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The Cultural Side of Value Creation

SO!APBOX essay for the 10th Anniversary Special Issue

Davide Ravasi

Università Bocconi, Milan

Violina Rindova

McCombs School of Business, UT Austin

Elena Dalpiaz

Imperial College Business School, London

The question of how organizations create value has become a central question for understanding inter-firm competition and performance differentials (e.g. Coff, 2010; Lepak et al., 2007; Makadok and Coff, 2002; Nickerson et al., 2007). Much of the work on the topic emphasizes the importance of technological innovation for improving operational efficiency and/or product functionality (Adner and Kapoor, 2010; Brown and Eisenhardt, 1995; Tushman and Anderson, 1986). Accordingly, much of the work in the area has focused on understanding the development of technological capabilities (Helfat and Raubitschek, 2000) and the dynamics of competition among different technologies (Henderson and Clark, 1990; Tushman and Anderson, 1986).

Whereas this line of research has contributed greatly to our understanding of value creation through technology performance improvement, it has also left unexplored the strategies for differentiating products on the basis of their cultural significance. Yet, research in a wide variety of disciplines ranging from anthropology, to cultural sociology, and consumer behavior shows that consumers value products not only for their functional and technical performance, but also for their cultural meanings. The infusion of products with cultural meanings enables consumers to use these products to make statements about their personal and social identity and status. It is therefore well understood that consumers derive value not only from what products do (functional value), but also from what they signify in a given social group (symbolic value). Importantly, consumers pay premium prices for products that enable them to signal status and identity (Lawrence and Phillips, 2002; Ravasi and Rindova, 2008).

While strategy scholars recognize that product meanings are a source of differentiation and generate price premia (Porter, 1980), they also tend to view the activities that generate them – e.g. branding – as a part of the marketing strategy of the firm. More generally, strategy research has been criticized for its reluctance to delve into the demand side of value-creation (see Priem, 2007). Rooted in disciplinary assumptions about atomistic consumers with idiosyncratic preferences, strategy researchers view demand as largely exogenous (Frenzen et al., 1994) and ignore its cultural embeddedness in social conventions that define the cultural meanings of objects and shape consumption choices (DiMaggio,

1997). As a result, they have given limited attention to the question of how firms can strategically manage the symbolic value of their products.

In this essay we propose *a cultural perspective on value creation* that can direct strategic organization research toward the systematic investigation of how producers engage with the cultural meaning systems that supply frameworks for interpretation and valuation of goods. To guide research in this direction we first discuss how products acquire cultural significance and then outline three core implications of these ideas for the strategy and organization of firms. First, we discuss how recognizing the cultural significance of products shifts attention from technological innovation that alters product functionality to *cultural innovation* that alters their cultural significance. Second, we explain the need to develop distinct *cultural resources* that enable firms to identify and exploit opportunities for cultural innovation. Third, we draw attention to the need for *cultural intent* defined as developing an explicit strategy for utilizing cultural resources to achieve specific cultural positioning for the firm's products.

The cultural significance of products

Our cultural perspective on value creation builds on a central insight from cultural anthropology and sociology that the goods that circulate in a given society acquire a wide range of cultural meanings that affect why consumers buy them and how they use them. These broad meanings extend beyond simple product categorizations based on collective understandings of product functionality, such as a “computer” or an “MP3 player.” Instead, a cultural perspective recognizes that products acquire a variety of cultural meanings as a result of their inclusion in the practices of consumption and use by different types of consumers (Bourdieu, 1984; Douglas and Isherwood, 1979/1996; Sahlin, 1976). For example, the Volkswagen Beetle was originally conceived as an inexpensive, easy-to-maintain, sturdy, and reliable car. During the 1960s, its popularity with the “hippie” movement transformed the simple, mass-produced, low-cost “people’s car” into a cultural icon -- a symbol of freedom, youth, and non-conformism.

Our cultural perspective extends these ideas, as both cultural sociologists and strategy scholars alike have overlooked the role that producers play in these processes. Recently, Apple’s capability to turn

ordinary electronic devices into highly prized cultural symbols has attracted attention to some of these issues, as scholars and industry observers struggled to explain its unexpected success in a variety of product categories. For example, observers wondered why the early iMac sold more than eight million pieces worldwide (a record for a personal computer), and almost doubled Apple's share of the personal computer market without introducing any significant technological advance. The iMac's most innovative feature was its design: encased in a colorful translucent plastic with rounded anthropomorphic shapes, it suggested reinterpretation of the product from a working tool to a personal entertainment device, a friendly electronic pal that consumers felt comfortable sharing their personal space with and displaying as a sign of distinction (Rindova and Petkova, 2007). Thus, in contrast to the dull grey plastic and square lines that defined the typical form of personal computers and evoked associations to office and work, iMac's design alluded to the semantic domain of toys, evoking broader associations with fun, play, and individual expression.

Do current theories of strategy and organization enable us to understand how producers can strategically shape such connections? We believe not. The sustained surprise that Apple's strategy in the 2000s has evoked is a case in point. In 2001, the iPod surprised observers by sweeping away the competition in the MP3 market (Burrell, 2010), growing its presence from 27% in 2003 (Hennessy, 2004) to 75% in 2005 (Levy, 2006). Levy (2006) described the iPod "a pebble with tsunami-sized cultural ripples." What explains the iPod's outsized ripple effects? According to Levy (2006) it is the iPod's ability to connect to a generation's "mindset that demands choice and the means to scroll through ideas and ideologies as easily as a finger circles the wheel on the iconic front panel" (3-4). In 2007, the iPhone entry into the extremely competitive smartphone market was considered a risky bet, yet the iPhone triumphed in appearing to be "a different species than its competitors, something more personal, more approachable and ultimately, more desirable than anything else out there" (Levy, 2007). The iPad proved even more surprising, moving from a "cheap computer" (Peers, 2010) and "a product that we don't need" (Senior, 2010) to "the first embodiment of an entirely new category" as it sold one million devices in just 28 days (less than half the time it took to achieve the same volume with the iPhone) in the market for tablets that for decades had failed to spark mass-market interest (Financial

Times, 2010). While each of these products incorporated important technological advances (e.g. multi-touch screen, breakthrough web-browsing features, orientation sensors) and benefited from Apple's branding prowess, many of the technological advances were quickly imitated, and observers repeatedly noted that the success of these products was related to the personal bond they established with users through ease of use, coolness, and empowerment. In retrospect it is apparent that Apple developed highly differentiating value propositions. *Ex ante* many of its choices raised eyebrows. This is not surprising given the limited attention strategy research has given to understanding how producers compete through the meanings of their products. In the remainder of this essay, we articulate the three core tenets of the cultural perspective on value creation that can guide future strategy research in the analysis of these issues.

Expanding the scope of innovative activities: From technological to cultural innovation

Recognizing that value creation may be accomplished through means other than improving product functionality expands the scope of the innovation activities of the firm from technology-based to culturally-informed. Culturally-informed innovation creates value through novel product form designs that alter user experiences, generate new practices of use, and provide users with opportunities to make different statements about their identities and status within given social groups.

How does the concept of cultural innovation alter the scope of inquiry in strategic organization research? First, it foregrounds product form design as a key innovation activity (Rindova and Petkova, 2007). By defining the visual and sensory cues, such as shape, color, texture, and material of products, product form design generates the new consumer experiences, interpretations, and interactions associated with cultural innovation. As a result, products in well-established product categories acquire new meanings and new patterns of demand emerge. The Starbucks Coffee Company is a classic example of stimulating new demand in the declining coffee industry at unprecedented price points in the beverage industry. It did so by redesigning coffee as a beverage, as well as the space in which it was consumed (Rindova and Fombrun, 2001). Alessi – the Italian manufacturer of steel products for the kitchen and the table – offers another interesting example of such cultural innovation. In the late

1970s, Alessi set out to reinvent its core product categories, such as coffee makers, cooking pots, and serving sets, by collaborating with renown designers and urban architects. These new collaborators were tasked with creating bold new forms for these conventional products in order to change how users understood and experienced them. By changing their designs, Alessi changed the cultural meanings associated with kettles and coffee makers, and opened up a new market for “designer’s kitchenware”, suitable for gifting, collection, and display. As a result of these changes, over the past three decades, Alessi has sold hundreds of thousands of redesigned kitchen products at prices 5 to 10 times higher than those for conventional kettles, coffee makers, and the like (Rindova et al., 2011).

Second, firms that pursue cultural innovation develop a fundamentally different approach to product development (e.g. Rindova et al., 2011; Verganti, 2009). They draw heavily on the expertise of designers who lead the process of conceptualization and, in some cases, the execution of product innovation (Ravasi and Lojacono, 2005). Also, designers are shielded from the influence and criticisms of both technicians – who tend to be concerned with engineering and cost analysis – and marketers – who tend to be reluctant to embrace radical departures from existing product lines and categories.

Third, they adopt new practices and institute new roles to assure the integrity of the artistic choices that often underlie cultural innovations. Similar to “quality control” in conventional design and manufacturing processes, such roles protect the cultural quality of products assuring that technical concerns do not override cultural ones (Rindova et al., 2011). Clearly more research is needed to understand both the processes that enable cultural innovation, and its interplay with other types of innovation in organizations.

Pursuing and using different types of resources: Developing cultural capital

A cultural perspective on value creation further calls for attention to the identification, accumulation, and deployment of specific cultural resources (Dalpiaz et al., 2010; Maurer et al., 2011). Cultural resources, broadly defined, include a variety of concepts, symbols, narratives and other forms of cultural memes that circulate in a given society (Swidler, 1986). The pursuit and use of cultural resources requires systematic development of cultural knowledge that enables firms to understand what

meanings may be appropriate and desirable associations for their products, and what product form designs are likely to evoke and activate those meanings. Take the Starbucks Coffee Company, for example, again. Its cultural innovation – the coffee bar – began with Howard Schultz’ entrepreneurial insight about the potential for creating value through a new retail format resembling the Italian coffee bar. To implement it, he used available cultural resources, ranging from the concept of espresso to Italian opera (Schultz and Yang, 1999). The direct application of these resources, however, proved ineffective. In the following decade, Starbucks proceeded to incorporate and adapt a variety of coffee-related cultural resources – concepts and symbols – ranging from the exotic imagery of coffee plantations, to the development of its own language around coffee drinks. These cultural resources guided the implementation of very distinct organizational practices, such as employee training on the history of coffee.

Cultural resources differ from more conventional knowledge-based resources. Technological and scientific knowledge progress in a cumulative way, punctuated by rare periods of disruption marked by the emergence of a new body of knowledge and technological trajectory, and the obsolescence of the old one (Tushman and Anderson, 1986). Cultural changes, instead, are less linear. Different sub-cultures coexist and develop within society at the same time, but only some of them will eventually influence more general cultural trends. While, to some extent, technological evolution may be predicted by fundamental performance criteria – so that new technologies usually replace old ones as they improve the quality, efficiency, speed, simplicity or other functional attributes, cultural changes are influenced by a range of factors and events in ways that are difficult to predict based on current cultural values and beliefs. The constant flux in cultures and sub-cultures, then, makes the value of cultural resources fleeting. However, while technological changes tend to be linear, cultural changes are often cyclical, so that – unlike obsolete technologies – “old” cultural resources may become valuable again, insofar as they become relevant again to changing values and lifestyles.

The appropriability of cultural resources is also unclear. Cultural resources are broadly available: cultural artifacts, symbols, practices and forms of expressions are available to anybody to decode and interpret, in an attempt to produce an understanding of the underlying values, beliefs, identities, and

lifestyles. Together, the shifting value of cultural resources and the problematic appropriability of this value suggest that their value creating potential derives less from their possession, and more from the distinct organizational practices and processes for their systematic identification, development, and integration with other organizational resources. For example, firms that engage in the development of cultural knowledge tend to collaborate with and hire different types of experts (e.g. semioticians and sociologists vs. scientists and engineers). Alessi not only collaborated with renown designers and architects as discussed earlier, but eventually established an internal research center headed by a semiotician. The center was dedicated to collaborative investigations of the meanings of products by social scientists (historians, anthropologists, psychologists, etc.) and product designers (Rindova et al., 2011). Similarly, Starbucks hired an anthropologist, tasked with systematizing knowledge about how coffee consumption relates to other cultural trends associated with “cool.” His findings served as a basis for developing a new approach to store development and design (Clark, 2007). These are examples of practices for accumulation and deployment of cultural knowledge. The specificity of these processes, compared to the more widely studied case of scientific and technological research, appears little explored and undertheorized.

Using Culture in Strategy: Developing Cultural Intent

A cultural perspective on value creation implies a shift not only in how managers think about innovation and differentiation, but also the development of an explicit strategy about how to develop cultural knowledge and how to organize to integrate cultural resources within the existing organizational practices and processes. We characterize this explicit strategy as “cultural intent” to denote the explicit intent of a firm to engage cultural resources in its value creation processes in a targeted strategic manner. A firm’s cultural intent includes its envisioned cultural position, as well as its purposeful search and integration of cultural resources in the activities underlying its strategy. A cultural intent is necessary to ensure coherence in the use of culture in strategy and to organize various possible engagements with the cultural world into a distinctive organizational capability.

Not all organizations involved in cultural innovation possess a clear cultural intent. As discussed earlier, the infusion of the Beetle with cultural meanings was accidental and not part of a deliberate effort. Other organizations (e.g. Target) outsource the process to “cultural intermediaries”, such as renown industrial designers. While they benefit from some of the outcomes associated with cultural innovation, they lack a clear cultural intent and fail to understand how what the designers do produces the results they deliver. Yet, a third set of companies, such as Apple, Alessi, or Starbucks purposefully seek to develop a systematic understanding of the processes and practices involved in cultural innovation, as a well as a distinctive vision of the position of their products with regard to the cultural conventions that influence the valuation and use of goods.

Further, organizations differ in the extent to which their cultural intent transcends spatial and temporal boundaries. While cultural innovation may help an organization build a highly differentiated position, or open up new markets through the radical reconceptualization of its products, the value of such reconceptualization would depend on its fit or misfit with the socio-cultural meanings it seeks to tap. While some companies, such as Apple, have successfully identified and addressed a global segment of consumers characterized by similar values and lifestyles, and therefore similar expressive needs addressed by the company’s products, others have encountered difficulties in extending their culturally sophisticated strategies beyond the cultural context within which they were conceived. The case of Carlsberg, one of the world’s largest producers of beer, is instructive in this regard. In 2005 it launched a new line of super-premium beer, under the Jacobsen brand name. The new line was produced in a micro-brewery and available in a range of distinctive flavors. It was distributed in 75 cl. bottles, with labels suggesting serving temperature and association with dishes from the Nordic cuisine – elements of design that alluded to distinctive signs of wine bottles. Traditional horse-driven carriages delivered bottles to bars and restaurants in Copenhagen. Carlsberg also organized special training for barmen, chefs and sommeliers, in a concerted effort to “bring beer back to the dining table”, countering prevailing cultural preferences for wine as the appropriate beverage for formal dinners. In Denmark, the new strategy was highly successful. Connections with the Danish cultural heritage and a rising movement for the recovery of Nordic cuisine and beverages contributed to it gaining almost 50% of

the market share for premium beers. Outside Denmark, and in particular outside the Nordic countries, the pattern of production, distribution and promotional activities largely failed to connect with local cultural trends and milieus.

Conclusion

It should be evident from the above arguments that the idea that firms can tap into fundamentally different sources of value-creation by focusing on cultural innovation, cultural resource accumulation, and cultural positioning suggests a novel direction for strategic management. While consistent with the ideas of differentiation-based competitive advantage in strategy research, a cultural perspective extends the scope of investigation by identifying a distinct class of activities and resources required for the pursuit of value-creation through cultural means. By emphasizing the analysis of distinct value-chain activities and resources, the cultural perspective on value creation also goes beyond marketing research on branding, which focuses on the meanings that become associated with products through the technologies of product presentation and communication, such as advertising, merchandising, and promotions (Aaker, 1996; Keller, 1997). Interestingly, marketing scholars too have begun to investigate the processes that infuse brands with cultural significance (Holt, 2004; Holt and Cameron, 2010). While similar in spirit to this recent work in marketing, the cultural perspective on value-creation we propose calls for a fundamental rethinking of the system of activities a firm engages in – e.g. how to involve designers in product development, how to manage new types of knowledge stocks. It also calls for expanding our thinking about resources, and what type of resources and how they create value. For example, whereas much of the resource-based view of resources focuses on the difficulty for imitation that arises from the possession of distinctive, proprietary resources, a cultural perspective on value creation emphasizes broadly available, yet highly identity-relevant cultural resources enable firms to create and capture new types of value. It also draws attention to the fact that the collective construction of the meanings that surround symbols and artifacts makes some of the cultural resources that producers use only partly under their control. Value creation and appropriation in such resources may depend more on skilful use and dynamic updating than on control and protection of intellectual property.

To develop systematic understanding of these issues, however, strategy researchers need to steer the research agenda on value creation into a radical new direction by giving careful consideration to the cultural dynamics on the demand-side of value creation. The available research in cultural anthropology, sociology and marketing provides an excellent basis for understanding the consumer side of this process. We encourage scholars in strategic organization to draw on theory and research from these and other fields. In addition, however, strategy scholars can make a distinctive contribution developing new theoretical and empirical work that examines the role of producers in the cultural dynamics of markets. We hope that the three core aspects of culturally-informed value creation we articulated in this essay (pursuing cultural innovation, developing cultural capital, and developing cultural intent) offer fruitful directions for this novel emphasis in strategic and organizational research on value creation.

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Authors Biography

Davide Ravasi is Associate Professor of Management at Bocconi University, Milano. His research addresses the socio-cognitive processes that underlie the interrelations between organizational identity, culture, and strategy, and the production and use of organizational artifacts in different contexts. His works have appeared in the *Academy of Management Journal*, *Organization Science*, *Journal of Management Studies*, *Strategic Organization*, *Journal of Business Venturing*, and *Industrial and Corporate Change* among others. *Address:* Management & Technology Department, Bocconi University, Via Roentgen 1, 20136 Milano, Italy [davide.ravasi@unibocconi.it].

Violina Rindova is the Ralph B. Thomas Professor of Business at the McCombs School of Business, University of Texas at Austin and a Fellow of the IC2 Institute of University of Texas at Austin. Her research focuses on the socio-cognitive and cultural dynamics of competition, and the creation of value, intangible assets, and new market opportunities. Her works have appeared in the *Academy of Management Journal*, *Strategic Management Journal*, *Organization Science*, *Strategic Organization* among others. *Address:* Department of Management, McCombs School of Business, University of Texas-Austin [violina.rindova@mcombs.utexas.edu].

Elena Dalpiaz is Assistant Professor of Strategy at Imperial College Business School, London, and a Strategy Research Foundation Scholar. Her research interests focus on understanding the organizational processes for using a variety of cultural resources such as concepts, stories, and institutional logics, and the impact of such processes on organizational and strategic change. Her works have appeared in *Organization Science* and *Advances in Strategic Management*. *Address:* Imperial College Business School, Tanaka Building, South Kensington campus, London SW7 2AZ [e.dalpiaz@imperial.ac.uk].