

## 2 Identity and Competition in an Organizational Context

### 2.1 Social Identity Approach

As already emphasized in the introduction to this thesis, the model presented is based primarily on the structure of the economic identity models developed by Akerlof and Kranton. Their prototype model provides the structure of a contest model resulting in an overall framework within which to focus on the behavior of people who regard competitive behavior as part of their self-concept. In their models Akerlof and Kranton refer to the work of Tajfel and Turner, known as the “Social Identity Approach”. Since this research stream forms an integral part of the model presented as well as being key to the evaluation of M&A success factors, the following chapter provides a comprehensive summary of its most important elements.

#### 2.1.1 Historical Context

The “Social Identity Approach” (SIA) was developed by Tajfel and Turner in the early 1970s as part of their research on inter-group processes. Tajfel’s research was strongly influenced by impressions of the Holocaust as he tried to re-unite children from concentration camps with their families in the early post-war years. At that time, social psychology was dominated by the question of how group membership leads to violence and what sanctions are possible. Before SIA was developed, social psychology mainly took an individualistic view that considered social behavior to be “either the aggregation of individual states or inter-individual actions.”<sup>3</sup> Although studies focusing on the manipulation of inter-group relations by grouping people in such a way as to generate hostility were already being carried out as early as the 1950s, Tajfel and Turner were the first researchers to focus specifically on the conditions underlying such transformations. The conclusion they drew from their studies was that people’s self-concept and motivation were based on their sense of identity. People’s behavior was no longer seen to be determined only by their profession, it also differed depending whether the person was a man or a woman.<sup>4</sup> Insistence on the social context is one of the most important elements used in SIA to explain socio-psychological processes. As discussed later, this is the element to which Akerlof and Kranton refer when they enhance economic utility functions with identity-driven aspects.

As elucidated in the above paragraph, Tajfel and Turner defined a fundamental new approach to social psychology and indeed the “SIA is, by now, probably the dominant way of addressing group processes in psychology.”<sup>5</sup> Their theory has been applied to many types of

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<sup>3</sup> Reicher S. et al., 2010, 46

<sup>4</sup> Cf. Reicher S. et al., 2010, 46 f.

<sup>5</sup> Reicher S. et al., 2010, 56

groups, as it provides a powerful and long-range framework. However, a long-range approach risks being cited to explain almost everything in social psychology.<sup>6</sup> Aware of such tendencies, Reicher, Spears and Haslam in 2010 published a comprehensive summary accentuating the tenets of SIA and differentiating it from other theories. "Most importantly, the SIA seeks to address how psychological processes interact with social and political processes in the explanation of human social behavior. It seeks to work with, rather than to supplant, other disciplines and accepts that much of the explanation of action is not psychological at all."<sup>7</sup>

The SIA as it is known in the research literature, describes a family of socio-psychological theories and comprises both the "Social Identity Theory" and the "Self Categorization Theory". An introduction to both of these theories will be given in the following chapters.

## 2.1.2 Social Identity Theory

### 2.1.2.1 Self-Concept and Social Identity

The "Social Identity Theory" (SIT) was the first of the two above-mentioned SIA approaches and was developed by Tajfel in 1971 after completion of his "minimal group studies", which are among the most famous of all socio-psychological studies.

In these studies, Tajfel divided schoolboys into separate groups and asked them to distribute rewards among the various individuals. Although there was no former relationship between the boys, the mere knowledge of belonging to one of the groups led to a tendency among the participants to prefer members of their own group. One of the most provocative findings was that simply dividing people into different groups can lead to antagonism. Based on his findings, Tajfel concluded that behavior is dependent on people's self-definition with regard to their social membership. "We can only understand why allocation to ostensibly meaningless groups should affect behavior if we start by assuming that people come to define their selves in terms of group membership."<sup>8</sup> This means that the membership itself has a certain value within the self-definition of an individual. If membership becomes a "distinguishing feature" it has certain consequences. Tajfel defines these consequences as "Social Identity"<sup>9</sup> and thus as that part of the self-concept that results from the knowledge that one is a member of a specific social group and from the value and emotional meaning associated with this membership.<sup>10</sup>

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<sup>6</sup> Cf. Reicher S. et al., 2010, 45 f.

<sup>7</sup> Reicher S. et al., 2010, 45

<sup>8</sup> Reicher S. et al., 2010, 48

<sup>9</sup> Tajfel admits that this definition is very limited and that "Social Identity" describes only part of the person's self-concept and is far less complex. "Social Identity" is only an "abbreviation" used for analyzing limited aspects of the self-concept that are relevant when describing social behavior. Nevertheless, it fully meets his needs, as he focuses mainly on social circumstances and not on the analysis of complete individual personalities.

<sup>10</sup> Cf. Tajfel H., 1982, 102

"Social identity theory (...) is a general social psychological theory of group processes and intergroup relations that addresses the social self; that is, the component of the self-concept referred to as social identity that derives from memberships in social groups and social categories, and contrasts with one's personal identity, which reflects one's characteristics as a unique individual."<sup>11</sup> This quotation illustrates first that SIT examines the dialectical relationship between an employee's self-concept and his or her behavior within the organization, and secondly it shows that there has to be a clear distinction between self-concept and social identity. Self-concept as a hermeneutic structure conveys how human beings feel and act in a certain social context.<sup>12</sup> It includes all kinds of self-descriptions and evaluations of which an individual might be aware, and "may be composed of a variety of identities, each of which evolves from membership in different social groups, such as a social group based on race, gender, or tenure."<sup>13</sup>

Although there might be an understanding that "Social Identity" focuses strongly on the social aspects of someone's self-concept, it must be emphasized that it is at once both individual and social. This means that society influences an individual.<sup>14</sup> A person's utility may hence be driven by the evaluation of components relating only to that individual, and of components that are defined by a certain membership. Akerlof and Kranton's economic identity models are in line with this concept. Their utility functions on the one hand include economic variables and on the other hand illustrate the intensity to which the behavioral rules of a certain social category have been internalized by a certain individual.

As already stated above, "Social Identity" describes that part of a person's self-concept that is linked to a certain group membership. While the current chapter intends to introduce and clearly distinguish that term, the next chapter will focus on the process by which "Social Identity" leads to identification and group-specific behavior.

#### 2.1.2.2 Social Comparison and Group Differentiation

As early as the 1950s, the research community postulated that any individual will normally seek to improve his or her self-concept and will therefore compare him- or herself with other individuals. However, this research stream (Theory of Social Comparison) focused mainly on a comparison of several individuals. Tajfel (1982) emphasized that focusing on an individual ignores an important aspect of self-definition, namely the membership of one or more social groups. He defines a group as "social entity" that has a certain meaning for a person over a specific period of time, which is a clear differentiation from the definition of a group as a network of relationships. However, the evaluation of a group membership can only be

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<sup>11</sup> Terry D.J. / Callan V.J., 1998, 68

<sup>12</sup> Cf. Dutton J.E. et al., 1994, 242

<sup>13</sup> Dutton J.E. et al., 1994, 242

<sup>14</sup> Cf. Reicher S. et al., 2010, 48

derived for an individual through social comparison with other groups. "Who we are is partly defined by reference to who we are not. (...) We will seek positive group distinctiveness through differentiation between social groups along valued dimensions of comparison."<sup>15</sup> The term "valued dimensions" clarifies that there are no fixed arguments that are common to all kinds of social comparison. Rather, the specific behavioral outcomes can only be understood in the light of the specific value system underlying a certain group.

Numerous discussions of SIT have led to a strong focus on differentiation and its meaning for a person's self-esteem. The "self-esteem hypothesis" investigates whether positive differentiation from others leads to increased self-esteem. A person who identifies with a group will aim to improve the status of that group compared to others. "In an organizational context, this means that, for example, the stronger an employee's identification with the organization, the stronger the employee's motivation to make the organization superior to competitors or, more generally, to improve the organization's status. This motivation should translate into better work performance."<sup>16</sup>

Another conclusion of this hypothesis, however, is that people who belong to a low-valued group will have to differentiate themselves more clearly from others in order to increase their self-esteem. Without trying to challenge this conclusion, it considers the membership of a certain group to be something that is difficult to change. It thus seems that the only remaining option is to increase self-esteem by stronger differentiation. In reality, however, there are negatively valued groups where differentiation would not result in a markedly increased reevaluation. Tajfel's and Turner's research was influenced by the social upheavals in the US during the 1960s and 1970s and therefore focuses on low-status groups. This explains why Tajfel and Turner were seeking further strategies of low-status groups and the dynamics leading to a change of the social world. This goes beyond the above-mentioned "self-esteem hypothesis", as it mainly considers "redefinition" of the current membership but not the possibility of actively changing the surroundings.<sup>17</sup> The mechanism or relation between a person and their group can be summarized as follows.

First it can be assumed that a person tends to become a member of those groups that contribute positively to his or her social identity. If a group does not satisfy these needs, the person will tend to leave the group, which is called the strategy of "social mobility or exit."<sup>18</sup> If it is not possible simply to leave the group, individuals will either change their interpretation of the group-specific attributes in order to reach a more positive result, or they will join and try to change the group. Last but not least it should be pointed out that no group exists as a stand-

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<sup>15</sup> Reicher S. et al., 2010, 48

<sup>16</sup> Riketta, M. / Landerer, A., 2005, 194

<sup>17</sup> Cf. Reicher S. et al., 2010, 48 ff.

<sup>18</sup> Reicher S. et al., 2010, 50

alone entity, and therefore all the above consequences are always evaluated by direct comparison with other groups.<sup>19</sup>

As stated earlier, SIT was the first partial theoretical approach to be developed within SIA. The present chapter sets out to demonstrate that SIT is indeed a broad approach that addresses many aspects of group-specific behavior. It also has limitations, however, and it was to address these that the “Self Categorization Theory” was later developed. Before examining SCT more closely, the following chapter will first elaborate on the most important limitations of SIT in order to link its solutions to SCT.

### 2.1.2.3 Critical Evaluation of the “Social Identity Theory”

As already mentioned in the historical classification of SIA, Tajfel's and Turner's approach was new to the extent that it considered identity to be the central point of a person's self-concept. It defines a bridge between the individual's self and his or her social surroundings. “In contrast to Freudian and other attempts to use identification as a means of explaining human sociality, the social nature of the bond is primary rather than secondary. That is, we do not identify with others through our common link to a leader. Rather, we are bound together through our joint sense of belonging to the same category.”<sup>20</sup> The internalization of behavioral prescriptions – to such an extent that a person's behavior conforms to group-specific values and rules – is driven by identification. Akerlof and Kranton consider identification to be the most critical component of any internalization process and incorporate this in their prototype model through the variables of identity utility and externalities.<sup>21</sup> Once social and identity components become part of a person's utility they also become subject to rationalization. An agent as a rational actor not only maximizes her utility based on the needs of her individual self, but also has to consider those parts of her utility that are linked to a collective self.

The argumentation has so far shown that SIA raises a number of interesting topics. It was with these topics in mind that Akerlof and Kranton developed their prototype model for economics and identity, a tremendous contribution to the field of economic research. Although the importance of SIT within SIA is given unambiguously it fails to provide an answer to the questions it raises. SIT sets an agenda for defining what must be analyzed in order to gain an understanding of group-dynamic processes, but it does not further elaborate the conditions that are necessary in order for these processes to occur. It rests on the “assumption that social change occurs when people mobilize together on the basis of shared social identity rather than acting separately on the basis of their various personal identities.”<sup>22</sup>

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<sup>19</sup> Cf. Tajfel H., 1982, 103 f.

<sup>20</sup> Reicher S. et al., 2010, 50

<sup>21</sup> Cf. Akerlof, G. / Kranton, R., 2000, 728

<sup>22</sup> Reicher S. et al., 2010, 51

However, it fails to explain how shared identity makes people act jointly in pursuit of a certain target.

### 2.1.3 Self-Categorization Theory

#### 2.1.3.1 Groups as Social Categories

As explained in the foregoing chapter, SCT was developed to address the limitations of SIT. Since SIT fails to explain which circumstances might lead to social change, SCT focuses on the matching of someone's social identity with his or her self-concept. By analyzing the conditions that make someone act in a certain way, SCT links inter-group relations to group behavior. According to Turner, the self is always embedded in social relations but with different levels of abstraction. A person may compare him- or herself with other individuals (personal identity) on the one hand, but see themselves as a member of a certain group as opposed to other groups (social identity) on the other. "Self-categorization theory argues that there is, that we need to distinguish between the personal and social identity as two different levels of self-categorization, which are equally valid and authentic expressions of the psychological process of self."<sup>23</sup>

The above argumentation makes it necessary to understand the process that causes an individual to detect certain social groups in the specific environment. "SCT, in contrast to previous models which see groups as constituted by the aggregation of interpersonal bonds between individuals, defines the groups in cognitive terms."<sup>24</sup> In this context social categorization describes the process of consolidating those objects and occurrences of a group that an individual sees as equivalent to his or her own evaluation system. Due to the fact that the socialization process collects equivalents within an evaluation system, it transfers the overall value to the membership of this specific group. Social categorization thus becomes an orientation system whose purpose is to define the distinct place of an individual within a society.<sup>25</sup> Accordingly, a psychological group is not constituted in interpersonal bonds or interactions, as these can be considered the consequences of self-categorization.

Given that someone considers him- or herself to be a member of a certain social category, the question arises as to how this awareness influences the individual's self-perception. According to SCT, self-categorization leads to depersonalization, which means that individual identity is increasingly eclipsed. "When acting in terms of individual identity, we view ourselves in terms of our individual characteristics. When acting in terms of social identity we

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<sup>23</sup> Turner J. et al., 1994, 454

<sup>24</sup> Reicher S. et al., 2010, 52

<sup>25</sup> CF. Tajfel H., 1982, 106

view people in terms of their group membership."<sup>26</sup> Members of the same group will consider themselves to be similar and will tend to agree with each other more than with members of another group. Every individual tries to conform to the behavioral prescription of his group. Reicher, Spears and Haslam describe this as the "process of stereotyping". The observed behavior of group members is interpreted and justified in the light of their social category. It is important to emphasize that someone's beliefs have to be very similar to those of other group members and thus are always compared and evaluated in that light.<sup>27</sup>

#### 2.1.3.2 Classification of Social Categories

The last chapter focused on the definition of social categories as "critical determinants of social behavior."<sup>28</sup> Nevertheless there remains the interesting question of why people tend to organize their social environment into groups and how these groups are identified and classified.

The traditional view answers this question with the need to simplify information from the social environment. The plethora of information that constitutes the social world is far too complex to be processed with the limited capacity of the human brain. People are therefore seen as groups rather than as separate individuals.

Unlike the traditional view, SCT represents a very functional point of view. In SCT, social categorization reflects social reality. This means that people classify themselves and others into groups because this reflects the real world. If the classification of social categories is to reflect the real social environment, the categories need to be detectable. Reicher, Spears and Haslam define this requirement as "category salience" which is to be determined by the mechanisms of comparative and normative fit.

Comparative fit is the term given to classification based on perceived differences and similarities between people. It "refers to the social organization of similarities and differences between people in a given context. We apply those categories which minimize intra-class differences compared to inter-class differences."<sup>29</sup> It is important to point out that social categories need not be unalterable; different categories may become salient depending on changes in the respective context. Reicher, Spears and Haslam explain this, using the example of a group of social psychologists who are asked to categorize themselves. With no other people present, they would probably classify themselves according to the various disciplines within social psychology. In a mixed group with business graduates, however, they would be more likely to classify themselves collectively as academics.

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<sup>26</sup> Reicher S. et al., 2010, 52

<sup>27</sup> Cf. Reicher S. et al., 2010, 52 f.

<sup>28</sup> Reicher S. et al., 2010, 54

<sup>29</sup> Reicher S. et al., 2010, 54

Normative fit is the term given to the observable behavioral patterns that are linked to certain categories. This means, in the light of the example above, that people who are obviously concerned about the profitability of certain activities tend to be perceived as businessmen.<sup>30</sup>

Once again, it must be emphasized that there are many kinds of differences which are not fixed and can change over the course of time. "There is no pre-defined, universal identity in terms of which a person will define themselves (...). As the world varies, so does category salience."<sup>31</sup> This fact is also of importance to the model developed in the present thesis.

#### 2.1.3.3 Perceived Relative Deprivation

The relevance of all group-specific characteristics is derived from comparison with other groups. This process may result in a perceived shortage which is called "relative deprivation" in accordance with the idea of social comparison.<sup>32</sup>

Although the concept of "relative deprivation" was defined by socio-psychological researchers, it can be also used in economics for the analysis of social processes and movements.

Relative deprivation is important to the extent that it creates a desire to act in order to change something. The need to act may be perceived by a single person or it may be perceived in a similar way by many members of a group. In this case, it forces the group to act collectively. Under this argumentation, relative deprivation can appear in different ranges. Tajfel makes reference to Ted Robert Gurr<sup>33</sup> when he states that these ranges should be understood as a continuum. The "non-occurrence of expectations" can be perceived as a deficit in a personal or an interpersonal sense. If the deficit is perceived in a personal sense, this results from comparing current conditions with previous individual conditions, while interpersonal perception follows from a comparison with the conditions of other individuals. Based on the two dimensions described above, the continuum of relative deprivation can be anchored to the following three reference points.

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<sup>30</sup> Cf. Reicher S. et al., 2010, 54 f.

<sup>31</sup> Reicher S. et al., 2010, 54

<sup>32</sup> Cf. Tajfel H., 1982, 108

<sup>33</sup> Ted Robert Gurr researched into the phenomenon of collective violence and rebellion and defined the range of deprivation as a continuum.



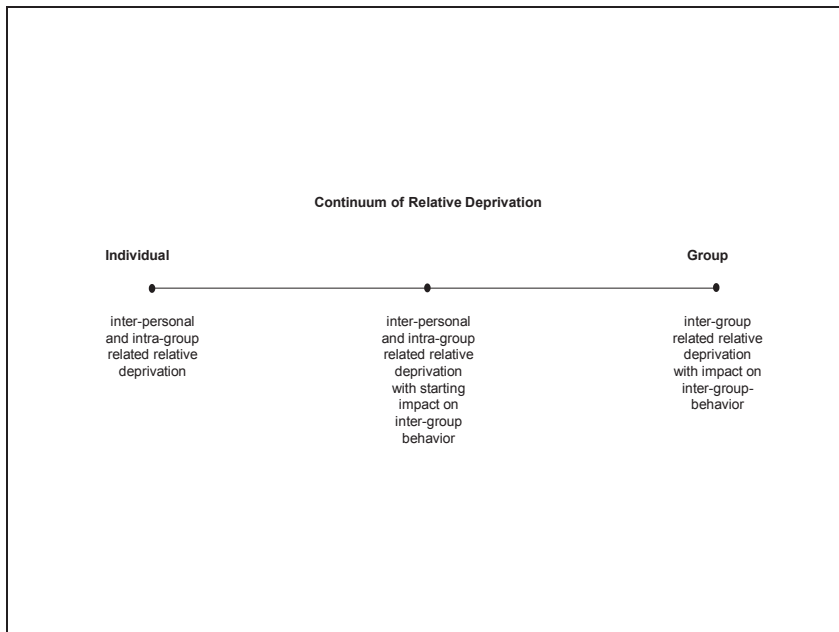


Figure 1: Continuum of Relative Deprivation (CF. Tajfel H., 1982, 110 ff.)

The individual section of the continuum can be defined as the inter-personal and intra-group related relative deprivation that is linked to the individual part of the Social Comparison Theory. An individual acting at this end of the continuum perceives the deficit only from comparing his or her own conditions with those of others who are members of the same group. That person's behavior thus covers only a very limited range of the environment, such as problems with one's spouse and any possible reactions.

The middle section of the continuum is still defined as inter-personal and intra-group related relative deprivation, but it can already be applied as an independent variable for inter-group behavior. This means that in certain circumstances, perceived deprivation based on an intra-group related comparison may already result in inter-group related behavior. This comparison is more likely to be made with individuals in the person's own group than with the members of another group. Tajfel emphasizes that especially the middle section of the continuum defined by Gurr raises the question of how intra-group social comparison can produce antagonistic behavior towards other groups. With reference to Tajfel's remarks, many researchers have attempted to answer this question on the basis of various theories, but it is very difficult to prove this section of the continuum empirically.

The last section of the continuum points at the relationship between inter-group related social comparison and inter-group behavior. Unlike the middle section of the continuum, there is

sufficient relevant empirical research to allow adequate analysis of any possible correlations. If a group is conscious of sharing a common goal, the ambitions of single members become less oriented towards individual targets (e.g. success) and more towards the development of political ideologies. The interesting question is how social comparisons between groups can affect inter-group behavior. Tajfel's point of view is that comparison between groups requires these to be significantly different and thus capable of being clearly distinguished from one another. He cites Durkheim, who said that social order requires people to be satisfied with their fortune and, even more important, to be convinced that they do not deserve anything more. This means again that perceived deprivation must be regarded as legitimate based on the relationship between the groups concerned. The collapse of an established and legitimized inter-group system can result in problematic inter-group behavior.<sup>34</sup>

As already stated, the research of Ted Robert Gurr focused on the phenomenon of collective violence. Nevertheless, the hypotheses build by Tajfel on this research stream can be reliably transferred to economic and organizational issues.

#### 2.1.3.4 Critical Evaluation of "Self Categorization Theory"

As already mentioned in chapter 2.1.2.2, SCT was developed to address the limitations of SIT. SGT and SIT should not therefore be seen as adversarial, but as complementary. "While SIT introduces the concept of social identity in the context of an analysis of intergroup relations, SCT clarifies the concept and its relationship to other levels of identity."<sup>35</sup>

The fundamental contribution of SCT to social psychology was to define self-categorization as a cognitive act. This attempts to explain how specific attributes of a social category become part of individual behavioral patterns and make for a better understanding of the development of group phenomena. One of the main postulations of SCT is that, in order to understand the behavior of an individual within a group, it is essential to understand the group itself first. It is impossible to project individual behavior onto the attributes of the social group to which the individual belongs. SCT enforces the social-psychological interpretation of any self-concept. At the same time the accentuation of social categories being the result of a cognitive act constitutes the main point of criticism regarding SCT. Brackwede (1988) argues that the self-concept theoretically includes not only self-referred cognitions but also evaluations that could be affective and emotional as well. Accordingly, the focus on pure cognition describes only a partial view of the self-concept. Reicher et al. (2010) argue, however, that those who criticize the focus on cognition are confusing the starting point with the end point of the theory. In reality the social environment is organized in categories whose cognition is essential to the understanding of group processes. However, cognition is not all

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<sup>34</sup> Cf. Tajfel H., 1982, 110 ff.

<sup>35</sup> Reicher S. et al., 2010, 55

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