Multiple Identities and Organizational Change: 
Towards a Contribution of Social Economics

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Abstract

Organizational change and its mechanisms are not central research questions in economics, mainly because economics fails accounting for organizational specificities. Building on the management science literature and some core elements of social economics, I argue that social economics can use its comparative advantage with respect to its analysis of identity to capture the role of ethical questions in organizational change. I combine the recent contributions on the team conceptions of the individual and the psychological approach to identity of Erikson and Marcia and propose a production function model of personal identity management that allows to account for the effects of organizational change on personal identity management. I discuss the ethical implications of this new framework in two cases of organizational change: mergers and acquisition and knowledge diffusion in multi-national firms.

Key words: identity, identification, ethical aspects of management, organizational change.

JEL codes: B4, D01, D23, Z13.

1 Introduction

Organizational change is not a central research question in economics. The firm-market continuum hypothesis makes it difficult to describe the impact of the specific features of the firm on individual behavior and, ultimately on the collective processes that are at works in organizational change. The economics of the firm remains largely influenced by the assumption that “substantially the same factors that are ultimately responsible for market failures also explain failures of internal organization” (Williamson 1973).

Building on the analysis of organizational specificities, management science, on the economics of the firm and on core elements of social economics, I argue that social economics can rely on its comparative advantages with regards the ethical issues that are associated to individual identity to provide a framework which can address issues that are related to organizational change. This argument relies on the fact that social economics can provide a theoretical support to explain how multiple identities play a role in organizational change, and

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can bring elements that are linked to other organizational levels, through the ethical concerns that are central to social economics.

I use the recent contributions of the emerging field of economics of identity (Davis, 2011) to develop a multiple identity production model that can be used to analyze organizational change. The concept of identity brings into the economic analysis information on the relationship between the individual sense of self and economic organizations, between cognition and motivation. It participates in bringing back organizational and ethical concerns instead of sole economizing strategies into economics. The model allows me to explain that the question of identification does not explain the whole range of identity-related questions. For instance, it excludes an accurate explanation of the effect of learning on individuation, which is a core element of organizational change.

I rely on the Erikson (1968)’s definition of identity and on the economics team conception of the individual. Erikson sees identity as broad and multidimensional and he conceives it both as an internal process and a process which includes the relationships that individual build with others in their communities and social groups. I rely on the contemporary developments of this literature which develops four identity statuses, which correspond to different degrees of commitment and exploration which are involved in each status (Marcia 1993). The team conception of the individual helps me provide an account of the role of individuals’ engagement in the management of their personal identity. I illustrate my claim with two cases: I discuss the case of identity strategies linked to organizational change in mergers and acquisitions and in multi-national firms. For each case, I discuss the ethical issues that can be inserted thanks to this new framework.

This work aims at identifying how firm specificities influence individual identity. I argue that it is a stage in the process of making the economics of the atmosphere a prominent research agenda for organizational economics. The concept of identity brings into the economic analysis information on the relationship between the individual sense of self and economic organizations, between cognition and motivation. It participates in bringing back organizational concerns instead of sole economizing strategies into economics organizational analysis by adding to the economizing argument contents a theoretical support that captures individuals’ cognition. The aim of the paper is not to overturn transaction costs economics or to attempt an identification of the reasons that explain its disregard of the economics of the atmosphere. This essay explores the hypothesis that the disregard of the economics of the atmosphere in organizational economics is due to the absence of theoretical supports to explain how the atmosphere impacts individual motivation. This absence is due to the fact that the concept of identity, as individual identity, was not used, identity being associated to identification and not to the full range of issues that it actually covers.

The paper is organized as follow. First, I explain how the perspective of management science on organizational change may help overcome the absence of organizational specificities in economics. I analyze the sources of the lack of genuine interest in the question of the effect of the atmosphere on individual behavior and explain why the study of the firm as a community has not become a fully legitimate agenda in the economics literature. This leads us to explain how the effect of the atmosphere can be captured. I proceed in two stages. First, I explain how the recent literature which relies on the emergence of the individual as a
team may be useful to explain how individuals relate to the environment and to their own personal identity to form intentions which accounts for intrapersonal and interpersonal processes. Second, I expose how classifications from the neighboring field of psychology can be used. I then propose a production function model that explain how personal identity management can be captured by using a social economics perspective on the individual and his relationship to context. I then turn to discussing the ethical implications of this proposal through two examples, the case of mergers and acquisition and the case of knowledge diffusion in multi-national firms.

2 How the perspective of management science on organizational change may help overcome the absence of organizational specificities in economics

The economics of the firm remains largely influenced by the assumption that "substantially the same factors that are ultimately responsible for market failures also explain failures of internal organization" (Williamson, 1973). The firm-market continuum hypothesis, which is dominant in contractual and transaction costs approaches to the firm, makes it difficult to describe the impact of the specific features of the firm on individual behavior. Yet, the study of the effect of firms’ specific features was central in the initial writings of Williamson. In his initial work, Williamson (1975) included the study of the "economics of atmosphere". But his concern became less prominent in his latter work, as in The Economic Institutions of Capitalism published in the following decade. He noticed that his little headway prevented him from adding more to his initial contributions (Williamson, 1996). Fundamentally, organizational economics does not account for the effect of the atmosphere on individual behavior. The central assumption of opportunism does not allow an analysis of how individuals’ identity can be shaped by firm specificities. This under-developed account of the atmosphere provides economics with an incorrect description of the impact of the firm, as a specific context. The effect of identity inside the firm remains under-theorized and under-documented in economics.

Lack of enthusiasm for the study of the atmosphere finds its source in the rise of neoclassical economics in the 1870’s as Walrasian economics shifted attention towards the market and away from production processes, despite the initial focus on labor division and organization (Hodgson, 1998a). Contractual theories of the firm, which are intrinsically interested in the formalization of contracts that rule transactions inside firms, embrace this tradition. Yet contributors to transaction-cost economics do refer to the necessity of including references to the specific features of the firm. Coase (1993)’s 1991 Nobel Lecture famously refers to the importance of the essence of the firm, making the argument that the focus on the employment relationship in misleading because of the restrictions it implies in the development of the literature. Williamson, who initially referred to the atmosphere, moved his interest to the contractual dimensions of economic activity in organizations.

The fundamental tension in the presentation of the concept of the atmosphere by Williamson was driven
by the underlying motivation to include analytical tools from neighboring disciplines in the social sciences. But Williamson’s program was not undertaken, and there remains a void in the literature. To undertake this task, I rely on management scholars who have studied several aspects of organizational change that deal with identity outcomes. I explain that these contribution match best theoretical frameworks of social economics. I rely on two objects of study that are central to this literature on organizational change in management science and use it to explain how social economics may help overcome the absence of organizational specificities in economics.

The spatial dimension of organizational change is central is management science: core vs. peripheral organizational change has been studied through the differential consequences brought about by changes in the organizational core versus the periphery, notably by (Dobrev et al., 2003). A central argument to their approach is that reliability and accountability from the reproducibility of core structures, inertial forces (along with the selection advantage derived from reliability and accountability) emanate from core features of organizations. According to the authors, many studies find that core structural change is a precarious process and that changes affecting the periphery structure do not produce the same outcome. While changes in the core structure may lead to an elevated probability of organizational failure, organizational changes at the non-core structure might even lead to a lower risk of organizational failure.

The role of local norms and incentives is also studied by management scholars. Bercovitz and Feldman (2008) find individual attributes, while important, are conditioned by the local work environment. Individuals are more likely to take initiative if their training was done in institutions that accepted new initiatives. When facing dissonance because individual’s training norms are not aligned with the localized social norms in their work environment, individuals will conform to the local norms and will abandon the norms from their prior experience. The role of top management is also crucial: if the top managers participate in initiatives, employees are more likely to participate to initiatives. A higher degree of identification with those who promote organizational change is aligned with higher likelihood to promote organizational change.

The perspective of management science on organizational change provides a guideline to capture the elements that may interfere in the management by individuals of their identities when organizations change. This raises two fundamental questions: first, what do researchers refer to when refereing to identity when identity is assumed to be evolving, and second, how do individuals manage their multiple social identities. I now address these two questions.

3 The Neo-Eriksonian typology of personal identity management

This section discusses the approaches in economics which describe personal identity management in a manner which includes interpersonal and intra-personal management strategies. I use the Neo-Eriksonian typology of the types of personal identity management strategies that can be embraced by individuals and rely on the psychology literature as it documents personal identity management strategies. I explain what roles these typologies can play in describing personal identity management strategies, assuming that individuals are
conceived through the relations that they have with their environment.

The development of the theory of personal identity in philosophy and in psychology goes back a long way. Schwartz (2001) summarizes the seminal developments in psychology through Erikson (1950, 1974)’s extrapolations of the initial writings on the self and theoretical developments. Together with Cooley (1902) and Mead (1934), Erikson (1950) is now considered as a classic scholar on the study of the self. The questions that he asked have been debated in the social science literature for 50 years. I apply the initial implementation of Erikson (1950)’s work by James Marcia, who played a prominent role in promoting research on identity. Alternative theories were developed since James Marcia (1966)’s initial contributions. The alternative theories aimed at broadening Marcia’s work, in order to include aspects of Erikson’s contributions that remained unused. First, I will focus on Marcia’s work. Schwartz (2001) proposes a taxonomy to integrate alternative views of the identity status model and then move on to explain the utility of such theoretical and empirical strategies for the study of organizational change.

Erikson’s definition of identity is seen as broad and multidimensional. Erikson conceived identity both as an internal process and a process which includes the relationships that individual build with others in their communities. Erikson (1968) defines identity as ”ego identity...” [which] is the awareness of ... self-sameness and continuity ... [and] the style of one’s individuality [which] coincides with the sameness and continuity of one’s meaning for others in the immediate community” (Schwartz, 2001) (italics added by Schwartz (2001)). He distinguishes the self from identity. The self can be defined as that part of the person that knows and experiences reality (Harter, 1988). The concept of self - concept can be characterized as one’s awareness of ”the internal organization of external roles of conduct” (Hormuth, 1990) (Schwartz, 2001).

An important aspect of Erikson’s definition of personal identity lies in the fact that he defines identity as the departure from the state of being in childhood, in which there are elements of identity, but they are not consolidated. James Marcia (1993) describes that ”the consolidation of identity marks the end of childhood”. This functional description of personal identity investment is useful to include explanations of the role of identity strategies in the process of acquiring knowledge in organizations. Identity is further defined through the combination of identity synthesis and identity confusion. Identity synthesis refers to the working of the identification of ”self-determined and self-identified ideals”, and identity confusion refers to the ”inability to develop a workable set of ideals on which to base an adult identity” (Schwartz, 2001). Identity synthesis represents a sense of ”the present with an anticipated future” (Erikson, 1968) and identity confusion represents ranges over which the individual is slightly confused. Identity confusion is the process individuals go through when they try to choose between different options which are related to their identity and are hard to choose. Personal identity represents a coherent picture that one shows to himself/herself and to the outside world. This approach is coherent with the proposal of John B. Davis (2007a) on personal identity in economics as personal identity in conceived as a coherent picture that an individual has about his/her self, and which is composed of a myriad of ”facets” (Schwartz, 2001).

James Marcia operationalized the work of Erikson. Marcia constructed a status typology based on his

\[^{1}\text{See also Erikson (1964), Erikson (1968), Erikson (1980) and Erikson (19682).}\]
Marcia explains that there are two dimensions to identity strategies which can be captured through the concept of exploration and commitment. Exploration is the ”problem-solving” attitude that individuals have when trying to maintain their sense of identity. Commitment refers to the fact that individuals build identification strategies to goals, values, beliefs, organizations... Marcia (1980) explains that the commitment dimension refers to forms of fidelity or continuity over time. James Marcia relates and organizes his classification of types of strategies to the three degrees which define ”the degree of relationship and embeddedness in self and context” that Erikson (1974) describes. This initial aspect of his research is important as it matches the current understanding of the concept of identity in economics. The most fundamental level is called ego identity. It refers to the ”ego synthesis and continuity of the personal character”. The intermediate level, which is at the intersection of the self and context, is called personal identity. It includes the goals that individuals formulate, such as career choices. Their definition and understanding of personal identity matches the economics definition of personal identity. According to Schwartz (2001), it refers to ”[...] aspects of the self that identify an individual as someone in particular and that help to distinguish him or her from other people”. The third level is called social identity and refers to ”a sense of inner solidarity with group’s ideals, the consolidation of elements that have been integrated into one’s sense of self from groups to which one belongs.”.

Marcia (1966) identifies four identity statuses, which correspond to types of personal identity management strategies. These types are identity diffusion, identity foreclosure, identity moratorium and identity achievement. Schwartz (2001) summarizes the main aspects of Marcia (1966)’s theory as regards the degrees of commitment and exploration which are involved in each status. For instance, achievement and foreclosure both have high components of commitment. The four types describe the following strategies. Identity diffusion represents a type in which the individual has low levels of both exploration and commitment. Identity foreclosure is a state of personal identity strategy which involves commitment to values and beliefs, without initial exploration. Some personality traits associated with this personality management strategy are closed-mindedness, rigidity, resistance to change, etc. Identity moratorium refers to strategies which include active exploration and a relative lack of commitment. Finally, identity achievement refer to personal identity strategies which contain high levels of commitment after a period of exploration. This classification has motivated more than 300 theoretical and empirical studies (Marcia, 1993). This dense and wide-ranging literature has focused on testing the implications of the typology, and on the development of refinements, mainly based on aspects of Erikson (1950)’s work which have not been fully grasped yet.

The initial division between confusion and commitment is compatible with Davis (2007a)’s proposal for personal identity as individual work to maintain the social identities that correspond to their personal identity and commitment defines goals and attachments that are part of individuals’ definition of personal identity, so in relation to institutions that matter in the context they are engaged in. The proposal regarding the three levels of embeddedness in the self and in context also match the current understanding of identity in economics. The four identity statuses are valuable contributions as they constitute a typology of personal identity management strategies. It allows a classification of types of strategies. The ability to classify behavior...
into types can be an element of the identification of the effect of institutions on behavior. Hodgson (2006) explains what institutions are, and that they both constraint and enable behavior. I follow his view, and further say that in the case of personal identity, institutions can be used in the analysis to identify how the individual relate to his/her environment, beyond the social inter-individual interactions that the individual has (Hodgson, 2004). This requires a theoretical framework and discussion of the strategies individuals engage in when managing their relations to their own identity and with their environment. I turn now to illustrate the argument with two prominent examples in the literature of the effect of firm specific features on identity; the case of mergers and acquisitions, the case of multi-national firm.

4 The individual as a team of multiple social identities

I analyze and use the scope and purpose of the emerging literature on the relational conception of the individual. Recently in economics, some theoretical developments have addressed the issue of how individuals make collective decisions (Bacharach, 2006; Ross, 2005), and of how individuals are embedded in forms of collective rationality (Kirman, 2011). These developments are consistent with a dense and abundant tradition in philosophy, developed by Tuomela (2007). Tuomela (2007) explains that the "We-Mode" should be distinguished from the "I-Mode", given that "the social world cannot be adequately studied without making use of the distinction between the notions of having an attitude and acting as a group member versus as a private person". From his point of view, forms of collective intentionality, which emerge inside a group, cannot be explained if they are not described properly through the "we-mode". Tuomela states two conditions to include the we-mode. First, individuals have to be conceived as capable of having "propositional attitudes". Second, they have to be conceived as committed to the group’s ethos and goals. "Collective commitment" gives the group and group members the joint responsibility to pursue the group’s ethos and goals. It is useful to stress this, as it deals with "the framework of agency" that assumes that (normal) persons are thinking, experiencing, feeling, and acting beings capable of communication, cooperation" (Tuomela, 2007), which are central questions in the economic analysis of individual behavior in the firm.

Bacharach (2006)'s fundamental concern and motivation is that game theory relies on an ambiguous use of language, which does not reflect the experience of individuals when they make decisions. Bacharach (2006) relies on the observation that in most decision processes, individuals use "we" to refer to ourselves (Davis, 2011). Thus, as he explains, it is not unreasonable to assume that this self-reference mode may affect decision-making. Bacharach (2006)'s project relies on a fundamental innovation on the representation of the link between the individual and social context. Identification is portrayed through "social group identification" and "personal identification" (Davis, 2011). His formulation implies that both the individual and the group exist because of the process of identification, which is operated with regard to the group and with regard to the individual as a whole. For instance, he defines group identification as the process an individual goes through when being a member of a team $T$, assuming that $T$ is a weak subset of a set $S$ of individuals. Bacharach assumes that individual $i$ identifies with the team $T$ if $i$ considers $T$ as a unit of agency, acting as a single
entity which pursues a goal. Don Ross proposes an alternative conception of the individual as a team (Ross, 2005), in which individuals have sub-personal neural agents, which can be conceived through distinct agency dilemmas. The whole individual is both the product of intrapersonal and interpersonal interactions (Davis, 2011) which shapes. This process of “sculpting” the individual is done through the ability that individuals have to produce ”self-reports” and to rely on ”narratives”. His approach proposes a framework in which both the outcomes in terms of self-narratives can be conceived as the evolutionary outcome of interpersonal and intrapersonal processes, which differs from Bacharach’s perspective on how the individual manages to combine these two aspects of individual management.

5 A production function model of personal identity management in the case of organizational change

I rely on this team conception of individuals, which depicts them as able to manage social identities in a way that is coherent with their personal identity and propose a representation of the activities individuals engage in when managing their personal identity based on production functions. These functions reflect the efforts that the individuals when dealing with their multiple social identities and, ultimately, with their personal identity. This approach uses existing organizational structures which are exogenous to the individual to identify the social groups that are involve in the strategies that individuals have when managing their multiple social identities.

For individual $I_i = F \times S_1^{\gamma_i} S_2^{\delta_i}$ may represent the overall personal identity management process. $I_i$ is the individual’s personal identity, which is a single output. $F$ represents the firm’s managerial practices, which is taken as exogenous. This representation relies on the assumption that the managerial practices of the firm can be studied, at the individual level, through the kind of self-narratives that the firm promotes. $S_1$ represents the social identity that the individual may have inside the firm, with $\gamma_i$ representing the level of investment in $S_1$. $S_2$ represents the social identity that the individual may have outside the firm. This social identity may be identified by using firm boundaries. $\delta_i$ represents the level of investment in $S_2$.

This representation allows to capture three situations: the case in which the overall management process has decreasing return i.e. when $\gamma + \delta < 1$, the case in which the overall management process has constant return i.e. when $\gamma + \delta = 1$ and the case in which the overall management process has increasing return i.e. when $\gamma + \delta > 1$. The case of constant return may be more common, but the two other cases can exist, as explained in the typology proposed by Marcia (1993).

With $t \in [1; n]$ and for individual $I_{it} = A \times S_1^{\gamma_{it}} S_2^{\delta_{it}}$, Figure 1 represents at time $t$ the case in which the cost of investment in $\gamma$ increases over time, meaning that individuals may start to invest less.

In the case of organizational change, the form of the functions can be modified in order to account for the change. The strategy is to account for the new organizational structure which is exogenous to the individual. At time $t$, the previous representation of $I_i$ may be modified to include an additional social identity, here $S_3^{\epsilon_{it}}$ such that $I_{it} = A \times S_1^{\gamma_{it}} S_2^{\delta_{it}} S_3^{\epsilon_{it}}$ with $S_3$ the new social identity and $\epsilon_{it}$ the level of investment in
S3_{it}. Assuming a given return to scale ($\gamma + \delta = V$), then the amount of effort dedicated to firm’s social identities are likely to decrease ($\gamma + \delta + \epsilon = V$).

The types of efforts that individuals make when investing in their personal identity correspond, in most cases, to long-term identity commitments, as individuals are embedded in social contexts (Davis, 2004). These rule-based behaviors are an executable capability that has been learned by an individual, often in response to selection pressures. They require low levels of creative information processing, and may correspond to identification to the organization, or other groups that are in place. I propose to include to these long-term efforts the short-term efforts that individuals may engage in when doing self-imposed tasks. These tasks, which may require high level of information processing, may correspond to individuals efforts to individuate. Following the classification of Marcia, long-term efforts, that refer to commitments, can be distinguished from short-term efforts, that refer to exploration.

Further, these two types of efforts may be represented in the following manner. If the self-imposed task corresponds to a specific social identity, it may be added as a new social identity. However, if the self-imposed tasks correspond to tasks that affect the overall personal identity management process, as personality traits do, for example, it can also be incorporated as an argument that is external to the personal identity management but that affects both this effort and the trade-off with other economic decisions. Thus, if assuming that individual $i$ manages his/her personal identity $I_i$, an argument $\alpha$ of the form $I_i^\alpha$ may better capture the effect of self-imposed tasks on the development of the individual’s personal identity.

I now turn to examine the ethical issues that may be better addressed in economics in the light of this proposal. In this section, I describe the case of identity management in the case of mergers and acquisition. This allows to identify the types of identity issues that may be better understood in the case of organizational change when using a social economics perspective.
6 Identity management and ethical issues in the case of mergers and acquisitions

This research strategy relies on the two main advantages of personal identity theory. First, personal identity allows the description of individual identity strategies over time through the identification of the effect of institutions on specific individuals. Second, it allows the inclusion of the study of individuation which describes how individuals differentiate themselves from others, in addition to the traditional study of the effect of identification on behavior (Simon, 1976). This improved representation of the individual can contribute to explaining the effect of mergers and acquisitions on the evolution of levels of cooperation in firms that face potentially an organizational change.

When firms are acquired for their capabilities, managers often face the situation in which post merger integration can actually annul the innovative capabilities that are necessary in the production. The effects of firm capabilities, as well as dynamic firm capabilities (Winter, 2003), on the selection and adaptation of levels of affiliation over time and given changes in organizational structures are central dimensions of identity management strategies. For instance, by using the proposed guideline to capture personal identity management, the types and levels of investment in social identities may be described. By using personal identity theory, it is possible to explain how individuals identify with the firm and individuate as individuals, and how they do this over time.

Understanding this effect is central to the study of firms’ specificities. After a merger or an acquisition, the change sometimes involves an "identity shock" and the risk of departure of the best talents is a central concern. Cooperation levels may drop, if costs associated with investment strategies in social identities are too high given the return that can be expected from these investments. Kreps's theory of cooperation, in which there is a possibility that cooperation may fail, explains that cooperation often is not enforced through contractual agreements because it is more costly (Hermalin, 2001). Transaction-rules and agreements are central to organizations in this framework, rules which are completed by relational mechanisms. Williamson (1996) clearly argues that the absence of calculativeness is observable and that there are aspects of relations that must be described as "nearly noncalculative". Personal identity allows to simultaneously distinguish and include identification and individuation strategies in the analysis. Thus the conditions under which the costs associated with investments in social identities may lead to a drop in cooperative effort can be identified. The contribution of personal identity helps identify managerial strategies. For instance, the choice of "structural integration" i.e. the systematic integration of the acquired firm in the greater firm as a managerial policy to achieve coordination between the two firms may be a justified strategy with regards to how much control the firm can actually have.

The study of how individuals’ preferences are shaped by contexts in which they evolve became an important question in economics. Lazear (1995)’s model of the diffusion of values within organizations studies how certain preferences can be promoted or changed. Hodgson (1996) explain how individuals’ preferences are "mold[ed]" by the firm, which makes corporate culture an essential part of the nature of the firm, in its role
influencing individual learning inside a firm. Information is the vehicle of change of patterns of behavior, of the perception of the problems as well as their potential solutions. More recently, Akerlof and Kranton (2005) explicitly mention that organizations change individuals’ identity. Reference to different forms of rationality is another strategy to explain how decision-making can be affected by context. Social rationality deals with institutional and relational structures that are involved in economic activities. It opposes the idea that only selfish motives matter and explains that social mechanisms such as rules of reciprocity matter in decision-making processes. The question of the role of managerial vision in implementing and sustaining shared beliefs has been tackled recently by van den Steen (2005) and van den Steen (2010). His research explains why members of a firm often share similar beliefs. His main argument relies on the idea that as performance depends on making correct decisions, individuals prefer to work with others who share their beliefs and assumptions, in order to avoid conflicts and remain within a group in which individuals will tend to have similar strategies. Thus, beliefs will converge over time through shared learning.

7 Identity management and ethical issues in the case of knowledge diffusion in the multi-national firm

The case of the multi-national firm is similar in a fundamental respect: identity issues are mainly related to motivation concerns. However, it differs in one respect, which is in the role that social community can play in developing individuals’ identity constructs. On these two issues, the works of Kogut and Zander (2003) on the role of identity in multinational firms has had a considerable impact in management science and in the business community. It marks the transition between the ”market failure” approach to the internationalization of firms in the multinational firm to the ”knowledge-based” theory of the multinational firm. The main argument developed by Kogut and Zander (2003) is that firms are ”social communities”. Their argument follows the lines that they had developed in their article on the role of the firm as a community (Kogut and Zander, 1996). Their argument is that the multinational firm has developed because the firm as an organization is superior to market transactions when knowledge needs to be transferred. The evolutionary approach to the multinational corporation provides an explanation of the boundaries of the firm which rests on the two hypotheses that firms trade because of their respective comparative advantages and on the observation that hazards related to using market transactions are an incentive to internalize transactions. The first hypothesis relates to firm-specific advantages and the second to internationalization strategies. Kogut and Zander (2003)’s argument to say that the less codifiable and the more tacit the knowledge is not easily transferable through the firm than through market transactions. If individuals identify to the firm, then they build a self-representation which allows them to see themselves as distinct individuals in the organization. This point is coherent with an understanding of a firm’s organization as a complex and diverse structure which allows individuals to individuate.

Another fundamental aspect of this research agenda relies on the idea that the modes of diffusion of information in the firm differs from the market. Information is transmitted to workers in order to let them
know what strategy is to be chosen, what actions are to be taken. Identification to the firm’ goals, or to its tasks, could not be achieved if no information was available. The firm’s ability to "shape employee cognition” has been the core of the works of Kogut and Zander (1996), of Foss and Klein (2008), Hodgson (1996, 1998a) and of Witt (1999). Crémer (1993) develops a model of information diffusion inside the firm. The prior of the model is that no code is given to individuals when they enter a firm. Individuals learn about the available social categories they can possibly identify with while repeating interactions within the firm. Identification thus relies on the other individuals Crémer (1993)’s modeling of the role of information in corporate culture helps understand the importance of the individual’s stock of information concerning the environment he/she evolves in. Akerlof and Kranton (2005) define Crémer (1993)’s view of culture as ”shared information”. Crémer (1993)’s theory of corporate culture relies on many ideas, including the one that information is diffused though organizations. Rob and Zemsky (2002) design a model of social capital within the firm in which defection is a source of disutility as individuals have a preference for cooperation: they are inclined to participate in the work group.

The fact that information is shared constitutes the condition for the existence of a sense of community and corporate culture. Without reputation and/or corporate culture effects (Kreps, 1990), the only way for individuals to get information on the behavioral prescriptions and ideals associated with the available social categories is through repetition and observation. In other words, there are learning processes within firms (Hodgson, 1996) that participates to the constitutions of the prescriptions. The more unclear the social categories prescriptions, the less individuals can get clear information on the behaviors they have to adopt. Thus, in the absence of directive management on behavioral prescriptions and in the absence of reputation effect, individuals can only rely on others to get information on their possible individual identities. As a consequence, individuals have to go through a learning process. The paper of Kogut and Zander (1996) is central for the understanding of the role of individuals’ willingness to belong to a community. Foss (1996) summarizes their argument by saying that they characterized people by an "unsocial sociability", that the division of labor increases people’s desire to participate to a moral order. Foss further explains that in their rationale, firms are important in creating moral orders, and that, as organizations, they supply "shared identities”, in that respect. In their rationale, the function of identities is to promote learning, communication, etc. Thus, firms exist in terms of ”what they do”, that is through the promotion of learning and communication within a moral community.

Knowledge contributes to the definition of the internal organization of the firm, and to some extent forms of hierarchical relationships within it. It is particularly salient in the case of the new post-Chandlerian "de-centered” firm, in which production processes and individuals’ positions in the firm do not necessarily rely on the visible hand of the manager (Chandler, 1977). I argue that the fact that knowledge can enable individuation contributes to the ability of individuals to use the firm’s internal organization to individuate and gain autonomy. From the point of view of the formation of identity strategies, an authority-based mode of coordination appears as an incomplete account of what is involved when dealing with coordination in the firm. There are situations in which employers do not have information about the knowledge that employees
have (Demsetz, 1988; Conner and Prahalad, 1996). Minkler (1993) explains that the fact that individuals in the firm possess very specific knowledge sometimes does not allow principals to monitor agents. The literature on the absorptive capacity of firms says little about the individual antecedent to the absorptive capacity of firms. By conceiving the individual aspect of identification, I argue that the team conception of the individual can serve as a basis to explain how individuals construct learning strategies which can be portrayed through the description of how investment effort is allocated to social identities in a way that allows them to maintain over time levels of engagement in the cooperative effort. This allow to draw some managerial implications on the role of individually motivated identity strategies, assuming that these are allowed and made feasible by the existence of a firm context. This allows us to conclude on a cautious note on the emerging debate about the micro-foundations of economic behavior (Foss and Felin, 2006).

The example in the literature of multi-national firms helps explain how personal identity can participate in the debate on the role of individual antecedents to absorptive capacities of firms. As regards managerial implications, Volberda et al. (2010) provide a detailed explanation of the state of the literature on the absorptive capacity of firms. They find that, twenty years after the seminal paper of Cohen and Levinthal (1990), most attention has been paid to the tangible outcomes of absorptive capacity. Individual level antecedents of absorptive capacity and the role of interactions of individuals have been ”relatively neglected” (Volberda et al., 2010). The team conception of the individual provides an account of the role of individuals’ engagement in the management of their personal identity. By doing so, and if applied to the study of individual behavior in the firm, it can add to the absorptive capacity literature a description of how individuals adapt their sense of affiliation by changing business environments in order to sustain intrafirm cooperation. I argue that personal identity allows the simultaneous description of identification to the firm and of individuation strategies. Davis (2006) explains that the individuation strategies of individuals is a question that is not addressed by the current literature which relies on the concept of social identity (Akerlof and Kranton, 2000, 2005). The role of firm capabilities is crucial in explaining how changes in firm context can lead individuals to improve, or at least manage, their identity strategies. Learning allows individuals to build distinctive abilities which serve their autonomy, and capabilities (Davis, 2002, 2007b, 2009).

8 Conclusion

In the firm, the concept of identity can explain the effect of individuals’ individuation strategies. Individuation deals with the economic outcomes that result from individuals’ strategies to distinguish from one to another. The question of how individuals manage their multiple social identities deals and the economic outcomes that result from the multiplicity of social affiliations and their impact on strategies and behavior. Economic outcomes that result from those issues are affected by the specific features of the firm. Individuation can be triggered by organizational divisions. I argue that repetition, which occurs inside firms, aims to lower individuation and opportunistic behaviors which can follow by enforcing norms of cooperation. Repetition, which is a specific feature of the firm, allows the introduction of the concept of individual identity. A
description of individual identity in terms of multiple selves (Davis, 2003, 2006) allows the incorporation of identification to the firm without emptying the description of the individual of its content, and complexity. The recognition of both the existence of personal identity, which is the identity apart from others, can be analyzed in terms of how multiple social identities are maintained overtime. The existence of the process of individuation that considers how individuals distinguish themselves from the others can thus be incorporated as the multiple selves includes both the identification to the firm and other forms of individual definition.

This paper reveals the importance of firms’ specific features in describing how firms shape individual cognition, sense of identity and consequent behavior. The paper explains how the concept of identity can allow the inclusion of the question of individuation inside the firm. The concept of identity introduces in economics a support for explaining the impact of one’s sense of self on his economic decisions which describe inter-individual heterogeneity. Learning, through repetition, is one of the main reasons of the existence of the firm (Hodgson, 1998a). Repetition is a central feature of inter-individual interactions inside firms. It participants to the diffusion of information and is a correlate to learning. More generally, identification and individuation contribute to the question of what is involved in learning. Hodgson (1998b) argues that learning is ”more than acquisition of information; it is the development of new means and modes of cognition, calculation, and assessment”. Both the availability of ”common cognitive tools” and of ”congenital or learned dispositions for individuals to conform with other members of the same group” explain why individuals’ preferences are shaped by the contexts in which they are.

The selection and adaptation of levels of affiliation by individuals, given the organizational structure, is a central dimension of identity management strategies through the description of investment in social identities. This new research strategy relies on the two main advantages of personal identity theory. First, personal identity allows the description of individual identity strategies over time through the identification of the effect of institutions on specific individuals. Second, it allows the inclusion of the study of individuation which describes how individuals differentiate themselves from others, in addition to the traditional study of the effect of identification on behavior (Simon, 1976). Identity strategies can help explain how cooperation within a firm allows the constitution of capabilities which participate in the process individuals engage in when they build a sense of self in the organization. More particularly, the question of how learning enables individuals to construct identity through the construction of their own individuation. This framework goes beyond the approach in terms of social identity and identification. By using personal identity, I allow the inclusion of the representation of different moments at which the individual defines his own self as regards the organization. This example allows us to illustrate my argument, which is that individuation should be added to identification, as individuation is an outcome of identification.

References


