportunities. Elsbach and Kramer (1996) stated that threats to an organization's identity result in members' attempts to retain that identity. As for seizing opportunities, Burgelman (2002) suggested that a firm's cultural mechanisms, among other factors, may be a source of coevolutionary lock-in between the organization and its environment. Barney *et al.* (1998) concluded that organizational identity is likely to be a source of competitive advantage when the environment is stable and homogeneity is high. Otherwise, identity is likely to be a source of competitive disadvantage.

Further studies offer a different perspective. In their conceptualization of visionary companies, Collins and Porras (2000) propose that a clear identity should lend organizations strategic continuity and precision. While a visionary company's strategy may change in accordance to changing market conditions, its identity remains intact. This echoes Gagliardi's (1986) proposition that the primary strategy of an organization should be the maintenance of its cultural identity. Gustafson and Reger (1995) predict that turbulent environments favor organizations that possess a relatively stable set of intangible identity attributes and another set of more changeable substantive attributes – those related to products, strategies, and geographic scope, among other elements. In this same vein, Volberda (1999) and Ullrich *et al.* (2005) maintain that, in the midst of a change journey, firms should be able to maintain a sense of continuity, a permanent element that ties them to the past and projects them towards the future. More recently, Hatum and Pettigrew (2006) have pointed at organizational identity as one of five key enablers of organizational flexibility.

The nature of identity has been analyzed in different settings: public agencies (Dutton and Dukerich, 1991), higher education institutions (Gioia and Thomas, 1996), at cultural institutions (Glynn, 2000), and *Fortune* 100 corporations (Corley and Gioia, 2004), among others. Identity has also been explored under a variety of situations such as strategic reorganizations (Nag *et al.*, 2007), employee strikes (Glynn, 2000), corporate spin-offs (Corley and Gioia, 2004), and mergers and acquisitions (Ullrich *et al.*, 2005).

Still, key aspects of the relationship between identity and organizational adaptation remain unclear. Transformations in both identity and strategy trigger path dependencies and evolutionary processes that are complex and difficult to prognosticate (Siggelkow, 2007). One important limitation is that studies have tended to focus on specific types of organizations: those subject to close scrutiny by a number of external constituencies such as the media, current and potential customers, and government agencies (as is the case with, e.g. ONGs and corporations set in developed markets). Studies have also tended to analyze particular challenges: at these organizations, identity must either be defined from scratch – as in the case of a spin-off – or renewed based on a sense of discrepancy between the current identity and construed external image (Dutton and Dukerich, 1991). Little attention is given to situations where both internal and external factors challenge organizational identity, or to situations where identity is upheld rather than changed in order to enable adaptation. This being the case, the notion that an adequate strategic response should demand and be preceded by a change in identity appears to prevail throughout the literature (Barr *et al.*, 1992; Gioia and Thomas, 1996; Nag *et al.*, 2007). However, we cannot predict with certainty that these very insights will emerge from exploring the relationship between identity and adaptation in a different geography, under different imperatives, with a different set of relevant stakeholders.

In this study we explore the concept of strength of identity and its influence over adaptation by considering several original premises:

- The unit of analysis is given by family firms, a type of organization where identity is tightly linked to the person and values of the founder and, to a great extent, to those of his successors. As family members own the majority of shares, the relative influence of external stakeholders over the definition of identity and strategy at these organizations is reduced.
- The selected firms operate in an emerging economy: Argentina – where political, financial, and social uncertainty abounds, and where meso-level constituencies such as professional associations and public agencies do not necessarily monitor or influence companies within their realms.
- The challenges facing organizational identity at these organizations stem both from within and from the environment.

We focus on the internal challenge of founder succession as well as on the external challenge given by an environmental shock – the opening up of the Argentine economy in the early 1990s after a decade of import-substitution policies – that radically altered the macroeconomic rules of the game. Based on these three premises, we analyze how the permanence or dilution over time of key elements of organizational identity results in processes of issue identification, strategic impulse definition, and implementation conducive to adaptation. Within this process, we examine the pace of adjustment of firms to the new scenario.

Research context

The complex nature of the constructs under study calls for an approach that is both inductive and qualitative. Our analysis focuses on four in-depth case studies from a population of large indigenous family-owned businesses in Argentina operating in two industries: pharmaceuticals and edible-oil. Before we delve into the specifics of our sample selection, we define the key constructs that underlie our research context.

Operationalization of organizational identity

Organizational identity projects itself as a multi-dimensional and quite diffuse construct (Albert and Whetten, 1985). Following Corley *et al.*'s (2006) appeal that researchers explicitly state how they conceptualize identity, for the purposes of this study we approximate identity through organizational values. Gagliardi (1986) defines an organization's cultural identity in terms of prevailing values. Similarly, Scott and Lane (2000, p. 45) refer to organizational values as "what an organization is about", while Gustafson and Reger (1995, p. 464) place values within the core of identity. Values are intangible components that define "why and how we do things" as opposed to "what we do".

Based on this conceptualization, we define endurance of identity as the degree to which values endure over time at an organization. This approach seems appropriate when seeking to determine whether organizations are conservative about their values, how this attitude influences their identity (Collins and Porras, 2000), and whether those values have acted, over time, as enabling or as constraining factors of organizational adaptation (Volberda, 1999). We have thus sought to identify core values at each organization under study and to trace their permanence or dilution over successive generations of family management. It is the endurance over time of labels assigned to core values and not the endurance of specific interpretations of those labels (Gioia *et al.*, 2000) that we take into account when assessing endurance of identity.

Indeed, interpretations may change in response to varied stimuli while the belief of what the organization is – e.g.: an innovative company, a socially responsible company – remains constant. Conversely, the dilution of values is understood as a situation in which a value once declared and enacted no longer evidences itself in company members' behaviors or discourse. Specific labels disappear or become less prominent in the organization's identity.

Settings: family firms in an emerging economy

Family firms. Family firms are among the most complex organizational forms (Neubauer and Lank, 1998). They are placed at the crossroads of two intricate social systems – family and business – that interact heavily with each other. This interaction "establishes the basic character of the family business and defines its uniqueness" (Davis, 1983, p. 47). Family and business are interdependent in the sense that one system cannot change without affecting the other (Kepner, 1991). While the literature has not arrived at a single, universally accepted definition of family firm, the construct seems to entail:

- managerial control and ownership of the majority of shares by members of the dominant family (Donckels and Fröhlich, 1991);
- financial control by members of the family (Ward and Aronoff, 1996);
- the expectation that the organization will transcend its founder and attain continuity while remaining under family leadership and control (Gallo, 1997); and
- significant influence over succession plans by members of the family (Handler, 1989).

We thus exclude from our understanding of family firms all entrepreneurial projects devised as one-man-shows or established with the explicit desire to sell at a future date.

Family businesses are the backbone of most healthy economies. While the great majority of family firms are small businesses, the classification also includes large, publicly-traded companies. Approximately one-third of S&P 500 companies are family-owned. In emerging economies, this percentage tends to increase. Of the 20 largest firms in South Korea, 35 percent are family-controlled. These statistics reach 45 percent in Singapore, 65 percent in Argentina, and 100 percent in Mexico (Morck and Yeung, 2004). La Porta *et al.* (1999) have obtained similar results.

Family firms constitute interesting objects of analysis because they present a series of unique traits not usually found in other organizational forms. Among the most relevant for analyzing the relationship between identity and adaptation are:

- predominance of a long-term perspective in business, motivated by the desire to ensure the family's wellbeing over time;
- independence of action due to scarce pressure from the stock market and/or possible takeover agents; and
- strong commitment and identification with organizational values.

These traits are counterbalanced by the frequent presence of:

- complex organizational structures and unclear division of responsibilities;
- nepotism and dominance of family dynamics over business;
- paternalism; and
- succession dramas (Dyer, 2006).

Emerging economies. A great percentage of world population lives in emerging economies. A great percentage of the world's economic crises also originate there. Every economy fluctuates in cycles of growth and stagnation. In developed countries cycles are more or less smooth. In emerging economies growth is usually more vigorous than in developed countries while recessions are much more profound. Some economists have coined the terms *Sudden Stop* and *Phoenix Miracle* to characterize these marked fluctuations (Calvo *et al.*, 2006). Both phenomena tend to occur suddenly, leading the general trend of emerging economies to resemble a rather unstable electrocardiogram. A sudden stop is a sharp fall in capital inflows that produces a violent contraction in the country's gross domestic product (GDP). This fall radically alters relative prices due to changes in the real exchange rate. Calvo *et al.* (2006) analyzed 33 contraction episodes in 31 emerging markets during the period 1980-2004. They found that one-third of these episodes were mild recessions while two-thirds qualified as collapses. On average, these collapses caused a 10 percent decline in GDP per country. Phoenix miracles are equally puzzling. They point to cases in which GDP recovers relatively quickly from a sharp contraction – i.e. the economy suddenly "rises from the ashes". Post-collapse recoveries are steep, with economic activity reaching its pre-crisis level on average less than three years following the collapse (Calvo *et al.*, 2006).

Sudden stops and phoenix miracles are rooted in vulnerabilities that make emerging market economies unique:

- a tendency to generate large macroeconomic imbalances, such as current account and or fiscal deficits that lead to the accumulation of large stocks of public and foreign liabilities;
- a tendency to overly finance deficits with short-term debt, a practice which endangers the economy in the face of potential liquidity runs;
- doubts about the credibility of the government's commitment to ensure long-term creditworthiness;
- poor banking regulation, which leads to over-reliance on dangerous forms of borrowing by companies and individuals; and
- a weak institutional environment that enhances policy uncertainty and makes international investors extremely sensitive to sudden shifts in the market (Roubini and Setser, 2004).

Not only do emerging economies fall prey to their internal vulnerabilities, but they often suffer from contagion effects. Sudden stops usually occur in a systemic manner. Countries affected by systemic sudden stops are quite heterogeneous in terms of their macroeconomic conditions but share a common factor: they are all emerging. The practical consequence of this phenomenon is that a country that looks robust in its macroeconomic fundamentals might "import" crises from other emerging economies.

Emerging market crises have important effects on the life and chances of organizations acting in these environments. Among such effects are:

- sharp changes in the level of aggregate demand;
- drastic contraction of credit levels; and
- sharp changes in relative prices of goods and services.

The combination of these effects puts tremendous pressures on organizations' business models and demands very adaptive organizational structures and teams.

Threats to identity: internal and external challenges

We have traced the history of each organization under analysis over several decades to capture the effects of internal and external challenges on the strength of their respective identities. In order to ensure that the timeframe covers major social breakpoints (Pettigrew, 1990), we have focused on the period 1970-1999. All companies faced the challenge of founder succession in the late 1970s and early 1980s, and a radical shift in macroeconomic policy taking place at the beginning of the 1990s. Succession was viewed as a natural experiment to explore strength of identity as the endurance or dilution of organizational values while the shift in macroeconomic policy provided the required grounds to study the relationship between a strong or a loose identity and the process of adaptation.

Internal challenge: founder succession. The departure of the founder is one of the most disruptive events in the history of a family firm. No natural entity exists within the firm that may exactly replicate the founder's drive, charisma or management style to provide seamless continuity. Evidence indicates that the path to succession is both strenuous and uncertain: in the USA, fewer than 30 percent of family businesses are passed on to second-generation managers, while only 10 percent make it to the third generation (Lansberg, 1999). The average lifespan of a family firm is 24 years, a period that coincides with the average tenure of most founders (Beckhard and Dyer, 1983).

Succession is problematic for a number of reasons. Resistance to succession (Handler and Kram, 1988) may arise on the part of the founder – wishing to perpetuate himself at the helm of his company – as well as on the part of family members in lower ranks – basking in complacency and over-reliance on the founder and ill-prepared or unwilling to start walking in his shoes. According to Haveman and Khaire (2004), the process of succession proves most disruptive when:

- the organization's identity originates from and strongly reflects the founder's personal ideology;
- the founder assumes not one but various managerial roles; and
- the organization receives no support from affiliated constituencies.

Any process of succession, however carefully orchestrated, generates ambiguity at personal and at organizational level. Complex processes with unclear consequences are set in motion (Beckhard and Dyer, 1983) that may benefit the family business (Helmich, 1974), devastate it (Carroll, 1984; Haveman, 1993), or yield negligible results (Brown, 1982). Ambiguity prevails because the founder tends to act as the central point that holds the individual pieces of the organization together. The founder's personal values nurture the belief system that defines and maintains the organization's distinctive character (Selznick, 1957) as well as provides the fundamental basis from which strategic impulses – such as visions, goals, and strategies – emerge. Upon the founder's departure, the organization faces the possibility of adaptive paralysis. Schein (1983, p. 28) stated that:

> The ultimate dilemma for the first-generation organization with a strong founder-generated culture is how to make the transition to subsequent generations in such a manner that the organization remains adaptive to its changing external environment *without destroying cultural elements that have given it its uniqueness, and that have made life fulfilling in the internal environment* (emphasis added).

If the founder has not taken precautions to transform values into organizational assumptions shared by all members, the organization may be at a loss to face its competitive environment (Selznick, 1957; Schein, 1983). Collins and Porras (2000) refer to this process of institutionalization as ideological coaching: the indoctrination of the next generation by the present generation to ensure the endurance of core values over time. It is this enduring presence of values after the founder succession that we will seek to identify in the companies under study.

External challenge: from turbulence to stability; from isolation to openness. Argentina is an emerging country that has presented one the highest levels of economic volatility in the last half-century. Since the Second World War until the early 1990s, Argentina was a closed economy with a ratio of (exports + imports)/GPD at the very low level of 8 percent. Government heavily influenced economic activity and owned most utility companies. Inflation was extremely high and accelerated during the second half of the 1980s, with three peaks considered hyperinflations (1985, 1989, and 1991). In this same period, the Argentine peso remained weak against the US dollar. Meanwhile, foreign trade was heavily taxed. Recurrent crises led to a particular environmental shock in 1991, when macroeconomic conditions changed dramatically. In order to stop inflation, the country adopted a fix-currency regime tied to the US dollar. The real exchange rate dropped significantly, causing Argentina to sustain a very strong currency. In addition, export and import taxes diminished substantially. Relative prices of production factors changed following this upheaval in financial conditions.

The following indicators help assess the shifting conditions prevalent in Argentina between 1970 and 1999. Figure 1 shows the inflation rate. As the series indicates, there are five years with an annual inflation rate above 500 percent and in 16 of the 30 years analyzed the annual inflation rate was above 100 percent. This led to tremendous changes in the relative prices of goods and services and, therefore, in the input-output value of the firms. The increasing volatility in price level can be easily observed from 1970 to early the 1990s, where a period of stability starts. Figure 2 shows annual GDP growth for Argentina during the period of study. Growth, as stated earlier, resembles

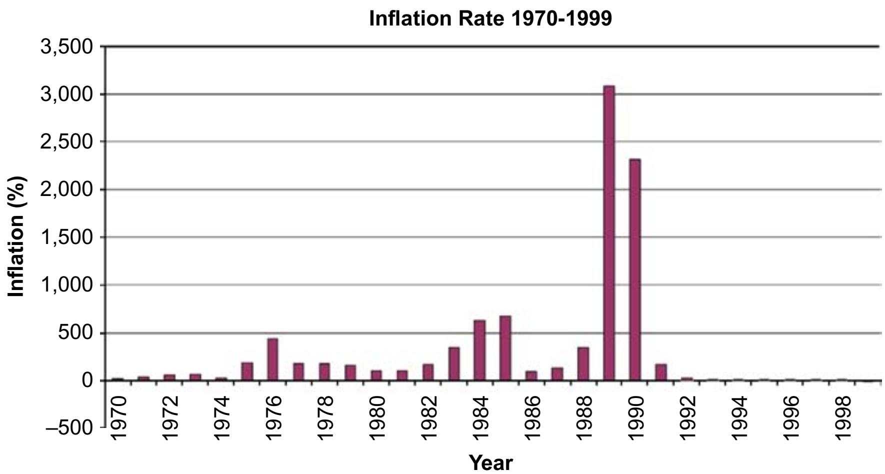

Figure 1.
Inflation rate in Argentina, 1970-1999

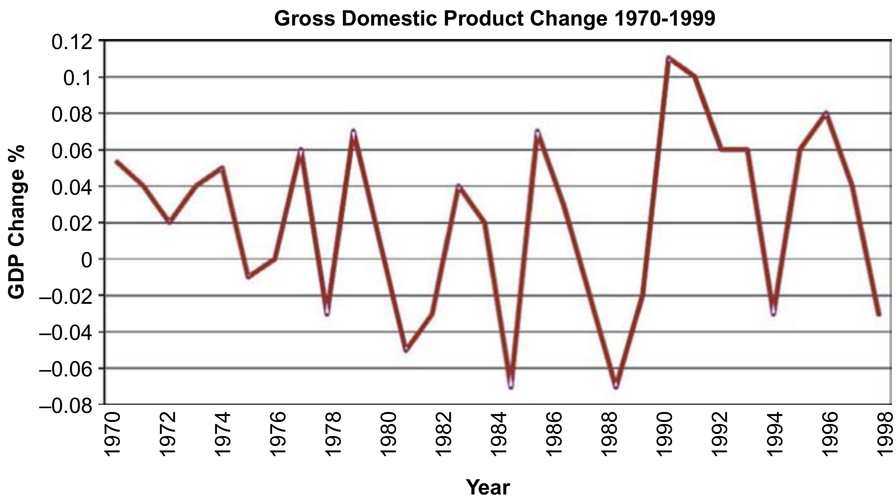

Figure 2.
GDP change in Argentina, 1970-1999

an electrocardiogram. The most salient feature of this figure is the sharp change in trend that happens almost every year. For ten of the 30 years depicted, GDP contracts (i.e. growth was negative). While in most developed countries recessions involve a contraction in the rate of GDP growth (with GDP growth remaining positive), in Argentina contraction tends to happen at GDP level.

Sample selection

Industry selection. We have focused our study on two industries: pharmaceuticals and edible-oil. These industries were selected for several reasons: both enjoyed considerable relevance within the Argentine economy; the number of surviving indigenous family firms across our period of analysis was larger than in most other industries; and both suffered dramatic changes in their internal dynamics after the environmental shock that took place at the beginning of the 1990s. These pressures are reflected in the general level of foreign direct investment (FDI) and the degree of regulation/deregulation present in each industry (CEP, 1998). Table I show relevant information about both industries for the period 1970-1999.

Firm selection. To select the most appropriate companies for our study, a list of all indigenous family firms operating in the year 1970 in the pharmaceutical and edible-oil industries in Argentina was compiled. Organizations that merged, were acquired by others, or went bankrupt during the period of analysis (1970-1999) were discarded. The final list contained eight companies in pharmaceuticals and three in edible-oil. We selected four firms – two in each industry – after monitoring each organization's relative standing over time in rakings compiled by the most relevant professional association in its field – CIARA in edible-oil and CILFA in pharmaceuticals. According to these rankings, Oil-A and Oil-B emerged as the most and least successful firms during the period of analysis in the edible-oil industry. Similarly, Pharma-A and Pharma-B emerged as the most and least successful firms in the pharmaceutical industry. As of 1999, Oil-A and Pharma-A were both in second-generation tenure while Oil-B and Pharma-B were in their third, with Oil-B exhibiting fourth-generation

Pharmaceuticals	
Fundamentals	One of the most dynamic industries in Argentina Argentina among few countries in Latin with pharmaceutical innovative capabilities (Ballance *et al.*, 1992) By the turn of the century, tenth largest pharmaceutical market in the world, representing 1.5 percent of world sales. Nearly all renowned pharmaceutical MNCs present in Argentina
Scenario pre-1990	Façade of dynamism and openness: industry heavily protected and considerably stable. Indigenous businesses accounted for almost 60 percent of local sales (IMS, 1990) Singular institutional and regulatory framework fostered the expansion of local firms in detriment of subsidiaries of foreign MNCs. The government would: (a) deny product patents in the field of pharmaceuticals; (b) give priority to indigenous firms in the registration of new pharmaceutical products; (c) maintain a high level of tariff-protection for domestic production of pharmaceutical raw materials; and (d) force MNC subsidiaries to pay high transfer prices, thereby reducing their ability to offer competitive prices *vis-à-vis* domestic firms (Chudnovsky, 1979; Vernengo, 1992)
Scenario post-1990	Structure and regulatory framework changed dramatically with the opening up of the Argentine economy and the deregulation of economic activity: (a) Price controls over medicines were eliminated while tariffs to the import of medicines coming from countries with equal or superior quality controls were decreased (b) Access mechanisms for the registration of new products were simplified (c) Patent legislation was modified Between 1994 and 1997, the industry received approximately USD 1,200 million worth of foreign and national investment (Manzone, 2000). Competitive pressures increased Over the period 1994-1999 noticeable trend in Greenfield entry and in the acquisition of indigenous companies by MNCs. By 1999, MNCs had increased their market share to 51 percent (IMS, 1999) while market concentration had risen by 4.67 percent for the first ten companies in the industry and by 8.16 percent for the first 20 companies (IMS, 1988-1999)
Edible-oil	
Fundamentals	Agro-industries were one of the earliest industrial sectors to develop in Argentina. A pillar upon which the country's industrialization process relied Edible-oil industry was one of the most vibrant agribusinesses over the period 1990-1999. By the end of the 1990s, Argentina was the main exporter of soybean and sunflower oil in the world, the fifth largest producer of oilseeds and the sixth crusher (Rabobank, 1998). Oil production in Argentina multiplied six fold during the period 1970-1997, boosted by strong external demand (CEP, 1999)
Scenario pre-1990	During the 1970s and 1980s, companies sought to increase their production capacity by incorporating new, more efficient crushing technology and by scaling up their plants A first wave of concentration ran through the industry, reducing the number of companies from 57 in the 1970s to 40 in the mid-1980s

(*continued*)

Table I.
Industry information

Scenario post-1990	Foreign consumers became more demanding and questioning of the quality and safety of food. Industry faced with the need to improve consistency and traceability of products (Ketelhohn *et al.*, 1998) Biotechnological developments increased availability of genetically-modified seeds. Raw materials became de-commoditized, and the industry was forced to combine the processing of higher volumes with the handling of specialty products. This demanded investments in additional capacity, infrastructure and logistics (Rabobank, 1998) Industry was affected by the deregulation in infrastructure-related services such as ports and roads, which had traditionally been government-controlled. Prominent companies took the opportunity to further their domain on other areas of the value chain Industry became increasingly global, competition increased and crushing margins fell. Since only a few large players could afford to achieve the necessary scale to stay profitable, concentration intensified. By 1998, 37 companies remained in the Argentine edible-oil industry. The ten largest firms accounted for 85 percent of production (CEP, 1999). Among them, just three were indigenous family firms – the remaining seven were powerful MNCs

Table I.

members working in lower ranks of the organization. Table II shows the companies' profiles and Figure 3 shows timelines with major succession events. Companies showing moderate positioning in rakings – six in pharmaceuticals and one in edible-oil – were cast aside so that the selected companies could operate as polar types, reflecting opposite extremes of the phenomena to be studied (Eisenhardt, 1989; Pettigrew, 1990).

Company	Industry	Related business	Employees (1999)	Turnover (1999, in millions of USD)
Oil-A	Edible-oil	Farming Crushing Transport (railways/port) Branding Distribution	1,500	1,402
Oil-B	Edible-oil	Crushing Transport (port) Branding Cotton ginning	350	579
Pharma-A	Pharmaceuticals	Biotechnology Pharmaceutical products Retail (pharmacies) Intermediary companies Distribution	950	232
Pharma-B	Pharmaceuticals	Pharmaceutical products (mainly dermatological products)	342	48

Source: Compiled from company data

Table II.
Company profiles

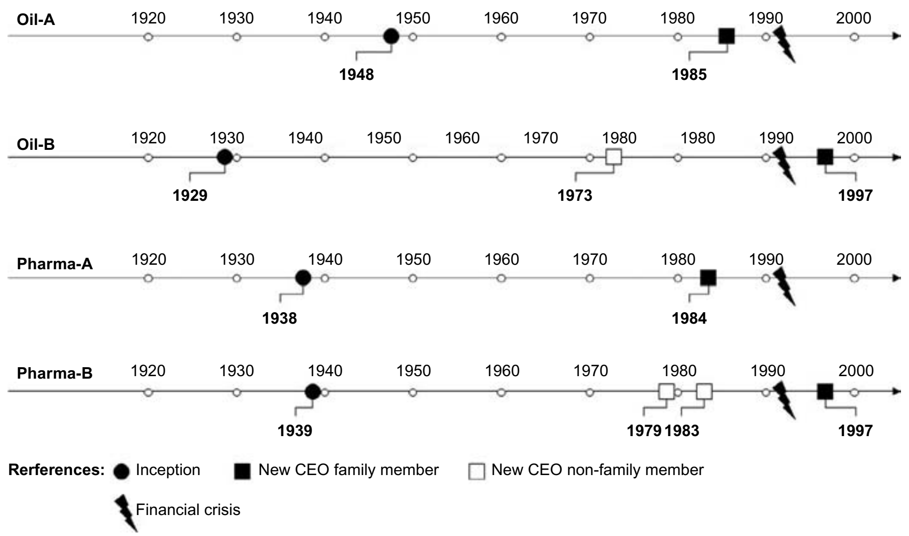

Figure 3.
Company timelines

Methods

Research design: an inductive journey

We conducted longitudinal and comparative case studies of polar types (Eisenhardt, 1989; Pettigrew, 1990) presenting two pairs of organizations in two separate industries. These organizations faced the challenge of founder succession and a radical shift in macroeconomic conditions over a period of three decades. Through these four cases we hope to provide clear pattern recognition of strength of identity and adaptation – and of the relationship between these two constructs – in the face of severe internal and external shocks. Our approach seems adequate in the larger context of inductive theory development and particularly suitable to the exploration of theoretical constructs, as it allows the researcher to unravel the underlying dynamics of path dependencies and/or evolutionary processes (Siggelkow, 2007).

While single-case studies can richly describe the existence of a phenomenon, multiple case studies typically provide a stronger base for theory building (Eisenhardt, 1989). We therefore analyze two pairs of cases in parallel. This number of cases should help highlight replication logic, according to which cases serve as discrete experiments that enable the replication, contrast, and extension of the emerging theory (Yin, 1994; Brown and Eisenhardt, 1997), as well as enable comparisons that clarify whether an emergent finding is simply idiosyncratic to a single case or consistently replicated by several cases (Eisenhardt, 1991). Multiple cases ultimately help create more robust theory because the emerging theory is deeply grounded in varied empirical evidence (Eisenhardt and Graebner, 2007).

Data collection

We gathered data from semi-structured interviews and written documentation from company and public sources. These documents covered the period of analysis and in some cases reached further into the past to the core of the founders' tenure.

Semi-structured interviews. A total of 59 semi-structured interviews were held during our research – approximately 15 at each organization. Semi-structured interviews are useful when researchers are striving to grasp and explain complex behaviors or situations (Newman and Nollen, 1998). As individuals working at different levels in the organization's hierarchy may differ in their interpretations (Pettigrew, 1990), pluralism in the selection of the interviewees was considered important. Table III lists the interviewee's profiles.

The interviewing process was carried out following a definite sequence. Initially, a contact person with close ties to the authors was interviewed at each organization to explore relevant organization-level issues associated with the challenges of succession and alteration of environmental rules. A list of suitable individuals to interview at each organization emerged from these initial interviews. On this second stage, we focused especially on profiles such as senior managers, who possessed precise knowledge of the history of the company. Subsequently, we interviewed individuals who had been involved in strategic initiatives that entailed a transformation of the core business of the firms. Business practices and management styles prevalent in strategic areas of the organizations became evident through these accounts. Finally, members of the Board of Directors of each organization were interviewed to round off the process. At this stage we focused on grasping Directors' perceptions of critical organizational issues. The decision to space out the interviews in the way explained above was taken in order to ensure that we would reach saturation in our knowledge of relevant issues of each organization as we approached the stage in which Directors should be interviewed. Table IV shows the interview pro-forma used in the study.

While about 15 interviews per company may be deemed a low number, the points of view obtained from these interviews and the dispersion of executives across each organization's hierarchy allowed us to reach theoretical saturation (Glaser and Strauss, 1967). More interviews would not have enhanced or altered our results.

Written documentation. Written materials allowed us to enhance, triangulate and validate (Yin, 1994, 2011) the information derived from the interviews while providing insight into the context in which decisions were taken. The sources of documentation used in our analysis are specified in Table V. In their review of unobtrusive methods, Webb *et al.* (1966) and Lee (2000) argued for the use of speeches and letters as ways of understanding the evolution of ideas and values. Similarly, Collins and Porras (1991) compared speeches and discourses to analyze how values from the first generation influenced the second one at visionary companies.

We faced some limitations in our gathering of written materials. Hardy (2001) indicates that one of the main difficulties associated with data collection in discourse

Company	Board of directors	Top mgmt	Middle mgmt	Consultants and others	Total	Family members	Non-family members
Oil-A	4	6	4	1	15	5	10
Oil-B	6	3[a]	8	0	14	7	7
Pharma-A	2	6	5	2	15	6	9
Pharma-B	3	6	6	0	15	3	12

Note: [a]These executives were also members of the board of directors

Table III. Quantitative details of the interview data

Aspects of the process of adaptation	Questions triggering topics
1. Antecedents and history of the company	Breakpoints in the history of the company Critical moments that may help explain successful or unsuccessful events The process of founder succession
2. Organizational values	Dominant leadership styles and their evolution over time Power groups Ideological coaching
3. Strategy before the external shock	Business strategy: positioning Products and markets Skills and capabilities Governance
4. Changes to strategy after the shock: the strategic process	Strategic process Risk assessment Benchmarking Degree of formalization Degree of centralization Control mechanisms
5. Changes to strategy after the shock: specific strategic impulses	Products and markets New or discontinued products or markets Identification of change agents Identification of sources of resistance Skills and capabilities Acquisition Development Governance Role of board: strategy/operations Performance

Table IV.
Interview pro-forma

analysis is the sampling of the documents used for analysis. She argues that the sampling should contain enough documents to enable the researcher to draw conclusions from them (e.g. in their analysis of social identities and relations in the Canadian refugee system, Hardy and Phillips (1999) examined 127 cartoons as a way of achieving depth and scope). In our case, all four organizations analyzed were privately-held, which meant that they were free, under Argentine legislation, from the obligation of producing public information such as annual reports. Hence, the process of collecting information involved considerable background work and exploration at company headquarters and family archives. Written documentation was made available to the authors at all companies except Oil-B. We gathered a total of 20 documents: letters, speeches, reports, and presentations made by founders and/or executives of the selected organizations. We worked with (arguably) few documents, but each afforded noticeably high quality information.

Data analysis

We started our analysis of the data by building individual case studies that may later be compared horizontally to construct a conceptual framework (Brown and Eisenhardt, 1997). Tape-recorded interviews were transcribed and translated into English by the authors. A database was created following the interview pro-forma, and

Company	Sources of written documentation
Oil-A	1. Note sent by the founder to a plant manager, January, 1963
	2. Speech given by the founder to managers and employees, December, 1968
	3. Speech given by a director (second-generation, family member) to managers and employees at the launch of their trademark bottled edible-oil, March, 1989
	4. Speech given by the CEO (second-generation, family member) to managers, June, 1990
	5. Speech given by a director (second-generation, family member) November, 1996
	6. Speech given by the board to newcomers during the induction week
Oil-B	No documents available. Research relied solely upon 14 semi-structured interviews
Pharma-A	7. Speech given by one of the founders at CILFA, a professional association, October, 1972
	8. Speech given by one of the founders to managers explaining investments in biotechnology, August, 1980
	9. Letter from one of the founders to his children, given to them after his death, July, 1984
	10. Article in *Argentime* magazine, Number 5, year 1998, p. 123
	11. Presentation given by the HR area to managers, December, 1999
	12. Speech given by the CEO (second-generation, family member) during the "Executive Programme for Managers", December, 2000
	13. Speech given by the CEO at the launch of a genetic therapy in a joint venture with Fundación René Favaloro, May, 2000
Pharma-B	14. Speech given by the main shareholder (second-generation, family member) in commemoration of the company's anniversary, October, 1991
	15. Speech given by the main shareholder (second-generation, family member) on the occasion of the launch of a new product, November, 1992
	16. Note from the CEO (third generation, family member) to a family member, 1998
	17. Speech given by the CEO on the occasion of the Pharmaceutical Day, 1999
	18. Speech given by the CEO on the occasion of the company's National Convention of Sales, 1999
	19. Speech given by the CEO to the "brand team", 2000 (first speech)
	20. Speech given by the CEO to the "brand team", 2000 (second speech)

Table V.
Written documentation

each answer captured and coded in relation to the adaptive processes of issue identification, strategic impulse definition, and implementation. Specific excerpts from the written documentation and the interviews were used to understand how the identity of each company was forged and how the values identified evolved during the tenures of successive generations of family members. Excerpts that properly illustrated particular shared values were selected and coded. An inter-coder reliability check performed with an independent coder gave a score of 78 percent. This score is the result of applying Huberman and Miles' formula: reliability $=$ number of agreements/(total number of agreements $+$ disagreements).

Main findings

Table VI presents the values identified at each organization, supported by quotes from company executives. We found indications of a strong identity at Oil-A and Pharma-A, the more successful companies. At Oil-A, enduring values over time included continuous learning, agile decision-making, innovation, and alertness and openness. At Pharma-A, values such as risk-taking and innovation were found to be ingrained in

Table VI. Values upheld or diluted by successive generations of family members at all companies throughout time

Values	Status	Quotations	Data source
Company: Oil-A			
Continuous learning	Value shared over time by successive generations	Founder: "It is like emerging from the ashes. It is difficult, I know, but we must stand firm, we must remain strong. We have to bear the brunt of these problems. If we stick together and we sort all these problems out, what is happening in the company [1968 crisis] would be for our future managers and us a great learning experience, and for us a way of jumping hurdles without breaking our bones! We are going to be tougher and stronger; we are going to learn from this tough experience. We must learn, otherwise we are not going to survive"	2
		CEO second generation: "Our father always preached that you should learn from your experience. We are under pressure to make a decision [about investing in origination]. We have to learn from the lessons of the past. In 1968 we nearly went bankrupt because we had not realised the importance of having adequate stocks of raw material. This is an opportunity to move forward and still learn as the founder said"	4
Agile decision-making	Value shared over time by successive generations	Director second generation: "We do not want to lose something that we have been cultivating since my father created this company. This is to make decisions fast, without bureaucratic structures that hinder the decision process. With these changes we want to ensure fast responsiveness"	5
Innovativeness	Value shared over time by successive generations	CEO second generation: "Our father always said that we have to be quick as a rabbit to take on competitors. This can be only achieved through creativity and innovation. [Our new brand] is the example of this. This is our first step towards leading the market"	3

(*continued*)

Values	Status	Quotations	Data source
Alertness and openness	Value shared over time by successive generations	Director second generation: “From the beginning, the founders were aware of the importance of understanding what was going on outside the company. We were never a self-absorbed company. We were always aware of the importance of being externally-oriented” “Every employee is aware of the importance of having an open mind and catching all they can from the sector, competitors and customers. This is our constant message to them”	Interview
Company: Oil-B			
Innovation	Value upheld by previous generations but not by the current one	Fourth generation family member: “When I was a child my grandfather told me about a company of dreams. We had products on the shelves of the supermarkets, our brand name sounded in customers’ heads and we took care of details. We were an innovative company in the market” “The worst thing for me is that innovation is not at the heart of the company’s values. On the contrary, innovation implies risks and we hate that. Innovation implies investment in research and development of products, and we cannot afford that. Finally, innovation implies managerial capabilities that we do not have”	Interview
Market leadership	Value upheld by previous generations but not by the current one	Lead counsel: “What strikes me, and you can consider this a change in values or ideas, is that we were winners, or we felt as if we were winners. Now we feel like survivors. This is a big change because if you think you are a winner, you will try to succeed and lead, but if you believe you are struggling to survive, you will never lead, you are a follower”	Interview

(*continued*)

Table VI.

Table VI.

Values	Status	Quotations	Data source
Company: pharma-A			
Risk-taking	Value shared over time by successive generations	CEO second generation: "The founders took a great risk while trying to set up the basis of this company. They always stated that this is the only way to achieve things. But risks, as you know from the history of the company, also imply sacrifices"	12
Innovation	Value shared over time by successive generations	Founder: "Do not copy: be creative or innovative, otherwise we are going to be followers rather than leaders"	9
		"Innovation was the key to the foundation of our company. It seems that innovation continues to be the pillar of our growth. Biotechnology is the future: this is the cornerstone"	8
		CEO: "Infrastructure, technology and innovation are what made this possible. This new methodology is the latest in the process of genetic engineering. We achieved this because of our commitment to innovation and to the creation of solutions such as this one"	13
		"We are pioneers: we were innovative in our research, we diversified, always trusting the country and its human potential. For over 60 years we have privileged and invested in the development of science [. . .] Our growth is based on solid infrastructure, technology and innovation"	10
Company: pharma-B			
Risk-taking	Value upheld by previous generations but not by the current one	Main shareholder: "As pioneer, [one of the founders] had the capacity to merge a good idea and the courage to take the risk of starting this company. Without this entrepreneurial and risk-taking spirit, this company would not have been possible"	14
		CEO: "We cannot afford to take risks. We would like people with stamina to try new things but under a controlled process. Therefore, we can attempt new things but only after we have thought a lot about it"	19

former and current generations of family members. Interestingly, at the less successful organizations we could not find strong evidence to support the permanence of many shared values over time. Instead, we found an indication of the dilution of values upheld by previous generations. At Oil-B it was apparent that values such as innovation and market leadership, considered important by previous generations of family owners, had been abandoned by the current generation. At Pharma-B, risk-taking was no longer central to the current generation, but it seems that previous generations considered this value a critical component of organizational success.

Factors in identity formation and endurance

At least two factors may have aided the definition and the endurance – or neglect – over time of the set of beliefs that resulted in each organization's identity:

(1) the influence of leaders over time, from the founders to the current management team; and

(2) the reinforcing power of organizational history or path dependencies.

Both factors are closely tied to the process of succession at family firms.

Continuity through leadership. The influence of leaders is evidenced over time in the practice of ideological coaching: the indoctrination of one generation by the previous one (Collins and Porras, 1991, 2000). Ideological coaching is the anchor that allows values of earlier generations to be passed on, accepted, and used by subsequent generations. When this indoctrination takes place, leaders are viewed as historical figures and "tenants of time and context" (Leavy and Wilson, 1994) whose legacy propels the organization forwards. Values may be reinterpreted, but their labels endure. At Oil-A and Pharma-A, many interviewees conveyed the critical role played by the founders in setting up the organization's values and aims. A Director at Oil-A stated:

> What my father did is immeasurable. From nothing he set up what today is a leading company in its sector. His commitment and ideals remain today. His ideals are vivid and jog our memory about the right things to do.

Similarly, the CEO of Pharma-A maintained:

> Through our identity we convey what we are and what we want to be. We follow the way marked out by the founders, and we have a commitment to those values and that way of doing things they first established.

At Oil-B and Pharma-B, where we identified a dilution of values over time, ideological coaching was pre-empted by severe leadership issues. Neither organization managed the process of founder succession smoothly. At Oil-B, the first generation held on to power for an excessive amount of time. In the zeal of perpetuating themselves in power, they neglected coaching their successors. This led the third generation to bypass the second in taking control of the firm. The company's lead counsel lamented:

> The foundational stage was very long. The founders had a grip on the business for a long time. [. . .] When the time came to change the tenure, second-generation family members were tired and preferred that the third generation be in charge.

Management became fixated on outdated symbols. Oil-B had once pioneered the branded edible-oil market, but it neglected its position and remained vested in its cotton business. Cotton ginning was an unprofitable venture with strong connections to the founders. A fourth-generation family member stated the incoherence of this strategy:

> The Board was split into those that wanted to follow industrialization and processing cotton and those that preferred crushing oilseeds. I could never understand this division in the Board. The numbers spoke for themselves: crushing represented more than 80 percent of the company's activity while cotton accounted for only 10 percent!.

At Pharma-B, the founder also remained in power for a considerable amount of time. Upon his passing, the heir was unwilling to assume the role of CEO. An external leader was brought in, only to pass away a few years later. His successor, like him not a family member, centralized operations to the extreme. The HR Manager alleged: "The old company was very dull and bureaucratic; decisions were far too reliant on the centre of power: the Managing Director. [. . .] He nearly compromised the company's survival".

Past success and path dependence. Argyris (1992) asserts that success tends to consolidate the commitment and the set of beliefs maintained by the members of an organization. Conversely, lack of success may lead to the abandonment of those beliefs. Consolidation may have taken place as the more successful companies in our study built their lasting organizational identities. Evidence of the institutionalization of organizational values is given by the fact that both companies continued to act according to those values even under threats and criticism from the external environment. Continuous learning and innovativeness were prevalent at Oil-A. The company focused on technology, process flexibility, and export capabilities at a time when the local industry was looking inwards. Pharma-A put innovation and risk-taking in practice by setting up a small biotechnology department in the 1980s, a decade plagued by inflation during which most competitors chose to scale back. In contrast, the decline suffered by Oil-B and Pharma-B may have harmed members' commitment to each company's set of beliefs. Oil-B was careless regarding the innovativeness that characterized the company in the 1970s, e.g. by putting aside ideas to fuel its branded products. The company no longer aspired to be a market leader, as previous generations had pleaded:

> The problem was that [Oil-B] could not consolidate its brand strategy. It was a pity because the company had taken up this strategy before many of today's successful companies in the edible-oil market. Had the company consolidated its brand strategy in the 1980s, today we would be leading this profitable market.

In parallel, Pharma-B was forced to cut back investments due to lack of resources. Risk-taking was no longer a welcome attitude. The current CEO remembers:

> We were a shrinking company. In a shrinking company nobody cares about the ship, but about their lives. You need to find a lifeboat rather than commit yourself [to saving the business].

Identity in action: facing an external challenge

So far we have explored the permanence or the dilution of core values across generations in all four firms under study. We have also drawn links between the leader's influence through ideological coaching, organizational path dependencies, and the strength of each organization's identity. We now turn to exploring how organizational identity has influenced the process of adaptation each organization underwent in the face of a severe environmental shock. Specifically, we explore the role of identity *vis-à-vis* three processes:

(1) issue recognition;

(2) definition of strategic impulses; and

(3) implementation – where we explore the pace of adjustment in adaptation.

Issue recognition. Strong-identity organizations were able to clearly grasp the significance of a change in Argentina's macroeconomic conditions. Both companies were prompted to create their own business intelligence units to monitor market developments. This afforded them a deep understanding of the patterns of change that were occurring. The management team at Oil-A foresaw relevant issues that would alter the structure of the edible-oil industry. Among them were the deregulation of transport and the potential rise in value perception of branded products. At Pharma-A, management identified key issues such as a possible change in patent legislation, the potential of biotechnology, and the convenience of increasing direct exposure to the end-consumer. These developments are consistent with Gioia and Thomas' (1996) suggestion that strength of identity perceptions affect current or emerging understandings of key issues. Conversely, loose-identity organizations failed to recognize relevant issues until it was too late. Because they had lost organizational values that would prompt them to scan the environment, management was reluctant to confront the changes that were going on. At Oil-B, a Finance executive said:

> In the 1980s and 1990s we could not anticipate the changes in the market for edible-oils, the importance of scaling up our crushing capacity, or the consequences of the economy opening up in Argentina. I would not say we failed, but we did not perform as well as other companies did.

There was a widespread feeling that the organization's capacity for action was damaged. The Finance Manager maintained: "One of the aspects that strikes me the most is our passivity. We preferred to avoid confronting problems". A similar scenario ensued at Pharma-B. The current CEO conceded: "[My predecessor] found conflict unpleasant – so he crushed it. None of the top team members at that time wanted to offend him, so they avoided conflict". Consequently, "for many years the company lacked the managerial skills it needed to confront market changes. Managers were executors of orders". The support for risk-taking actions was limited over time as the company became more cautious financially. The only opportunity Pharma-B identified was in dermatology, a segment which was actually shrinking. Based on the above, we propose that:

P1. Facing an external shock, organizations with strong identities will form more adequate representations of reality than organizations with loose identities.

Definition of strategic impulses. Where strong identities prevailed, organizations relied on their values to support the exploration of new strategic alternatives that would enhance their capacity for action. Values such as innovation and risk-taking were not only upheld but reinterpreted in the process. The companies' active disposition to strategizing was evident in their quest for originality. At Oil-A, the HR Manager explained:

> We had our own strategy. We looked inside and outside the country to see what we could to do to differentiate ourselves from the rest, not to see how we could copy them.

A second-generation Director agreed:

> Copying what others in the sector are doing is a losing strategy. If you want to be at the forefront, you have to leap forward, outside industrial boundaries, and this is what we did.

The organization launched branded products, integrated vertically into origination, and acquired a stake in a railroad company – rail being the most cost-effective means of transportation for agricultural products in Argentina. Oil-A thereby strengthened its position in an industry where consolidation forces were beginning to increase. Pharma-A also defined original strategic impulses that transformed the company from a small nationally-owned laboratory into "a health company". It outsmarted its competitors by investing heavily in biotechnology, by buying a retail chain of pharmacies, and by signing a high-profile strategic alliance with pharmaceutical giant Merck. The HR Manager said:

> The agreement with Merck was a milestone in the company's history and marked a break with usual paradigms. Within the industry the deal was considered crazy, but the company foresaw the change in legislation which would take place in our sector. When the patent law was passed we had already made a strategic alliance with a top level company, building a strength which no other Argentine company had.

This strategy had three outcomes: the company no longer depended on selling traditional pharmo-chemical products, became more efficient through economies of scale, and remained ahead of its competitors in terms of reaching different stages of the value chain.

Where loose identities prevailed, organizations were unable to define strategic impulses successfully. In one case, the status quo was maintained; in the other, strategic impulses ran amuck. Oil-B continued to favor oilseed crushing and cotton ginning, a niche market where the company had not found profitability in years. Any attempt at strategizing beyond this point was pre-empted by internal forces that discouraged collaboration and made decision-making tedious. An employee in the sales department lamented:

> If you do not have information, you make the wrong decisions. Management does not bother to share the information they have to help us in our work. I do not think they do this on purpose, I think it is more to do with the culture of the organization: family members make decisions, so we should not need to bother about it.

This degree of centralization had other consequences, as stated by a fourth-generation family member: "The level of bureaucracy in this company stifles our decision-making process. We have suppressed any incentive our managers might have had to innovate". Pharma-B persisted in its dermatology niche despite evidence that the segment was declining. Attempts to expand business in other areas failed: numerous product launches proved unsuccessful, as did a new export strategy. The Technical Director stated:

> Many products were launched in different therapeutic niches with the conviction that anything would add value and everything would show potential for commercialization. After a while these products were withdrawn because the return on the investment was negative.

The stringent CEO began to centralize both strategic and operative decisions. The Logistics Manager complained: "Everything concerning the company, from hiring a shop floor employee to the retirement of another required the Board's approval, as did any investments made in all departments". The number of control mechanisms produced "decision-stiffness", as evidenced by the Marketing Manager of Ethical Products: "For a project to be approved we had to gather fourteen signatures!". Based on the above, we propose that:

P2. Following an external shock, organizations with strong identities will formulate more appropriate strategic impulses than organizations with loose identities.

Implementation – pace of adjustment. A strong sense of identity gave Oil-A and Pharma-A the organizational anchor they needed to move forward and change. By maintaining their core values but changing their strategies, products and processes, both organizations managed to adapt themselves to the new scenario without creating internal turmoil. The pace of adjustment was smooth and evolutionary. A Director at Oil-B stated:

> Over the 1990s the company has changed a lot. However, if you ask employees whether they have felt the changes, they will say that they have not noticed internal turmoil. They did not feel threatened by the changes. I do not know how or why this has happened. However, if you compared our business now and ten years ago, you would think we were a different company. [. . .] Regarding the process of transformation we went through, I would say that we did well in terms of avoiding internal chaos, but we were probably lucky enough to avoid these problems or we built some capabilities over time without noticing their effects in the long term.

The organizational and managerial changes that took place after the macroeconomic shock included opening up the firm to new managers with different educational backgrounds and experience, consolidating the governance structure of the company, and changing the functional structure to one based on business units. This structure provided a higher level of delegation and responsibility for the managerial team running each business. Adaptation at Pharma-A took a similar form. The HR Manager maintained:

> One amazing aspect of this company is that over the last decade [Pharma-A] has shifted its strategy completely but we still have the spirit of the old times, even similar traditions and stories. We did not lose the thread that links us with our past, although we look to the future – a wise combination that was fostered by the founders and their children.

Implementing the selected strategic impulses involved hiring professionals from outside the company to run the new business units and changing the firm's functional structure to a divisional one that would afford decentralization.

Oil-B and Pharma-B's loose identities led to tumultuous and revolutionary adaptive processes towards the end of the 1990s. Oil-B faced a severe performance crisis in 1997 that prompted the company to suddenly abandon the traditional cotton ginning business. That drastic measure was necessary to ensure the firm's survival. That same year, a new CEO – member of the family's third-generation – took over at Pharma-B. Within a few months, he had replaced the top management team, shifted the strategy of the company, and started to change key processes in areas such as HR and IT. The newcomer facilitated the task of breaking up with the old deep structure (Gersick, 1991) and reorienting the organization by removing sources of inertia and resistance to change. Based on the above, we propose that:

P3a. A strong organizational identity enables organizations to deploy evolutionary adaptation processes following an external shock.

P3b. A loose organizational identity leads organizations to deploy revolutionary adaptation processes following an external shock.

Discussion

The question of whether organizational identity and adaptation share a favorable or unfavorable relationship has not yet been settled by management scholars. The processes set in motion by the interrelations between these constructs are difficult to illuminate and warrant further exploration. In this paper we have explored the relationship between strength of identity and adaptation in the context of four family firms operating in an emerging economy. Strength of identity was determined through the permanence or dilution over time of core organizational values, as evidenced in the discourse of company executives during personal interviews and in written documentation before and after the process of founder succession. Organizations where original value labels were permanent over time were identified as having strong identities, whereas organizations where original value labels disappeared over time were identified as having loose identities. Possible sources of strength of identity were recognized in the practice of ideological coaching and in organizational path dependencies.

In analyzing how a strong or a loose identity serves an organization's purpose in adapting to an external challenge, we found that identity mediates in three critical adaptation processes: issue recognition, strategic impulse definition, and implementation, which is connected to the pace of adjustment at each organization. Figure 4 contains the emerging model relating these processes and the mediating role of strength of identity in adaptation.

Figures 5 and 6 show the particular shape this relationship took in the presence of a strong or a loose identity. In recognizing issues, strong identities afforded a clear understanding of the events that were shaping industrial structures. On the contrary, loose identities failed to provide the appropriate lens through which organizations could gain a useful reading of reality, offering instead a distorted view. In defining strategic impulses, strong identities prompted organizations to take action and to seize opportunities that were arising in their shifting industries. Conversely, loose identities led to myopia in strategy formulation and to procrastination in executive action. In implementing the selected strategies, strong identities provided the psychological anchor organizations required to perform smooth, evolutionary transitions.

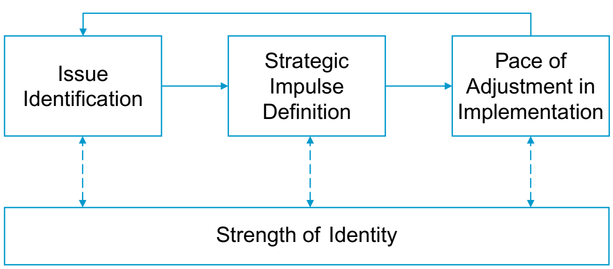

Figure 4.
Organizational identity as a mediating force in adaptation

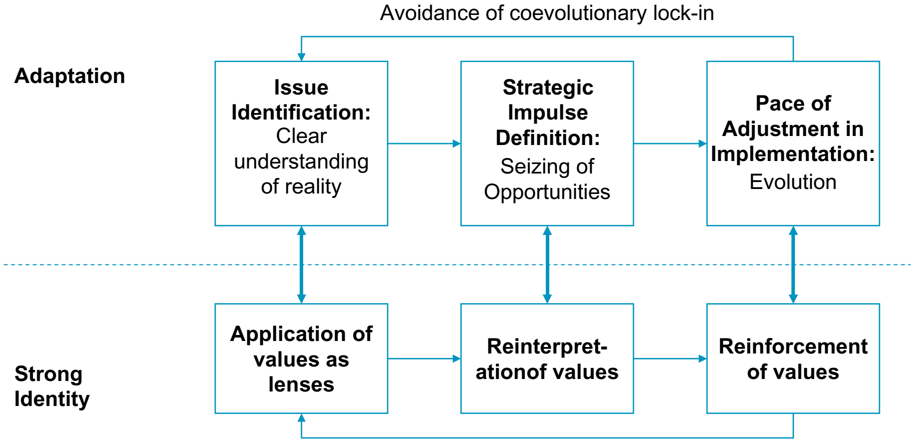

Figure 5. The mediating effect of a strong identity on adaptation

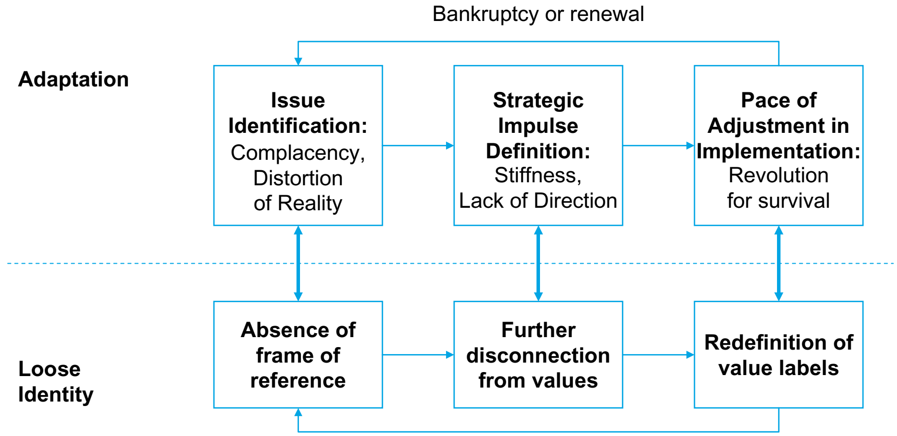

Figure 6. The mediating effect of a loose identity on adaptation

Throughout this process, organizations with strong identities cemented their leadership in their respective industries. In contrast, loose identities trapped organizations in a maze of rigidity and inertia. When the time came to act, organizations no longer could afford to explore the most convenient alternatives. Rather, they were pressed by critical financial and competitive situations. The selection of new strategies and organizational arrangements was made in a revolutionary way according to a single criterion: organizational survival. It is somewhat of a paradox that, in the midst of an external shock, the most successful adaptation processes have seemed to proceed in a smooth rather than a drastic manner. In this same vein, another intriguing finding is that a strong identity rather than a loose identity seems to be better suited to keep organizations from falling into the trap of coevolutionary lock-in (Burgelman, 2002).

In its mediating role on adaptation, organizational identity appears to undergo a process of actualization. At organizations with strong identities, value labels were maintained and fundamentally reinterpreted through the adaptive action. Still defining themselves as, e.g. innovative or risk-taking organizations, companies with strong identities simply renewed the meanings of such definitions and made them explicit in their selected strategic impulses. Organizational values were reinforced upon implementation through new path dependencies linking values, strategic and organizational action, and success. On the other hand, organizations with loose identities further distanced themselves from their diluted value labels. The increasing void in values continued until internal crises that could have led organizations to bankruptcy prompted changes in leadership and a redefinition of value labels. These developments suggest that organizations cannot maintain loose identities over extended periods of time. Eventually, the absence of strong values that may provide an adequate frame of reference for interpreting reality and deciding upon an appropriate strategic course takes its toll, and identity must once again be imbued with content.

Limitations

We must acknowledge several limitations to our study. The first one relates to the possibility of generalizing our results to other industries and countries. Argentina is a very particular country with a strong history of volatility that might have generated in its managers certain capabilities to deal with uncertainty not necessarily present in other contexts. This limitation calls for further extensions of our study in other emerging markets.

Besides, while this paper had data and discussed both the internal leadership change and the environment shocks, we only draw propositions for the external shocks. Further research should include internal leadership propositions.

In addition, the types of prevalent or diluted values identified may have influenced the outcomes of the adaptation process each organization underwent. The values we identified resemble dynamic capabilities. In that sense, it may not only be the presence of a strong identity but the presence of a strong identity rooted in values that favor adaptation that led to our results. While this limitation is far from invalidating our conclusions, it opens an important opportunity for extending the current study. The number of values identified at each organization may have also affected our findings. It is possible that other unidentified values also contributed to shaping each organization's adaptive path. However, the methodology employed to enhance the level of objectivity demanded that values emerge naturally from interviews and written data sources. We were therefore pre-empted from asking executives to enumerate the entire range of organizational values prevailing at their organizations.

Conclusions

Our insights into the relationship between strength of identity and adaptation have implications that transcend the immediate realms of both constructs. Giving its mediating role over adaptation processes, identity emerged as an instrument through which organizations may manage strategy as guided evolution (Lovas and Ghoshal, 2000). In their conceptualization of organizations as ecological systems purposefully designed to guide the evolution of strategy, Lovas and Ghoshal (2000) point to administrative systems (i.e. configurations of structures, systems, culture, and leadership practices) as facilitators of the evolutionary process. In their model, administrative systems provide members of the organization with guidelines for adaptive action and enable resource allocation. These tasks mirror the way in which identity mediates in adaptation. While the evolutionary literature has placed more relevance on structures and systems (i.e. the harder components of the administrative universe), we argue for the usefulness and the effectiveness of softer components (such as organizational values) in managing the evolution of strategy at organizations. We strongly believe that this issue offers exciting avenues for future research.

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