FIRM CONTEXTS AND THE CEO'S ORGANIZATIONAL IDENTIFICATION

It is well-known that a CEO's organizational identification, the degree to which the CEO's own identity is tied to that of the organization, has organizational consequences yet we know little about what drives CEO organizational identification. Research that appeared last year in the *Strategic Management Journal* addressed this issue. The authors found that positive press about the firm and positive firm performance were associated with higher levels of CEO organizational identification. More importantly, the authors discovered that although governance mechanisms are employed to align the CEO's self-interest with interests of the firm, some of them fail to achieve alignment and result in decreases to a CEO's organizational identification.

Key Takeaways:

- Positive firm performance and image motivate the CEO to identify with the firm.
- Providing CEOs with ownership of the firm and tying their compensation to firm performance increases CEO organizational identification.
- Board independence from management and institutional ownership (e.g., mutual funds) decreases CEO organizational identification.

Using data on 753 large U.S. public industrial and service firms between 2004 and 2007, the authors found that CEO ownership of the firm and CEO compensation that is tied to firm performance enhanced CEO organizational identification. These two governance mechanisms align the CEO's self-interest with firm interests and satisfy the CEO's need for belonging, meaning, and self-identity. The authors further discovered that board independence and institutional ownership limit the CEO's ability to exercise control and impaired CEO organizational identification. They reasoned that these two governance mechanisms constrain the satisfaction of the CEO's need for belonging and the need to feel competent.

Furthermore, the authors found that even when positive press about the firm and positive firm performance motivated the CEO to identify with the firm, the CEO's organizational identification was diminished by board independence and institutional ownership. The authors suggest that future research is needed to explore contextual factors that might enhance or diminish the reported relationships in this study.

Source: Lange, D., Boivie, S. & Westphal, J. D. (2015). Predicting organizational identification at the CEO level. *Strategic Management Journal*, 36: 1224-1244.