

Opportunities for Action

C O R P O R A T E F I N A N C E A N D S T R A T E G Y

Return on Identity

Every successful company is established on the basis of a strong idea. That idea serves as the core of the company's identity and the foundation for its initial success. Success reinforces and sharpens identity, which in turn is the precondition for further success.

But sooner or later, most companies reach a point at which the power of the original idea wanes and growth subsides. The factors that made for success in the past become progressively less relevant to the future. At such moments, an organization's corporate identity can no longer be taken for granted. Unless the existing identity is reexamined and, if necessary, redefined, the company will stagnate and even lurch into crisis. Too many companies have ended up on the scrap heap because they waited too long to question their corporate identity—until problems had already made themselves apparent in the bottom line.

However, senior executives can systematically reexamine their company's identity and use it as an important lever for reorienting strategy and identifying new sources of shareholder value. Think of it as a new kind of ROI: *return on identity*. The recent transformation of the German company Bayer provides an illustrative case.

The Case of Bayer

Bayer was founded in the mid-nineteenth century to commercialize the new discipline of chemical research. The company grew by applying this research first in the field of synthetic dyes and then, with the invention of Aspirin in the late nineteenth century, in pharmaceuticals. By the end of the twentieth century, Bayer was a major global conglomerate with businesses in chemicals, polymers, health care, and agribusiness. Recently, however, Bayer faced a crisis that went

to the heart of its future existence as a company. The trigger was the discovery in 2001 that one of its most promising pharmaceutical products, the cholesterol inhibitor Lipobay, was implicated in the deaths of scores of patients taking the drug. Bayer withdrew Lipobay from the market. But the resulting public outcry led to major uncertainty among employees and a massive loss in shareholder value. In the 18 months after the announcement, Bayer's market value fell by 75 percent.

Bayer set up the usual strategic and operational programs—crisis management, cost cutting, debt repayment, reorganization—to address the public-relations and financial dimensions of the crisis. But management also went one step further. Senior executives directly questioned Bayer's future viability as a company and performed a comprehensive review of its corporate identity. In the process, they developed a three-step approach that can be applied across a wide range of industries.

Assessing the Relevance of Your Identity

The starting point of the process is to understand the origins of your company's corporate identity and determine whether it is relevant to the current economic and competitive environment. Executives need to ask such questions as, Where are we coming from? What drives us? How do we distinguish ourselves from our competitors? Is the way we did so in the past still relevant to our current circumstances? Or do we need to redefine our identity in order to continue to be successful in the future?

There are a variety of ways to address these questions. For example, executives can examine the historical evolution of the corporate portfolio, review major strategic decisions, or chart the company's history of innovation and acquisitions. They can also use external sources such as analyses by investment banks, commentary in the press, "image" studies by third parties, and cus-

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tomer surveys. These external data can be supplemented by internal data from such sources as staff surveys, company skill profiles, and patent maps.

How a company answers the relevance question will depend on the specifics of its competitive situation. In some cases, a company's historical identity may remain relevant, and the right strategic move is an unequivocal return to it. For example, Steve Jobs overcame a major crisis at Apple Computer in 1997 by refocusing the company on its historical mission "to bring an easy-to-use computer to every man, woman, and child." In other cases, however, the solution is to make a clean break with a company's traditional identity. This is precisely what happened when the German multibusiness conglomerate Preussag reinvented itself as the world's leading integrated tourism group TUI.

At Bayer, the review process convinced senior executives that the company's core identity was basically sound. Bayer had always derived its growth and success from the ability of its employees to innovate and develop new products. The company's researchers and scientists had made history with many pioneering innovations in the fields of chemistry, materials science, and medicine. Executives described this identity as the *inventor company*. Senior management believed that this core was still relevant and could be used as the starting point for a major strategic reorientation. But this realization came with a paradox: in order to remain true to its original identity, the company would have to make some radical changes.

Incorporating Your Identity into Strategic Decision Making

Identity does not become a powerful tool to create value until it is used as a basis for strategic decisions. The second critical step in the process is to use your corporate identity as a key criterion for assessing strategic opportunities. That's

easy to do when there is a good fit between a company's identity and its existing opportunities. It is considerably more difficult when there are tradeoffs between identity and the most attractive economic opportunities.

One direct result of senior management's reaffirmation of Bayer's core identity was to make a clear commitment to growth through innovation—especially in sectors where the company already participated, such as health, nutrition, and advanced materials. A new corporate slogan—Bayer: Science for a Better Life—expressed this strategic vision.

But in order to deliver on this commitment, Bayer would have to make a difficult decision with far-reaching consequences. Bayer's chemicals business had always been the core of the company, accounting for almost two-thirds of its work force and fixed assets in its corporate headquarters in Leverkusen, Germany. And yet, over the years, chemicals had developed into a commodity business in which rigid cost management was the key to success. As such, it didn't really fit into the new formulation of Bayer's identity.

So senior management made the hard decision to spin off the chemicals business into an independent company, Lanxess. With this strong move, Bayer sent a clear signal to the capital markets that its commitment to innovation and growth was genuine and that it was leading the company in new and more profitable directions.

Integrating Your Identity into Day-to-Day Operations

The last step in using corporate identity to create value comes when your company's identity is integrated not only into major strategic decisions but also into day-to-day operations, with applications across all businesses and corporate processes.

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General Electric's identity, for instance, is shaped by a strong performance culture and consistent portfolio management. Among other things, this identity translates into a highly standardized and efficient process for mergers and acquisitions (M&A). The process has clearly defined steps for identifying and selecting acquisition candidates, mobilizing management talent to restructure new acquisitions with minimal disruption to ongoing operations, and applying a structured approach to decision making and communication during postmerger integration. The quality of this "M&A machine" is one of the decisive factors behind GE's enduring success.

Bayer has integrated the inventor company concept into day-to-day operations by increasing its investments in research and development. The company has also made innovation the direct responsibility of senior management, and executives regularly revisit Bayer's innovation performance at management board meetings. Moreover, Bayer has established a special subsidiary, known as Bayer Technology Services, which is responsible for both developing interdisciplinary technology platforms for the company's businesses and identifying new products, solutions, and production processes. Finally, another new unit, Bayer Innovation, is charged with searching for new growth opportunities beyond the company's existing businesses.

These operational moves have sent strong signals to Bayer's businesses and its work force that innovation is at the core of the company's identity and should be exploited systematically to create value. What's more, they have helped Bayer restore its market value, which has returned to nearly the level it had reached before the Lipobay crisis.

The Power of Identity

As the example of Bayer suggests, corporate identity, understood as the total sum of the characteristics that distinguish one company from

another, can be a powerful strategic instrument for creating shareholder value. Identity, in fact, is the ultimate source of competitive differentiation—and, therefore, the foundation of every successful strategy. In turbulent times, it is the compass that gives a company direction and keeps it on course. But identity cannot remain an abstract concept; it must be integrated methodically into a company's day-to-day operations.

As you start to think about your company's identity, ask yourself four critical questions:

- Can you describe your company's identity in a few words?
- Does your company's identity match the key success factors of your business?
- Do you use your company's identity as the basis for strategic decisions?
- Is your company's identity integrated into its key processes?

The answers to these questions will determine whether your return on identity is great enough to master the competitive challenges your company faces.

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