NATIONAL IDENTITY AND CULTURE GROUNDED COMPETITIVE ADVANTAGE: INNOVATIVE BUSINESS MODELS

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Abstract: Fastest growing and most successful firms appear to have taken advantage of environmental changes and developed novel business models to create and sustain competitive advantages. This research aims to present the close interconnectedness of the issues of cultural and national identity with globalization, and reveal opportunities for business organisations. Grounding on qualitative analysis of 35 cases and national identity scale (NATID) new approach to business model innovation is proposed. This study contributes to business strategy for SMEs by highlighting four step process for culture grounded capability building, unique value proposition to customers and culture grounded competitive advantage creation enabling SMEs to compete with multinationals both, in local and international marketplace.

Keywords: strategy, business model, culture, national identity, competitive advantage.

Jel classification: M13, M31

1. Introduction

Environmental drivers, such as globalisation and advances in communication technologies, has been expanding today's business environment to one global marketplace with interconnected borderless economies thus changing the business landscape and competitive game. In such environment it is harder and harder to identify the sources of small and medium enterprices` (SME) competitive advantage. Small countries, such as Latvia for example, lack natural resources and can not count on low labour costs in the long run. The only potential source of business competitiveness both locally and internationally lies in innovativeness, knowledge and skills, hence, national culture as such potential source should not be neglected in contemporary strategic management theory and practice.

Many researchers have emphasised strong cultural foundations of economic transactions, and thus cultural identities play an important role in the globalised economy. International and cross cultural marketing deals a lot with different cultural environments and necessity for companies to adapt their activities. Strategic HRM focuses on the management of multicultural workforce. However, existing theories of cross cultural management and communication are focusing at value differences between cultures (Hofstede, Schwartz, Hall, etc.). Most of the researches look at cultural diversity as cause of problems for marketers and personnel departments, concentrating on ways and methods to overcome these problems. National cultures are usually understood as attitude creating phenomenon, still recent development of thought including UNESCO (2010) intangible cultural heritage list, provide the basis for wider perspectives – cultures can serve as sources of competitive advantages.

Inquiry among Latvian managers and entrepreneurs revealed that 80% of involved entrepreneurs agree that in the cultural environment of Latvia there are plenty of ideas and skills which can be used in creation of new ventures, and from the customer point of view 76% of the respondents are interested in products having cultural attributes (Čirjevskis, Ludviga 2009). However only 26% of managers confess that they utilize culturally based ideas or skills in their ventures and this has happened mainly by chance or good luck, without any deliberate intent, moreover without any plan.

This paper aims to propose a road-map explaining how to leverage cultural resources and find their place in the business models – how to build culture grounded competitive advantage (CGCA). There is wide academic discourse around the origin of completive advantage, still there is no theory describing how national cultures and identities can serve as a pool of intangible resources for strategically important competitive advantages and for business model innovations for SME.

The paper is structured as follows: the first part describes the sources of competitive advantage, the second part illustrates culture and national identity theories and describes the national identity (NATID) model application in Latvia; the final part is based on qualitative research and combines NATID constructs with a business mo-

del and proposes culture grounded competitive advantage (CGCA) creation as four step process.

2. Competitive advantage and business model

In search of competitive advantage modern strategy theories encourage managers to choose the most attractive industry (Porter 2004), to create core competences based on organisational resources and capabilities (Barney 2006), to combine both and add dynamics (Teece 2007), focus on the customer (Hax, Wilde 2003), and finally to co-create value (Vargo, Akaka 2009) and exploit location-specific resources (Zaheer, Nachum 2011; Alcacer, Chung 2011).

The notion of competitive advantage has slightly changed during last decades from strictly defined as low cost or differentiation (Porter 1998) to value proposition and value co-creation with the customer (Vargo, Akaka 2009). According to resource based view (RBV) the direct route to a sustained competitive advantage is through possessing of intangible knowledge-based resources and capabilities as well as organisation's unique heritage. Dynamic capability view (DCV) put the emphasis on organisational knowledge and call it dynamic capability (Teece 2007). The authors of Blue Ocean Strategy claim to make the competition irrelevant by expanding the boundaries of the industry or creating a completely new industry. Still the „value innovation" proposed by Kim and Mauborgne (2005) looks very similar to competitive advantage through differentiation and low cost combined, so called hybrid strategy, as cost reduction is one of the steps in strategic canvas design. Though Porter (1998) argued that following both strategies will result in „stuck in the middle" and no advantage, from Blue Ocean point of view we see that it can be very productive. S-D logic (Vargo, Akaka 2009) emphasise that the value creation is interactional process and the customer is always co creator of value. Action-based view propose to create firm-specific locational capital from generic locational resources (Zaheeer, Nachun 2011), however, the authors focus only on multinational companies.

Summarising the *competitive advantage* grows out of a unique capability of an organisation that is not easily imitated and creating superior customer value either by means of lower prices or by providing greater benefits and service that justifies higher prices. All strategy theories emphasise the importance of intangible resources and knowledge for achieving superior performance and sustained competitive advantage and such knowledge can be found within national cultural identities.

Considering competitive advantage as superior customer value, a *business model* provides a kind of a 'road-map' and helps to visualize where and how this value can be created. According to Boston Consulting group (Lingardt *et al.* 2009), business model consist of two essential elements – the value proposition and operating model. Business model is a direct result of the strategy (Casadeus-Mansel, Ricart 2009). It is defined as "the logic of the firm, the way it operates and how it creates value for its stakeholders".

Ostervalder (2004) proposes more detailed picture of the business model. According to him "the business model describes the value organisation offers to various customers and portrays the capabilities and partners required for creating, marketing, and delivering this value and relationship capital with the goal of generating profitable and sustainable revenue streams". He argues that the business model and strategy talk about similar issues but on a different business layers. Ostervalder understands the business model as the strategy's implementation into a conceptual blueprint of the company's money earning logic. Business model translates the vision of the company and its strategy into value propositions, customer relations and value networks. Ostervalder pinpoints five main forces influencing business model: technological change, social environment, customer needs, competition and legal environment.

Considering the main sources of competitive advantages are intangible resources and capabilities the question arise: do intangible resources like stories, ideas, designs, attitudes and capabilities, like abilities, rituals, skills and knowledge widely presented in cultural environment of every locality can serve as a source of sustained competitive advantages in era of globalization and in time of economic crisis? And how culture specific resources fit in a business model? Hence, further the understanding of culture and national identity under the impact of globalisation is described.

3. Globalisation and national culture as a resource

Many authors suggest that the impact of globalization on culture is contradictory: one the one hand globalization works towards the unification of the world but on the other it awakes the tendencies towards the local and the culture becomes more visible. This relationship is reciprocal process, cultures do shape globalisation processes and patterns and vice versa (Isar 2011). Cultural diversity is both eroded and recreated by process of globalisation (Moore 2011). There is an augmenting opinion that globalization processes sooner

strengthen, than weaken different cultures. As Cowen (2003) stated in his "Creative Destruction", decline and creation belong to the same movement linked to globalization. The same process that gives us a lot of McDonald's also gives us the choice of food such as French, Italian, Thai, Indian, Mexican, Chinese, Arabic, etc.

Hofstede (2001) define culture as the collective programming of mind, Hall (1989) call it "the meaning and the values which arise among distinctive social groups and classes on the basis of their given historical conditions and relationship, through which they 'handle' and respond to conditions of existence" thus focusing on behavioural aspects of culture. However, according to Sotshangane (2002), today culture is best thought of as resource, like other resources – energy, food, air etc. The observable aspects of culture, such as food, type of closing, celebrations, customs, traditional music and dances, different languages are only part of cultural heritage. Invisible part includes customs, traditions, skills, specific knowledge and way of doing things. Culture can also be defined as capital, which is cumulative, leads to benefits in the social world, can be converted into other forms of capital and can be reproduced (Denner 1998) and as a "set of universally adaptive tools". It is not only a toolbox but even more - it is a toolbox with "directions for use" (Usunier, Lee 2005).

National cultural identity is often connected with ethnicity still viewing countries as nation states; not as ethnic entities, but as consumer groups with common national identity provide more value for businesses and marketers. Thus *national identity* can be used as a measure of countries` cultural differences and can be regarded as further development of cultural identity. Keillor and Hult (1999) characterise national identity as "the set of meanings owned by a give culture that sets it apart from other cultures" and highlight the importance of common ground. Distinctive features of national identity are: historic territory, common myths and historic memories, common mass culture, common legal rights and duties and common economy.

The national identity (NATID) scale is reported in literature for identifying the core elements that define the uniqueness of given culture or nation as far as their association with marketing is concerned (Chi Cui, Adams 2002). Measure of national identity (NATID) scale developed by Keillor and Hult (1999) is partially formulated on the premise that the elements, which characterize nation's identity, are also the components, which serve to tie sub-cultures together within national

boundaries. This makes Keillor`s framework applicable for use in business, as there is no need to distinguish between identities of different people living in the country. All sub-cultures together make this composite 'national identity', which is defined by Keillor and Hult as "sense" of culture. The components or 'core concepts' of National Identity (NATID) by Keilor and Hult (1999) are: *National heritage (NH); Cultural Homogeneity (CH); Belief System (BS) and Ethnocentrism (CE).* Overall national identity (ONI) is the sum of the constructs.

National Heritage (NH) reflects the given culture's sense of their own unique history and it is measured by importance of historical figures and events. According to UNESCO`s 2003 Convention for Safeguarding of Intangible Cultural Heritage (ICH), this type of heritage is the driving force of cultural diversity and provides a guarantee for sustainable creativity (Anheier, Isar 2011). In Article 2 of the convention the following domains of ICH are distinguished: performing arts; social practices, rituals and festive events; knowledge and practices concerning nature and the universe; traditional craftsmanship.

Cultural Homogeneity (CH) deals with the cultural uniqueness of a given society and whether the number of subcultures has inverse relationship to the strength of national identity. UNESCO (2010) characterise intangible cultural heritage as inclusive meaning that it is shared, it contributes to social cohesion encouraging a sense of identity and responsibility which helps individuals who are part of one or different communities to feel part of the society at large.

Belief Structure (BS) mainly shows the role of religion and whether it "affects the moral reasoning process in a marketing ethics context". For many people their religious affiliation is more important than their nationality. However, research shows that in industrialised countries there is a shift from church-based traditional religious beliefs to much more personalised and hybrid engagement with questions about the meaning of life and transcendentalism (Anheier, Isar 2011). Belief structure rather is the composite of how and what people think and believe and why they think and believe what they do, and about themselves and the world. The belief structure is what gives rise to opinions, judgments, understanding and most importantly, the interpretations people have about the nature of reality of our experience.

Ethnocentrism which is measured in NATID scale as *Consumer Ethnocentrism (CE)* accounts for the "importance placed on maintaining culturally-centred values and behaviours". It affects

product choices in consumer behaviour and its effect on a particular business can be positive if the product is culturally bound and consumer supports this culture. From marketers' viewpoint consumer ethnocentrism is an important construct as it directly influence consumers` attitudes and perceptions about products. Shankarmahesh (2006) views consumer ethnocentrism as not-tariff barrier to international trade.

As stated by Moriss (2009) culture is a dynamic process constantly evolving and adapting to globalization and other influences. NATID scale is 17 item Likert type scale measuring individual's perception about the value and weight of his/her culture and identity at the definite point of time.

Keillor and Hult measured NATID in US, Japan, Sweden, Hong Kong and Mexico. Their study was carried further by Phau and Chan (2003) in East Asian market thus offering a tool to incorporate new viewpoints in international marketing strategy. Chi Cui and Adams (2002) applied the scale to Yemen and had to conclude that it did not fit the Yemen data. They proposed a modified scale thus suggesting that it should be modified according to the specifics of the particular nation. Apart from this limitation NATID scale can be criticized for its incompleteness of capturing all relevant construct related information (Spieberger, Ungersbock 2005) still it allows cross country comparison. LeBahn and Harich, (1997) concluded that cultures encompass subjective dimension (beliefs, attitudes and values), interactive dimension (verbal and non verbal communication) and material dimension (artefacts) and all the above mentioned aspects are included in the NATID scale.

4. Research context and methodology

This research applies NATID scale as tool to understand components of national cultural identity in Latvia. Until the middle of 2008 Latvia had the fastest developing economy in Europe. However the Latvian economy entered a phase of fiscal contraction during the second half of 2008 after an extended period of credit-based speculation and unrealistic inflation of real estate values.

Latvian national identity was measured in 2009, 2010 and 2011 thus enabling to trace changes. Latvian sample showed above average overall national identity and surprisingly high con-sumer ethnocentrism compared with other countries where NATID data are available.

NATID scale internal consistency reliability test in Latvia showed acceptable Cronbach`s alpha for overall national identity in all year`s (2009, 2010 and 2011) samples: 0,70; 0,73 and 0,72 respectively. For specific constructs it was the following: for NH - 0,63; 0,73 and 0,62; for CH - 0,70; 0,5; 0,68; for BS - 0,72; 0,7; 0,62 and for CE - 0,79; 0,7 and 0,75. There is enough evidence to conclude that overall NATID scale is reliable, however, reliability of some constructs can be improved.

However, this research aims to answer questions "How" and "Why" therefore the rest of it is qualitative. The grounded theory building and case study approach is applied. Cases include 19 international companies and 16 Latvian companies. *Theoretical sampling* is chosen and the cases are selected because they are particularly suitable for illuminating and extending relationships and logic among constructs (Charmaz 2001) and possessing clear links with some specific culture. As suggested by Eisenhardt and Graebner (2007) multiple cases are used because they create more robust theory grounded in varied empirical evidence and each case can be regarded as a distinct experiment that stands on its own as an analytic unit that serve as replications, contrasts, and extensions to the emerging theory. Both primary and secondary data are obtained either from extensive public records (newspapers, magazines, book publications, journals and academic cases) or direct access to companies and managers. Primary data from interviews and site visits are used for Latvian cases.

5. Towards new business model

Business model approach, as proposed by Ostervalder (2004), is combined with NATID constructs and Figure 1 (overleaf) presents the relationships.

National Heritage serves as capability and intangible resource and specific value proposition simultaneously. Heritage is unique value for customers (Polyak, Akbar 2010). Young customers in Central European region are focused on roots and traditions, something to hold on to as they ventured out onto uncertain and new paths. The researchers found consumers to like products that had a connection with the past and that created a feeling of belonging and tradition – products that evoke nostalgia.
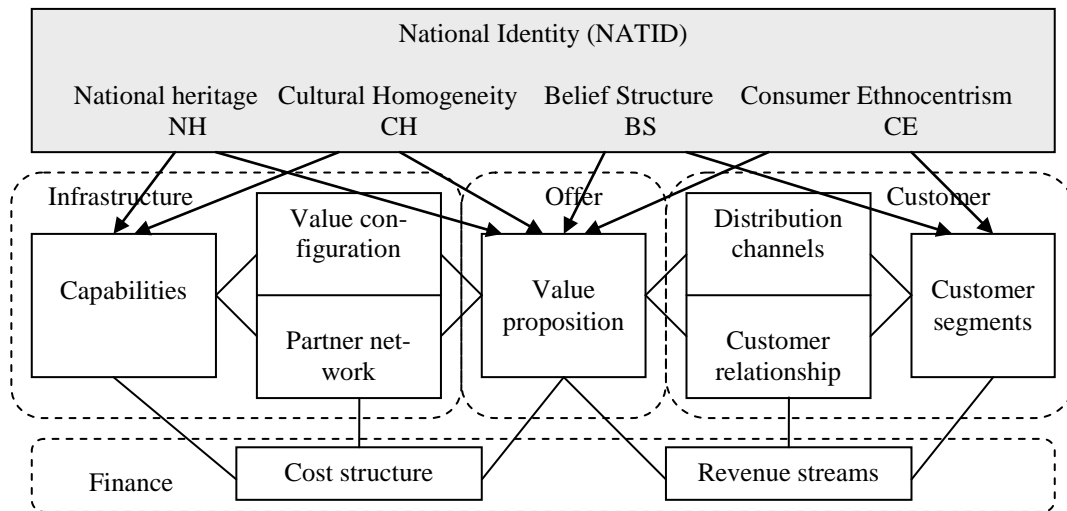
Fig.1. NATID constructs and Business Model (Source: Ludviga 2011)

The following examples illustrate the relationships. Footwear and clothing producer *EMU* is authentically Australian, company's products and marketing campaigns "proudly promote genuine Australian heritage and distinctive lifestyle". Being Australian is a value for company and its consumers, and traditional skills are used in the design and production process.

Baileys use two Irish traditions combined – distilling and farming. Successful R&D by developing ancient skills and traditions has resulted in unique product - Bailey's Irish cream Liqueur, in which milk is preserved by the alcohol alone.

Idea behind *Red Bull* comes from caffeine-filed drink "Kating Daeng" which was popular in Thailand and throughout Asian region containing exotic ingredients and promising to heal ailments from flue to impotency. Thus Austrian company has built its competitive advantage on Asian traditions.

The Body Shop has built its capabilities on traditions, processes and skills of indigenous people all over the globe. Brazil nut oil is produced in Kyapo village according to traditional processes while using appropriate, purpose-built technology. Basis for its best-selling conditioner is Shea butter produced in accordance with Ghana local knowledge and rituals (Ross, Holland 2004).

Cultural Homogeneity serves for capability building and value proposition. Although designs of *Marimeko* are identified with Finish folk songs, links to Yugoslavian, African, Italian and Algerian traditional design can be traced. One of the current designers (Fudzivo Išimoto) has introduced Japanese aspects in traditional Finish design by adding more abstract ornaments and softer lines to traditionally nature based and colourful fabrics thus creating differentiation advantages.

Belief Structure provides a value proposition and serves as an instrument for consumer segmentation. For example so called *Muslim Colas* (*Zam Zam Cola, Mecca Cola and Quibla Cola)* have created their products based on religious beliefs of Muslim consumers. The products are alternatives to 'western' products - Coca Cola and Pepsi. The product's name is a reference to the 'Well of ZamZam' in Mecca, which is one of the stops on the Islamic pilgrimage of the Hajj. These products are distributed throughout the Middle East, some African and European countries. The Islamic cola warriors say this is an easy way for Muslims to feel they are punishing Americans.

Consumer Ethnocentrism fits in the business model both as unique value proposition and basis for customer segmentation. However, this construct more refers to locations or countries than to firms. Opportunities exist for local companies to find niche markets where the local identity and culture is an advantage. Usunier and Lee (2005) has found that when consumers show a strong liking for domestic goods based on nationalism and consumer ethnocentrism, they may also show a fascination for foreign cultures and their goods. In these cases symbolic attributes or national identity serve as symbols of exoticism.

Some companies build their competitive advantages on specific consumer ethnocentrism based on completely different reasons. Lavtian tea producer "Rūķīšu tēja" believes in the value of plants grown in Latvia because for the customers who live in a specific climate zone only the plants which grow in the same zone are the most valuable as they contain all the ingredients necessary for healthy lives. The company widely promotes this idea thus building specific consumer ethnocentrism for locally grown ingredients as their customers deeply believe that plants grown in other

regions will not be so effective for their health. This approach helps the company to maintain loyal customer segment.

6. Proposed process steps for CGCA creation

Culture grounded competitive advantage creation process broadly speaking include finding culture specific traits and attributes which can be universally appealing and finding customer niche to whom these specific attributes would be appealing. Thinking about business model as the strategy's implementation into the company's money earning logic and building on RBV, DCV, S-D logic and ABV, the following steps for culture-grounded competitive advantage (CGCA) creation process are proposed (Fig.2).
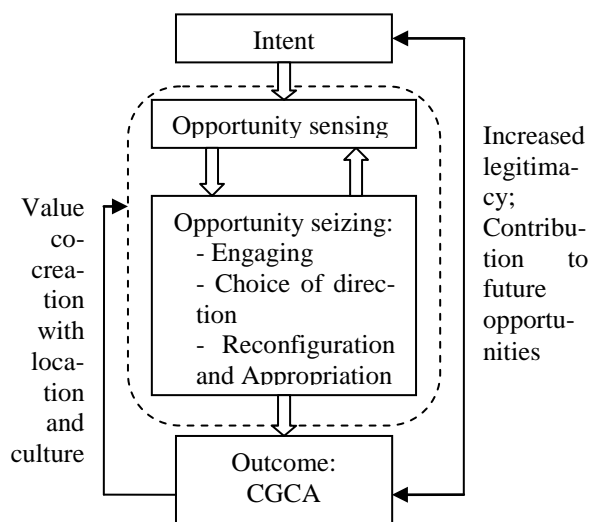

Fig. 2. Creating culture grounded competitive advantage (CGCA)

1. The first step - *Intent* includes broad choice defined, understanding that globalisation opens doors and widens the horizons, consumers put more value on cultural attributes, and capturing ethnocentric tendencies. The empirical evidence shows that companies use one of the following strategies: differentiator, niche player, focused differentiator, multiple niche strategy.

Differentiation strategies are becoming more important because customers today have wide choice of everything and the product or service in order to be preferred need to differ even if it is at comparatively low price. "Be different or die", the famous slogan of marketing specialist Jack Trout (2004), who formulated his principles of "positioning", is still current today. The main idea, that companies sell not products and services, but their differences as perceived by customer, is even more important in the era of globalization. National Cultural identities are extremely useful pool of stories, ideas and abilities which can differentiate the

companies' products and services. Due to globalisation it becomes more advantageous to serve niche markets, no matter where the company is situated and where their customers are situated. "Lāči" and "Rūķīšu tēja", Latvian examples, sell their products to specific customer niches abroad – Latvians who live in Ireland, Canada and any other palace through the Internet.

Muslin Colas customers are dispersed in many countries, still due to their religious beliefs, they construct *multiple niche segments*. Cultural diversities are very valuable as sources of ideas and as bases for niche market formation, because vide variety of tastes can come together with vide variety of choices.

Although Porter considered that been stuck in the middle is the wrong way, today many companies successfully exploit integrated *cost leadership/differentiation strategy*, as IKEA for example.

2. Next step is *Opportunity sensing*. NATID approach is helpful to identify company with the locality. Viewing any country's culture according to four constructs of national identity allows seeing culture from different perspectives including the resource perspective. Dividing NATID constructs in 2 categories provide additional insight. Attitude creating constructs – Consumer Ethnocentrism (CE) and Belief System (BS) will influence sales and distribution. Resource creating constructs – National Heritage (NH) and Cultural Homogeneity (CH) will help in product or service creation – R&D and manufacturing.

The following questions should be answered by managers: What unique assets do we have within our culture, tangible or intangible, that allow us to provide better customer value than our rivals do? Are there any assets we are not exploiting jet but could? How?

3. *Opportunity seizing* is the most important and complicated step and includes several actions which can be carried out in one or another sequence. Engagement with culture specific resources and their reconfiguration and appropriation lead to developing capabilities from culture specific skills, knowledge and understanding of the market. Choice of direction is related to the market choice (understanding of potential market) and product and service choice. Value co-creation with customers includes cultural meaning creation of the product or service for particular customer – attaching attributes and highlighting common values with subcultures.

The following questions should be answered on this stage: What business capabilities can we build on these assets? How can we prevent copying and imitating? What stories or emotional values can be attached to our offerings that will be

valued by customers? Which culture-specific customer segments can be identified?

4. Outcome will be creation of culture grounded competitive advantage (CGCA) and contribution to location (value co-creation with the location). In modern business environment the notion of value becomes wider; it is not only profit for the shareholders, but also value co-creation with the customers and location. Although this idea is as old as Stakeholder theory, using culture as resource for business competitiveness provides the basis for reciprocal process – companies are creating value for their countries, and enhanced countries` potential is creating additional cultural value for the businesses, organisations and people from the particular country.

7. Conclusions

This paper contributes by presenting the issues of the cultural and national identity from resource perspective and revealing opportunities how business organisations can benefit, in particular, how cultures can be used as resources for competitive advantages and business model innovations.

NATID constructs in framework with business model approach provide applicable methodology for revealing and exploiting national cultural identities by SMEs as a source of competitive advantages. NATID scale for quantifying national identity and its constructs is the only existing measure viewing culture from resource perspective and it has proved satisfactory internal consistency reliability in Latvia.

The four step CGCA creation process can help managers and entrepreneurs providing them with additional perspective to product creation and marketing. In the global marketplace where products are loosing their identity because of their similarity in function, designing local features into a product appears to be more and more important and can ensure differentiation and enrich consumer's experiences as well as serve as unique value proposition. Thus SMEs can secure competitive advantages even over large international competitors.

Companies implementing culture grounded competitive advantages will help to solve the intangible heritage safeguarding problem. Thus the cultures will be living and developing naturally without intervention of specific organisations and the world cultural diversity will be maintained and even recreated.

However, this study has limitations that suggest future research. NATID scale is quite incomplete and does not allow assessing full spectre of culture-grounded resources. Three year time period appeared to be too short to trace national identity changes as they appeared statistically insignificant as revealed by ANOVA and Kruskal-Wallis test.

Further research in this field includes improvements of NATID scale and further development of the constructs taking into consideration needs of business organisations. Specific questionnaire following the logic of Keillor and Hult can be developed in order to reveal intangible cultural resource of a definite locality and assess the local potential and/or particular organisation's cultural potential.

Another extension to this work would be to design some specific tolls to be used in the four step process – a questionnaire and matrix for analysis and culture grounded resource sensing.

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