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The impact of corporate label change on long-term labor productivity

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A R T I C L E I N F O

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A B S T R A C T

Corporate label change (CLC) is a common way to establish a firm's new corporate identity to drive revenue nowadays, but its merits are controversial. We investigate the impacts of CLC, being a *signal* of corporate identity change, on firm's long-term labor productivity. We find that CLC negatively affects long-term labor productivity. We also find that reputable and labor-intensive firms suffer more from CLC. In the post-hoc analysis, we find that these firms may increase their research & development and capital intensity in their operations prior to pursuing CLC to mitigate CLC's negative impacts. An important managerial implication of this study is that senior management should not ignore employees as a major stakeholder in making CLC decision. Our findings also offer lessons to business executives on how to manage CLC to reduce its potential negative impacts.

1. Introduction

A firm's identity is objectively and collectively held by the stakeholders with legitimacy perceptions (Scott & Lane, 2000). An organization's identity can be constituted through many means, such as corporate labels, founders' stories, advertisements and so on. Scholars have suggested that the identity of a firm has an "iceberg" structure (e.g., Alessandri, 2001; Fillis, 2003; Lambert, 1989; Moingeon & Ramanantsoa, 1997). The part of the identity under the surface, despite being invisible, is the core, which includes the firm's culture, strategy, and management style (Lambert, 1989); while the corporate label, including its name, style, and colors, is the essential visible part of the identity (Alessandri, 2001). Because of its visibility to the stakeholders, corporate label has received considerable attention from scholars and industry practitioners (Carls, 1989; Van Riel & Balmer, 1997). A corporate label is usually used to visually describe the core elements of an corporate identity, and it carries the organization's stakeholders' intuitive expectations towards expressing who and what they believe the organization is or will be (Gioia, Schultz, & Corley, 2000).

Over the last decade, many multinational firms have replaced their corporate labels to deliver a new identity to stakeholders (Corley & Gioia, 2004; Muzellec & Lambkin, 2006). For example, Philip Morris changed its label in 2003 to downplay its image as a tobacco seller and try to project a healthier image (Patton, 2003). Nonetheless, changing a widely known corporate label can be a risky strategic undertaking by the firm. A radical change of the corporate label may undermine the ties between the firm and its stakeholders, which have been built through years of marketing efforts and employee training (Gotsi & Andriopoulos, 2007). Furthermore, it is complicated to carry out the change. So poor planning can result in significant costs to the firm (Gotsi & Andriopoulos, 2007). For example, Royal Mail in the UK spent 2.5 million pounds to rebrand its label. However, owing to public and employee resistance, they had to spend an extra one million pounds to mitigate the negative impact (Muzellec & Lambkin, 2006). Likewise, in 2010, Gap Inc. launched a new corporate label to replace the old one that had been used for 20 years without fully consulting its stakeholders. The move drew extensive external and internal criticisms so Gap Inc. quickly reverted to the original label (Elliff, 2014). This episode was estimated to have cost Gap Inc. $100 million in marketing (Hardy, 2014).

Corporate label change (CLC) is a *signal* of corporate identity change conveyed from the firm's management to the stakeholders (Olins, 1989). Previous studies on CLC were mainly conducted at the brand level with a focus on customer perceptions. Miller, Merrilees, and Yakimova (2014) considered CLC as a salient component of corporate rebranding. Müller, Kocher, and Crettaz's (2013) experiment found that a change in the corporate label may keep the brand image up-to-date to accommodate the latest market trends. Based on the analyses of two athletic shoe brands, Walsh et al. (2010, 2011) found that consumer attitudes towards CLC depend on their commitment to the brand—weakly committed consumers react positively to the change while strongly committed ones react negatively to the change. While the merits of CLC have remained controversial, CLC's impact at the firm level has not yet been documented sufficiently well in literature.

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Most CLC decisions are shareholder-centered and externally driven and are often introduced through a top-down approach (Corley & Gioia, 2004; Gotsi & Andriopoulos, 2007). The senior management is usually the primary initiator of such a change (Scott & Lane, 2000). Firms often ignore employees as vital stakeholders because CLC decisions are taken at the strategic level (Gotsi & Andriopoulos, 2007), which renders the positive outcome of the new corporate label, questionable (Bouchikhi & Kimberly, 2003). Employee reactions towards a new corporate label have thus become an empirical puzzle to be resolved.

In this paper, we provide empirical evidence on the impact of CLC on firm performance, based on the stakeholder perspective of identity (Scott & Lane, 2000). We assess the firm's labor productivity in the long run to gauge how effectively employees embrace the new corporate label (Bouchikhi & Kimberly, 2003). We also examine how the depth and breadth of the identity imprinted in the firm affect the relationship between CLC and labor productivity. Finally, in a *post-hoc* analysis, we explore how some precautionary measures taken by the firm prior to pursuing CLC affect the potential negative impact of CLC.

2. Social actor perspective on the identities of firms

From a social actor perspective, stakeholders view the identities of firms as an institution with function attributes that could satisfy the central, enduring, and distinctiveness requirements of organizational members (Ravasi & Schultz, 2006; Whetten & Mackey, 2002). Corporate identity scholars have emphasized the strategic importance of consistently and continuously administering the "sense-giving" process of an organization's identity to its stakeholders to sustain the legitimacy of the identity (e.g., Albert & Whetten, 1985; Corley & Gioia, 2004; Dutton, Dukerich, & Harquail, 1994; King & Whetten, 2008). The communication of identity from managers to stakeholders can be viewed as an institutional claim (Ravasi & Schultz, 2006; Whetten & Mackey, 2002). Such claim-making aims to persuade organization audiences (e.g., stakeholders) to accept the organizational identity as legitimate (Glynn, 2000). Legitimacy acts like a taken-for-granted belief system for organizations as it is for humans (Suchman, 1995). Organizations manage stakeholders' legitimacy perceptions through organizational communication (Elsbach, 1994). The corporate label, as the visual part of the corporate identity, directly delivers the sense from the managers to the stakeholders.

However, the construction of stakeholders' legitimacy perception of the organizational identity is through some "sense-making" process (Gioia et al., 2000; Ravasi & Schultz, 2006). The process is carried out by the stakeholders by gradually forming a shared understanding of the central and distinguishing characteristics of the firm (Ravasi & Schultz, 2006). The legitimacy perception could vary due to audience heterogeneity; internal (e.g., employees) and external (e.g., shareholders) stakeholders may have different perceptions of the identity of the firm (Glynn & Abzug, 2002). Internal stakeholders have stronger associations with the corporate identity than external stakeholders. Employees are the major internal stakeholders, who usually perceive the original identity as being more legitimate and taken-for-granted than external stakeholders do (Bridwell-Mitchell & Mezias, 2012). Employees tend to maintain the continuity of the original corporate identity because they have greater daily interaction with the organization, e.g., organizational routines, paycheck provisions etc., than external stakeholders (Brown & Starkey, 2000; Scott & Lane, 2000). In addition, consistent exposure of the employees to the corporate label also increases the legitimacy of the corporate identity behind the label (Pollock & Rindova, 2003; Zajonc, 1968).

The legitimacy of the original identity can be an obstacle to a corporate identity change signaled by a CLC (Bouchikhi & Kimberly, 2003; Brown & Starkey, 2000). The original identity serves as a tie between the employees and the organization, which satisfies their central, enduring, and distinct requirements as the organization's members (Ravasi & Schultz, 2006; Whetten & Mackey, 2002). As a symbolic representation of the corporate identity, the corporate label can engender positive employee identification and loyalty to the firm (Balmer, 2008; Boroff & Lewin, 1997; McAlexander, Schouten, & Koenig, 2002). Olins (1989) demonstrated that consistent exposure of the corporate label (e.g., Shell Oil and Yves Saint Laurent) can create a monolithic identity among the employees, which can lead to stronger employee identification with the firm. Employees, in turn, are more likely to exhibit a positive attitude and make decisions that are consistent with the organizational goal (Mael & Ashforth, 1992).

Thus, when a CLC is initiated, the managers tend to modify the institutional claim of the corporate identity and initiate a new "sense-giving" process among the stakeholders. The employees need to go through a new "sense-making" process to accept the new corporate identity by abandoning the old sense, which could lead to an identity threat (Ravasi & Schultz, 2006). Facing an identity threat, the employees might not be able to comprehend and internalize the modified identity through the new corporate label, which may weaken their identification with the firm (Stuart, 2002). It is therefore likely that employees are resistant to the corporate identity change signaled by CLC (Bouchikhi & Kimberly, 2003).

2.1. The impact of CLC on labor performance

The employees' legitimacy perceptions can affect their satisfaction and productivity. For instance, Verdugo, Greenberg, Henderson, Uribe, and Schneider (1997) found that the higher the legitimacy among teachers of a reformed governance regime of a school was, the higher the teachers' job satisfaction and productivity. We argue that a new corporate identity signaled by the new corporate label will have the similar effect on a firm's employees, which affects labor productivity. Both satisfied and dissatisfied employees take actions to influence the firm's performance (Farrell, 1983; Hirschman, 1970; King & Soule, 2007). Dissatisfied employees would take resources away from the organization (King & Soule, 2007), while satisfied employees would contribute. Hirschman (1970) suggested that dissatisfied employees would try to influence the management by *Exit*, *Voice*, or *Loyalty* reactions. *Exit* is to commit voluntary separation or turn away from the organization, *voice* embraces attempts and actions to change rather than escape from the organization; *loyalty* is to stick to the organization for a period of time without *exit* or *voice* (Farrell, 1983; Hirschman, 1970).

Employees' resistance to CLC is a baffling but common problem for most organizations (Bouchikhi & Kimberly, 2003). Employees become less productive because they perceive low legitimacy of the new corporate identity signaled by the new label (Verdugo et al., 1997) and some of them would take resources away from the organization (e.g., leaving the firm and joining a competitor) that triggers operational disruptions (King & Soule, 2007). This is because they feel powerless to change the situation (Farrell, 1983; Scott & Lane, 2000). This results in a higher turnover rate of highly skilled employees because they usually have more job opportunities in the market (Park & Shaw, 2013).

Employees could become less productive as they simply disdain the change. For example, Tucker (2013) reported that employee boycott was one cause of the failure of the UK Royal Mail's CLC. Such employee actions are detrimental to organizational productivity (Bishop & Levine, 1999). CLC can create multiple interpretations of the old and new identities among employees, rendering them unable to reconcile their long-term career goals with those of the firm (Corley & Gioia, 2004). Therefore, signaling a corporate identity change can cause uncertainty, fear, and stress among employees (Empson, 2004). Failing to align employees' personal goals with the organizational goals will undermine employees' commitment to the organization and leads to a negative impact on employees' productivity over the long run (Hausknecht, Trevor, & Howard, 2009). Therefore, we hypothesize.

H1. CLC associates with a lower long-term labor productivity.

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