

Understanding value creation in cultural industries: strategies for creating and managing meaning

Eden Yin

Judge Business School, University of Cambridge, Cambridge, UK, and

Nelson Phillips

Imperial Business School, Imperial College London, London, UK

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Abstract

Purpose – This paper aims to analyse the valuation of cultural products and explores what this process means for organizations involved in their production and marketing.

Design/methodology/approach – The authors develop the arguments using a number of mini-cases and industry examples.

Findings – The main thesis is that the meaningfulness and value ambiguity of cultural products shift the focus of valuation away from the products themselves towards how certain agents in the socio-cultural environment identify and certify these products. This paper discusses how valuation takes place via selection systems and how the nature of cultural products drives the dominance of one selection system over others.

Research limitations/implications – Theories on value creation need to take consideration of the critical role played by the selection system instead of just the firms that produce these products.

Practical implications – Organizations engaged in producing highly symbolic products need to manage selection systems and related industry dynamics to establish an enduring competitive advantage.

Social implications – Value creation is a collective social effort. Every member of the society can play a central role in this process. Better engaging various members of the society to enable them actively participate in the value creation process is what organizations today need to consider, instead of just treating individuals in the society as a “customer” who only passively consume. This research calls for the true empowerment of every member of the society to facilitate collective creativity and participation in the value creation endeavour that benefits the entire society as a whole.

Originality/value – It is the first paper that has created a conceptual link between the type of selection system and product categories. In other words, it takes existing literature on value creation and selection system one step further by creating the alignment or match between types of selection system and types of product categories. Therefore, it offers academics and practitioners a much detailed understanding on how value creation is conducted across different product categories.

Keywords Valuation, Meaningfulness, Cultural product, Culturization, Selection system

Paper type Research paper

The artwork “*Molecular Structure*” by Damien Hirst was sold at Sotheby’s in London for £285,000. An anonymous buyer paid more than £1,000 for two Hirst-designed ashtrays in a sale



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1. Introduction

Contemporary artists such as Damien Hirst keep raising eyebrows. Their artwork, which seems to many people quite unremarkable, commands enormous prices and achieves astonishing valuation in the art market – “it is remarkable that people would pay \$9.6m for what is basically a load of old shop fittings” ([The Independent, 2004](#)). The question that puzzles people is why one piece of artwork that does not appeal to most people so sought after by others? Why, despite conflicting opinions, do they still achieve extraordinary success? The essential question boils down to this: where do these massive valuations of these artwork come from?

Understanding the valuation of products has always been an important topics in economics, management and sociology ([Aspers and Beckert, 2011](#); [Beckert and Musselin, 2013](#); [Karpik, 2010](#)). In recent years, the valuation of cultural products has become an increasingly prominent research inquiry because of the fact that the basis for the economic production of the developed world especially the USA is shifting towards a cultural one ([Miller, 2009](#)). Moreover, in post-industrialized societies where differentiation in functional benefits of products is much harder to achieve, firms instead focus on the cultural or symbolic aspects of their offerings and turn them into “cultural products”. Therefore, more and more industries have become more like cultural industries as the boundaries gets blurred ([Beckert et al., 2017](#); [Mato, 2009](#)).

Given the importance of this topic, we in this paper examine the mechanisms through which cultural products are valued and explore the ramifications of these processes for organizations engaged in the production of cultural products. In this study, cultural products are broadly defined to include film, music, fashion, broadcasting, books, performing arts, visual arts, etc. These products are also called “singularities” as they are multidimensional, incommensurable and of uncertain quality ([Karpik, 2010](#)). Compared to traditional products, these products are unique in the sense that they are “goods and services that are valued for their ‘meaning’” ([Lawrence and Phillips, 2002](#), p. 431) and do not provide simply a direct utilitarian function to their users. Hence, their value stems from symbolic qualities based on the interpretation of the products ([Beckert et al., 2017](#)).

This uniqueness has direct implications for the valuation of cultural products. Traditional products are valued based on their attributes, their usefulness and their abilities to perform certain functions or to satisfy consumers’ utilitarian needs, while the value of cultural products critically hinges on their meaning, which because of its highly subjective and interpersonal nature, is extremely ambiguous. The valuation of cultural products does not, therefore, follow the same process through which traditional products are valued. We argue that meaningfulness, the resultant value ambiguity and uncertainty of cultural products, shift the focus of valuation away from the products themselves towards how certain agents in the socio-cultural environment identify and certify their products. In other words, valuation takes place through selection systems, e.g. part of the “judgement devices” ([Karpik, 2010](#)) and the nature of cultural products determines, which selection systems take predominance in driving their valuations ([Karpik, 2010](#); [Wijnberg and Gemser, 2000](#)).

This rather unique valuation process has profound implications for organizations engaged in cultural production. These organizations essentially produce meaning rather than just making things. Because meaning is deeply embedded in specific social-cultural contexts, its production is no longer a private endeavour pursued by firms alone, but requires the involvement of various relevant agents, which constitute selection systems that firms need to manage.

Moreover, two alternative orientations emerge and correspond to the two types of organizations engaged in this meaning production business: one involves the making of “meaningful” products, e.g. movies, books and music and the other is making products “meaningful”. The latter production orientation is the direct consequence of the increasing trend in culturizing or fashionizing traditional products (Hirsch, 1971; Peters, 1996). Confronted by product commoditization because of stiff competition, more and more firms attempt to inject richer and deeper meaning into their products that used to deliver only utilitarian functions. Most noticeable examples are the popular *Beetle* from Volkswagen, the Swatch Group’s *Swatch*, Apple’s *iMac* and the hugely successful *iPod*, Alessi’s *juicy salif* and the Reignwood Group’s *Voss*.

This meaning-based valuation requires firms engaged in cultural production to adopt different organizational structures and capacities. Organizations appear quite different depending on their production orientation, as are their strategies for competing in the marketplace. Therefore, management scholars to understand the industry and organizational dynamics involved have to take a different approach. It is no longer sufficient to simply change the focus of management research by including companies involved in cultural production; systematic theory-building and method development are needed (Lawrence and Phillips, 2002; Wijnberg, 2004).

In this paper, we attempt to move in this direction by focussing on the dynamics of the valuation of cultural or *culturized* products and investigate how selection systems drive their valuations. We also examine the ramifications for organizations participating in these kinds of activities and argue that organizations engaged in cultural or meaning production need particular competencies and resources, which are lacking in most firms that attempt to make their products meaningful.

This paper is organized as follows. In Section 2, we discuss the unique characteristics of cultural products and how this uniqueness leads to alternative valuation system moving away from quality/attribute-based valuation in traditional markets. In Section 3, we elaborate on the relationship between selection systems and value creation, e.g. how do selection systems drive valuation? Section 4 lays out the organizational implications for firms engaged in cultural production. Finally, Section 5 presents conclusion.

2. Characteristics of cultural products

Cultural products are “nonmaterial goods directed at a public of consumers, for whom they generally serve an aesthetic or expressive, rather than a clearly utilitarian function” (Hirsch, 1972, p. 641) and they are consumed in acts of interpretation (Lawrence and Phillips, 2002). These products such as film, music, visual arts, fashion, video games and performing arts, although vary greatly in their forms, share important common characteristics, which have direct implications for their valuation.

First, the core source of value for cultural products is the meaning embedded in them, not their usefulness to consumers in solving a practical problem. In other words, “they are valued because the consumer or others can interpret them in a way that is valued by the consumer” (Lawrence and Phillips, 2002, p. 431). Creating value for cultural products or creating additional value for culturized products is equivalent to creating meaning for them (Beckert *et al.*, 2017).

Second, the value of cultural products is highly ambiguous because it is almost entirely based on meaning, which is highly idiosyncratic, personal and can be difficult to interpret. Moreover, the difficulty in ascertaining the value of most cultural products lies in the fact that the standards used for this purpose are rarely clear and obvious (Karpik, 2010; Wijnberg and Gemser, 2000). Therefore, ambiguity is intrinsic to goods that serve an aesthetic or expressive rather than a utilitarian purpose (Lampel *et al.*, 2000).

Third, cultural products suffer from quality uncertainty as a result of this value ambiguity. These products are either experience or credence goods, whose quality and value are notoriously difficult to determine prior to or even after consumption (Karpik, 2010; Wijnberg and Gemser, 2000). In fact, consumers may never know the quality of cultural products precisely (Darby and Karni, 1973).

Fourth, cultural products stem from human creativity, which as a trip to any contemporary art gallery will show, has a little boundary. Consequently, cultural products possess nearly infinite variety. The nature of creativity and the market demand for uniqueness leads to the huge variety of product offerings, which is directly responsible for additional difficulties encountered by consumers when they make adoption decisions.

Fifth, cultural products are subject to strong social contagion effects (Caves, 2000). Because cultural products are consumed as both entertainment and fashion (Lawrence and Phillips, 2002), they are open to demand herding, meaning that a person's consumption decision is heavily influenced by others' choices (Coleman *et al.*, 1966; DiMaggio and Powell, 1983; Katz and Lazarsfeld, 1955). Quality uncertainty further strengthens this effect (Kretschmer *et al.*, 1999) because when customers are in doubt about the value of a product, they imitate (Robin, 1984). Consequently, popularity or its mutated form, exclusivity, appears to be an important driver for cultural products' valuation. These rather unique features of cultural products make their valuation dramatically different from that of traditional products. We elaborate on this issue in the following section.

3. Selection systems and valuation of cultural products

Value ambiguity, quality uncertainty and nearly infinite product variety, all make the valuation of cultural products rather difficult. In circumventing these difficulties, the valuation process of cultural products takes place through what are referred to as selection systems (Beckert *et al.*, 2017; Wijnberg, 1995; Wijnberg and Gemser, 2000).

Three selection systems are present in cultural industries, e.g. *market* selection, *peer* selection and *expert* selection. The differences in these selection systems are:

In the case of market selection, the producers are the selected and the consumers the selectors. Peer selection, on the other hand, means that the selectors are part of the same group as the selected. In the case of expert selection, the selectors are not themselves producers or consumers, but have the power to choose by virtue of specific knowledge or abilities attributed to them. (Wijnberg and Gemser, 2000, p. 3)

Among the three selection systems, the expert selection is the most stringent system. It is the selection by the elites, which tend to follow a set of well-established rules, principles and frameworks, in which knowledge, expertise and legitimacy are critical ingredients. Market selection is the most democratic one in which the mass market chooses whatever they prefer in a rather causal and spontaneous manner. Peer selection lies in between, which is also driven by certain rules and frameworks, but is much less stringent than that of the expert selection.

These selection systems are not mutually exclusive and they can operate in parallel. In fact, selection systems rarely operate alone. The actual valuation is often determined by a combination of types of selection (Wijnberg and Gemser, 2000; Gemser *et al.*, 2008). The key issue is, therefore, under what circumstances one selection system dominates the others.

3.1 Role of selection systems

Hush Puppies, the popular fashion brand for shoes, had been nearly gone out of business between the late 1994 and the early 1995. Suddenly, by the fall of 1995, this brand that was obviously out

of fashion made an extraordinary comeback and once again become the hottest fashion item for young generations. In 1996, *Hush Puppies* won the prize for best accessory at the Council of Fashion Designers awards. The president of the firm appeared on the stage with fashion tycoons like Calvin Klein, Donna Karan, and 'accepted an award for an achievement that – as he would be the first to admit – his company had almost nothing to do with.' (Gladwell, 2000)

The remarkable yet surprising success of *Hush Puppies* shoes demonstrates the importance of selection systems in driving the value of cultural or culturized products. For traditional utilitarian products, the market determines their value based on product usefulness and supply-demand conditions and the focal point of valuation is the product attributes. However, for cultural or culturized products, their unique characteristics disable the market mechanism and their valuation is, thus, no longer centred on the product itself because of the following reasons.

First of all, consumers often experience difficulties in interpreting meaning, especially sophisticated one, for example, connotational or implicit meaning (Barnard, 1996), either due to a lack of knowledge or expertise or ambiguity intrinsically embedded in meaning. At the same time, customers do not always have clear defined preferences in evaluating cultural products. Therefore, they need external aids, for example, selection systems, to assist them.

Moreover, the meaning embedded in cultural products often involves the issue of legitimacy because consuming these products is intimately linked to a person's self-identity and social status (Bourdieu, 1984; DiMaggio, 1982). Hence, the risk of consuming the wrong product is not trivial. Even though the importance of such legitimacy in certain product categories e.g. books, music and movies, may not be paramount, it is still a relevant concern for customers because others do judge them by the types of cultural products they consume. To avoid the potential risk of making a wrong choice, consumers tend to rely on selection systems.

Furthermore, the extremely large variety of cultural products poses yet another serious obstacle for their valuations. The oversupply of these products severely hinders consumers' ability to identify the right product and to assess its value. As a coping strategy, consumers seek external aids to identify, to certify and to determine the meaning or the value of cultural products. Therefore, in the absence of a well-functioned, product-centred mechanism for product valuation, selection systems fill the void and dominate the valuation process.

In the case of *Hush Puppies*, it was at the edge of extinction, yet became once again a "staple of the wardrobe of the young American male" (Gladwell, 2000, p. 4). What contributes to this miracle-like success is the participation of the expert selection system in creating a unique and compelling meaning for this product. These experts, e.g. fashion designers and actors, among whom, the most recognized one is the high profile figure in the fashion industry, Isaac Mizrahi, who wears the shoes himself, "use this shoes to peddle something else – haute couture" (Gladwell, 2000, p. 5). In other words, when *Hush Puppies'* functionality-based value was no longer appreciated by the market, a new source of value, i. e. its meaning as a high fashion item, was created by the expert selection system.

In sum, unlike regular commodities whose value is attribute-based and market-centric, valuation of cultural products calls for selection systems, which perform three essential functions in the valuation process, namely, *identifying*, *certifying* and *determining* value. This valuation is then shifted from the product itself to how certain agents in the social-cultural environment select and certify certain products and their value.

3.2 Drivers of selection systems

It is critical for organizations in cultural industries to understand, which selection systems play a dominant role in their respective product categories. This knowledge will help them

to develop strategies that can maximize their products' valuation. Two factors appear to be important in determining the dominance of one system over the other in a specific product category, e.g. level of meaningfulness and extent of availability.

3.2.1 Level of meaningfulness. Meaningfulness is a key dimension that differentiates cultural products from traditional ones and two types of meaning, e.g. intrinsic and extrinsic, surface in this specific context. The former refers to the meaning that a product is intended to contain such as the one carried by operas and movies, whereas the latter one refers to the meaning a cultural product provides to the person extrinsically as he or she consumes it. This meaning is closely related to a person's personality, self-identity and social status and thus conveys enormous social significance.

The obstacle in evaluating the intrinsic meaning is its complexity, which calls for the expert system when it goes beyond customers' normal level of knowledge and expertise, whereas the obstacle in evaluating the extrinsic meaning is its legitimacy. The reason is that cultural preferences and class position are closely linked (DiMaggio and Useem, 1978; Gans, 1974; Wilensky, 1964). As DiMaggio and Useem (1978) indicate:

Cultural style, including appropriate interest in the arts, often serve as a convenient class cue, especially among the upper class whose cultural systems are particularly well elaborated,' and 'the adoption of artistic interests, tastes, standards, and activities associated with a social class helps establish an individual's membership in that class. (DiMaggio and Useem, 1978, pp. 142-143)

Therefore, consuming certain cultural products indicates a person's social status or aspired one. Certain high culture products are perceived as high-status symbols, class markers or signifiers (Barnard, 1996; Bourdieu, 1996), indicating the user's social identity. Consequently, legitimacy becomes the central component of the meaning and therefore, the value of these products. The higher the level of meaningfulness a cultural product possesses, the higher chance that the expert selection system will be used in its valuation to deal with either the complexity or the legitimacy issues. In particular, the higher social significance the meaning conveys, the more likely the expert system will play a key role in its valuation because customers usually do not possess the authority to legitimize this meaning.

Cultural products, even though their overall level of meaningfulness is generally high, vary substantially in the levels of intrinsic and extrinsic meaning that they contain. Mass cultural products such as movie, music and books, are high on intrinsic but low on extrinsic meaning, whereas high art products are high on both meanings. Culturized products such as the Apple's *iPod*, *Hush Puppies* and *mini cooper*, are low on intrinsic meaning yet high on extrinsic one because their consumptions are tied with consumers' self-identity and personality, e.g. *iPod*'s users are perceived as trendy, innovative and chic.

3.2.2 Extent of availability. Availability is another dimension that is closely linked to the valuation of cultural products. This is because of the most fundamental economic principle: products of scarcity tend to be valued more compared to those abundantly available ones. One of the key reasons why paintings by genius artists – such as Monet, Picasso and Van Gogh – are extraordinarily expensive is that many of their works are one of a kind and very rare. Even among these great works, the prices of each individual piece vary greatly because of the level of their availability. The fact that Picasso's paintings are on average much cheaper than those of Van Gogh or Da Vinci is because Picasso's works are relatively more abundant than those of the other two masters. In sum, we can categorize the entire product space into the following four quadrants based on these two dimensions (Figure 1).

Mass cultural products are high on both dimensions, whereas niche cultural products are high on meaningfulness but low on availability. If we ignore obscure cultural products that are produced in trivial quantities, this group of cultural products are traditional art

products, i.e. classical painting, opera, high fashion and jewellery. Culturized products such as *iPod* and *Hush Puppies*, are those that belong to the quadrant for mass traditional products but migrate across the product border into the quadrant for mass cultural products via the process of culturization, while niche cultural products such as some brands in high fashion, e.g. *Prada*, also attempt to move from the “class” to the “mass”. Next, we shall elaborate on which selection systems dominate the valuation of these product categories respectively.

3.3 Dominance of selection system and product category

Traditional mass and niche products rely on functionality-driven and market-based valuation, which has long been investigated by economists and management scholars. Therefore, we focus here only on cultural products and their corresponding selection systems. We argue that for products that have both high/complex intrinsic and extrinsic meaning – e.g. niche cultural products – classical painting, opera and high fashion – the expert system dominates their valuations. For products that have high/non-complex intrinsic meaning and a low extrinsic one – e.g. mass cultural products – movie, music and books – the market system dominates its valuation. For products that have low intrinsic meaning but a high extrinsic one – e.g. culturized products such as *iPod* and *Hush Puppies* – both the market and the expert system play important roles. The peer selection does not appear to be prevalent in any of these product categories. We elaborate on these arguments as follows.

For niche cultural products, the expert system plays a dominant role in their valuation for several reasons. First, this type of products is usually the status marker (DiMaggio, 1986). Consuming the “right” product helps a person accumulate cultural capital (Bourdieu, 1984; DiMaggio, 1986), whereas choosing the wrong ones can inevitably damage a person’s social image and class identity. Therefore, the meaning and value of these products need to be legitimized by the expert selection system and their legitimacy, for example, whether or not the meaning embedded in these products “fit” into the right social class, ultimately determines their value.

Second, niche cultural products, as carriers of cultural capital, often contain sophisticated connotational or implicit meanings, which can be ambiguous and difficult to interpret. For instance, a traditional Norfolk jacket as one specific type of fashion that was popular at the beginning of 20th century contains a rather complicated implicit social meaning (Barnard, 1996),

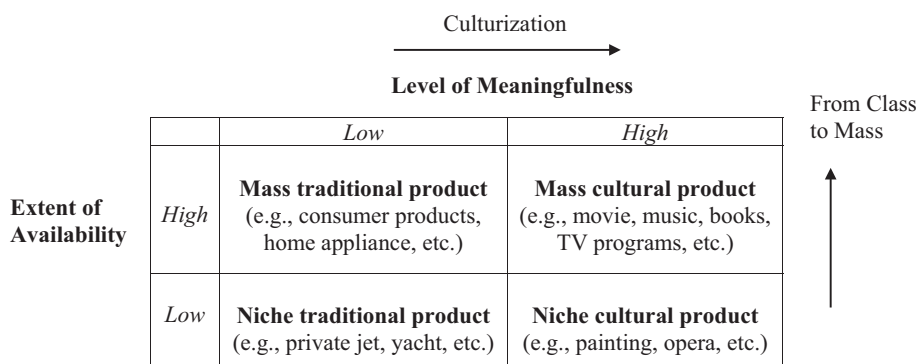


Figure 1.
Product
categorization based
on meaningfulness
and availability

which is not accessible by people who lack specific knowledge on this subject. The expert system then provides interpretation for its meaning and therefore, determines its value. In the absence of such interpretation, such products may demand much less valuation because of the lack of substantial meaning attached to it. Therefore, the expert system dominates the valuation for this product category and it identifies, certifies and determines their value.

For mass cultural products, for example, movie, music, books, video games, etc., which are often referred to as “entertainment” products that are interpreted directly by the consumers (Lawrence and Phillips, 2002), the expert system plays a much less important role. Even though they are high on intrinsic meaning, these products, being as non-class markers, need no legitimization for their meaning and also contain little complex connotational meaning, which requires external interpretation because they are more or less a direct representation of the reality because of their “mass” nature (Shrum, 1991).

In this product category, ambiguous quality, nearly infinite variety and severe time constraints in making informed choices because of rapid market change (Austin, 1989; Eliashberg and Sawhney, 1994), impose enormous difficulties on consumers when they attempt to identify the right product and they then turn to industry experts (Barzel, 1982; Fombrun and Shanley, 1990). Thus, identifying the right product is the key challenge and therefore, the central function performed by the expert selection system, which helps customers reduce the search effort, quality uncertainty and consumption risk. For instance, in the market for movies, film critics play a crucial role in helping consumers resolve this uncertainty (Eliashberg and Shugan, 1997; Lampel and Shamsie, 2000). Yet, it is up to the market to determine the final value of these products. In the words of Steven Spielberg, “All motion pictures are a gamble [...] counting on 10 or 20 million people to go into the theatre to make or break that film” (cited in Litwak, 1986, p. 101).

Besides relying on the expert system to identify the right products, the market system carries out this task using its own agents such as mavens, i.e. information specialists or brokers who actively collect and spread information about products of interest (Gladwell, 2000). As the two parallel systems are in place to identify products, the expert system only plays a limited role in this regard. In fact, the most critical and unique function performed by the expert system is to certify and to legitimize a product, yet this function is not critical in the valuation of this specific product category.

Mass culturized products, e.g. *iPod* and *Hush Puppies*, which are often labelled as “fashion” products that are not meant to be interpreted by the purchasers but by others (Lawrence and Phillips, 2002; Beckert *et al.*, 2017). In this product category, the infinite variety, short decision windows and quality ambiguity does not plague consumers because these are traditional products with which they are familiar. The expert system then plays a bigger yet different role compared to the previous case: it does not help to identify products, but serves as a certifier that legitimizes the value of these products. As indicated before, these are more or less fashion products that possess substantive extrinsic meaning and legitimacy becomes an important concern for people who consume them.

For instance, the *iPod* launched a series of “chic” TV commercials featured popular singers and their hit songs, including the hugely successful rock band *U2* and its lead singer Bono. *Hush Puppies* entered the mainstream market and achieved massive valuation via the certification by fashion designers such as Isaac Mizrahi. These are “experts” who legitimize the meaning attached to these fashionized products and this legitimized meaning drives the final valuation of these products. Again, the market system identifies the right products via their own agents, for example, mavens.

In conclusion, the level of meaningfulness and types of meaning decisively determine, which selection systems dominate and what roles they play in specific product categories. When the meaning of a product is high and it is primarily extrinsic, the legitimacy becomes a central issue in its final valuation and the expert system legitimizes the meaning and value. In this case, a product's valuation deviates further away from its attributes and functionality and is centred on experts' legitimization effort. The relationship between selection systems and product categories can be summarized as follows: (Table 1)

Availability has a second-order effect on the dominance of one selection system over the others. When the availability of a product is low, the expert system tends to play an important role in its valuation because of the following reasons: first, the economic cost of making a wrong decision can be rather high and experts can reduce the consumption risk. Second, these products are rare and have few similar substitutes and its valuation becomes difficult in the absence of such reference. Again, an expert's expertise and knowledge are needed to overcome this problem. Therefore, scarcity allows the expert system to play a bigger role.

Based on the discussion on the roles played by selection systems in driving the valuation for cultural products in respective product categories, we next examine the ramifications of this process for organizations engaged in the production of cultural product.

Managing organizations engaged in cultural production

Because of the uniqueness of cultural products, managing in cultural industries is, therefore, not about efficiently producing a product but about creating and maintaining an organization that can produce and sell meaning. Managers must, therefore, deal with a new form of organization: not a capital intensive or knowledge-intensive organization, but a symbol intensive organization. These organizations are characterized by the need to manage the process of symbol creation and the continuous innovation associated with cultural production (Lawrence and Phillips, 2002).

Understanding the dynamics of cultural production is not only the prerequisite for organizations engaged in cultural products but also it is a vital knowledge for nearly all firms. This claim is supported by the increasing trend in product "culturization" or "fashionization" (Peters, 1996), as more and more products traditionally sold on the basis of practical usefulness start to develop an important element of style and to emphasize the meaningfulness aspect of their offerings. In fact:

every consumer industry is engaged to some extent in the production of cultural goods, and any consumer good can thus be placed along the implied continuum between cultural and utilitarian products (Hirsch, 1971, p. 642).

The concept of cultural products then broadens and category boundaries between products become blurred (Mato, 2009). Therefore, the current investigation has a broad appeal to organizations from a large variety of industries.

Product category	Selection systems and their functions		
	Identifying value	Certifying value	Determining value
Mass cultural product	Market/expert	—	Market
Mass culturized product	Market	Expert	Market
Niche cultural product	Expert	Expert	Expert

Table 1.
Selection systems
and corresponding
product category

In the domain of cultural products, the industry dynamics demand organizations to move away from a purely product-centric perspective into a more meaning-oriented one. Managers are faced with a range of new problems and challenges for which current management theory is of little help. To adequately understand the distinctive characteristics of this industry, management researchers need to consider a set of problems that are unique to cultural production and expand research approaches to include theory and methods that can address these problems. In the following, section, we discuss the ramifications of this unique valuation process for organizations engaged in the product of cultural products.

4.1 Implications for organizations making mass cultural products

For this week's launch of 'Halo 2', a shoot-'em-up that runs on Microsoft's Xbox console, over 6,000 shops across America opened their doors at midnight to sell the game to queues of fans. Add over 1.5m pre-orders and the game brought in over \$100m in its first day on sale. Bill Gates called it 'an opening day that's greater than any motion picture has ever had in history.' – [Economist \(2004\)](#), 11, November 2004.

This so-called "Halo effect" described above indicates the key challenge in managing organizations making mass cultural products – managing the cascade, for example, a product takes off rapidly in an extraordinary scale. In this market because of the extremely volatile and fast-changing competitive landscape, a product either hits or misses and is often given no second chance. Success or failure is determined rather swiftly because of the rather short product life cycle of these products. Starting the cascade for a product at the time of or even before its introduction, is critical for its success. Otherwise, it may never take off. This is referred to as the "time flies property" ([Caves, 2000](#)). Organizations making these products are, therefore, compelled to achieve the prompt market valuation to recoup the sunk cost. They need to not only get the product to the market quickly but also create a hype that leads to rapid product cascade. The ability to do so differentiates winners from losers in this competitive game.

Several key management issues surface for organizations engaged in producing mass cultural products. First of all, how can an organization start a product cascade and what role selection systems play in this process? Second, how can an organization predict the cascade in product categories where a rapid takeoff does not occur as in the case for books? For instance, Rebecca Wells' bestseller *Divine Secrets of the Ya-ya Sisterhood*, when launched in 1996, was not a major literary event until two years later. In this case, the issue is how to predict the cascade and prepare for it accordingly.

Research indicates that product cascade can be attributed to several mechanisms such as sanctions on deviants ([Akerlof, 1976](#)), network effects ([Katz and Shapiro, 1986](#)), preference for conformity ([Jones, 1984](#)) and informational cascade ([Bikhchandani et al., 1992](#)). Most of these mechanisms, to take full effect, need the initial momentum to be established in the target population and selection systems play a pivotal role in identifying the product and then igniting such a powerful trend. Therefore, creating a product cascade requires an organization to involve and to manage relevant selection systems.

In this market, valuation takes place through two selection systems: the expert and the market. The expert and the market system identify the product simultaneously and the market then decides its final valuation. Organizations need to manage not only the expert selection system, e.g. critics, trade magazines but also critical market agents, e.g. mavens, connectors and salesmen. Working together, they play a decisive role in the word-of-mouth social epidemics that dictate our tastes, trends and fashions ([Gladwell, 2000](#)). Mavens collect the information and provide the message, connectors spread the message and salesmen, similar to the expert selection system, convince the mass to adopt it. These agents are often

more influential than experts in driving the situation because they are part of the market system, neutral in their stands and intrinsically motivated to “make things happen”.

The key challenge for an organization is then to identify these market agents, to send them the right message and to manage their expectations and the relationship with them. The ability to do so successfully constitutes a core organizational skill. Moreover, an organization needs to learn how to use the group power and user communities because one of the fundamental drivers for product cascade is the social contagion effect, which often starts within user groups of a product. The product cascade for Rebecca Wells’ phenomenally successful bestseller “Divine Secrets of the Ya-ya Sisterhood” was initiated and propagated by such user groups, for example, book clubs.

In sum, for an organization in this specific product domain, managing the expert and market selection systems to enable its product to be identified and quickly adopted is critical. Working with these intermediaries efficiently is, therefore, a key organizational capability.

4.2 Implications for organizations making mass culturized products

Airwalk, a small San Diego-based athletic shoes manufacturer, exploded in the mid-90s and was ranked as the 13th ‘coolest’ brand among teens around the world. GeeGee Gordon, its former head of marketing research developed a network of young, savvy correspondents in New York, LA, Chicago and other major global cities, and she contacted them several times a year, collecting data on the most recent trends. Her findings became the template for the *Airwalk* campaign. “It is all about timing,” Gordon said, “you follow the trendsetters. It takes a year to produce those shoes. By the time the year goes, if your trend is the right trend, it is going to hit those mainstream people at the right time.” (Gladwell, 2000)

Airwalk’s story demonstrates the critical challenge faced by organizations culturizing their products by making them “meaningful” – managing trends. Such as organizations in the market for mass cultural products, firms making mass culturized products also need to create and manage product cascade. Moreover, they have to deal with a even more challenging issue – turning fad into fashion by creating enduring trends, e.g. overcoming the curse “the bigger the fad, the faster the fall” (Caves, 2000). From a management perspective, the key challenge is to create an organization capable of managing the symbolic aspect of the product in a way, that is, sustainable and valued by consumers in the long term. The essential approach to achieve this goal is cultural monitoring and cultural trendsetting.

Monitoring culture and setting cultural trends are essentially monitoring and influencing the selection systems. In this market, the market selection system identifies products, e.g. mavens and spreads the information, for example, connectors. Then, the expert system plays an important role in legitimising product value, the final valuation is determined by the market in the end.

Organizations, to manage cultural trends, first need to develop capacities to monitor them. This starts from identifying the trendsetters in the society and tracking their ever-changing attitudes and preferences. Agents from the market selection system, e.g. mavens, are instrumental in performing these tasks. In the case of *Airwalk*, it developed an in-house market research programs investigating the cultural trends in the youth market. Moreover, its key marketing personnel also had intimate knowledge on where to spot trendsetters around the globe and they spent an enormous amount of time observing these trendsetters’ behaviour in real environments. Furthermore, *Airwalk*’s mavens constantly collect information from their networks of young, savvy correspondents in major global cities on

the most current cultural trends. *Airwalk* then used this information as the template for its campaigns.

Managing cultural trends sometimes require an organization to create one, especially when it fails to identify or to reach critical market selection agents such as mavens and connectors. In this case, the organization should play the role as the market selection system. *Airwalk*, which could not directly identify the equivalent of Mavens, connectors and salesmen to spread the word about their products, played the role of mavens, connectors and salesmen and their ads helped to tip the ideas they discovered in the population (Gladwell, 2000).

In this market, besides the important role played by the market selection system, the expert selection system is vital in helping products achieve massive valuation, which can only occurs when a product successfully migrate from the trendsetters' communities into the mainstream market. There exists a chasm between these two segments because the attitude of the early adopters and the attitude of the early majority are fundamentally incompatible (Moore, 1998).

Successfully "crossing the chasm" critically depends on the expert system's legitimization of the product's meaning or value, e.g. Isaac Mizrahi for *Hush Puppies*. *Airwalk* did not wait for the experts to do so, instead it took a proactive approach and brought its products over the chasm to the mainstream market by reshaping the "non-mainstream" cultural cues from trendsetters and giving those cues a specific meaning that appeals to the mass market (Gladwell, 2000).

In sum, organizations in this domain have to manage both the utilitarian and symbolic aspects of their products and these two tasks require totally different skills and capabilities. In successfully managing trends, organizations need to acquire capacities to monitor and manage them or to create them by acting as a selection system. This ability is what constitutes good management in these industries and will be of increasing importance as the process of fashionization continues across industries. However, it represents an entirely new set of capacities that are lacking in most traditional organizations and acquiring such skills may require an organization to radically change its existing organizational practice and structure.

4.3 Implications for organizations making niche cultural products

Prada, the luxury retailer spent millions on its futuristic 'epicenter' store. When *Prada* opened its \$40 million Manhattan flagship, hotshot architect Rem Koolhaas promised a radically new shopping experience. But the flashy technology has turned into a high-priced hassle and customers were soon enduring hordes of tourists. Staff members are now too overwhelmed by large crowds to coolly assist shoppers with handholds. "The dressing rooms are too delicate for high traffic", says consultant Dixon – *Business 2.0* (2004), March 2004.

Citing the struggle to balance creativity and commercialism, Miuccia Prada, the owner of this luxury brand, said, "We had long discussions on how to stay big and still remain small [...]" – *Women's Wear Daily* (2004), July 2004.

Prada's story demonstrates the key challenge faced by organizations making niche cultural products – managing tension between art and commerce. To be more financially viable, many niche cultural products attempt to widen their appeal and transform themselves from the "class" to the "mass". For instance, high fashion brands such as *Gucci* and *Prada* target at a wider customer segment. However, the commercialization of culture is not without difficulties because the institutional logics of cultural production and commerce are radically different (Bourdieu, 1984).

In this market, the expert selection system dominates valuation and it identifies, certifies and determines a product's value. What the expert selection system focusses on are creativity, originality and artistic achievement, which are often not the primary concerns of the "mass" market because the preferences of the two markets do not coincide (Caves, 2000). An organization, therefore, has to achieve their product valuation based on potentially conflicting objectives. On the one hand, it relies on the expert selection to legitimize its meaning as "high fashion" status marker. On the other hand, it needs the market to endorse this meaning that stems from a rather different value proposition coined by the expert system. The connection between products and aesthetics requires careful management to produce real value for which consumers will pay premium prices.

An organization, to be successful in pleasing both sets of audiences, has to strike a delicate balance between the two ends. First of all, selection systems are not by nature rigid and they evolve in responding to new social and cultural environments. An organization can, therefore, be more proactive and it should engage expert systems in making their stringent rules and principles less so to accommodate a slightly more "mass" oriented production orientation. Second, an organization should also manage the members of its creative team properly to avoid the "art for art's sake" syndrome (Caves, 2000), which tends to ignore the preferences of the "mass".

In conclusion, creating and managing the value of cultural or culturized products is centred on their meaning, which is intrinsically linked with their respective selection systems. Therefore, organizations in cultural industries should acquire the capacities to monitor, to manage and even to create relevant selection systems to endure their products can be identified, certified and finally endorsed by the market. Managing meaning – and its relevant selection systems – constitutes the new source of core competences for these organizations.

Conclusions

Management scholars can no longer afford to ignore the cultural industry as its size and societal importance keeps growing. This industry because of its distinctive characteristics, requires a different approach to adequately understand its dynamics and to successfully manage its organizations. The growing trend in "culturization" of traditional products makes the task even more urgent because most organizations lack the necessary knowledge and skills to cope with this new challenge. Management scholars should, therefore, take the commercial production of culture more seriously (Lawrence and Phillips, 2002).

We attempted in this paper to understand better this industry by examining the valuation of cultural products and the dynamics involved. We argue that the uniqueness of cultural products shift the focus of their valuation away from the products themselves towards how certain agents, e.g. selection systems, in the socio-cultural environment identify and certify them. Organizations engaged in cultural products need to manage these selection systems properly to ensure the massive valuation for their products in the marketplace.

This study has a number of implications. First, as more and more products become culturized, creating and managing meaning becomes a new strategic imperative. Management is no longer just about managing the flow of goods and knowledge, but the construction and flow of meaning. Meaning-based management requires a dramatic change in an organization's culture and competencies and forces it move away from the "engineering" model (Zald, 1996) to gain or maintain sustainable competitive advantages.

Second, the unique way of value determination in cultural industries calls for a new definition of organizational capabilities. Traditional notions of capabilities considering

knowledge as the fundamental component of an organization's capabilities should be augmented to include its capability to manage and influence selection systems. This capability in fact constitutes the new basis for organizational core competences.

Third, the complicated value determination in cultural industries also demands a more flexible organizational structure. Given the fact that the focal point of valuation is no longer the product but the way and process through which selection systems identify, certify and determine meaning and value, organizations should adopt a new structure to reflect this change of focus. Working efficiently with multiple agents involved in this complex valuation process requires an open and collaborative structure, which allows extensive cooperation among all parties that play an important role in this process.

This study also suggests a few avenues for future research. First, it would be interesting to examine what drives the success of cultural products. In other words, what enables a product to be identified by respective agents and to get endorsed by experts? Moreover, what factors contribute to successful "chasm crossing"? Second, it is important to examine the process of "culturization" of traditional products in great details. Questions such as, what meaning should be created for a particular product and how an organization should manage the balance between creating superior functionality and richer meaning, certainly worth investigating.

Third, selection systems evolve over time and this evolution is reflected by the changing dominances of different selection systems and the changing role of key agents. For instance, in the 19th century, the dominant selection system in visual arts was the peer system, which was later replaced by the expert system (Wijnberg and Gemser, 2000). It is important to understand how selection systems are established, how they evolve over time, what drives the evolution and what the organizational implications are. Answers to these questions would greatly enhance our understanding of this increasingly important industry.

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About the authors

Eden Yin is a University Senior Lecturer at the Judge Business School, and a Fellow of St Edmund's College at the University of Cambridge. He received his PhD in Business Administration from the Marshall School of Business, University of Southern California, Los Angeles, CA. His research interests include modelling new product growth in high-tech industries and evolution of high-tech industries; internationalization strategies for firms from emerging economies; marketing of arts and cultural products. His work has appeared in journals such as *Marketing Science*, *Journal of Marketing Research*, *Journal of International Marketing*, *Management International Review* and *Sloan Management Review*. Eden Yin is the corresponding author and can be contacted at: e.yin@jbs.cam.ac.uk

Nelson Phillips is the Abu Dhabi Chamber Chair in Innovation and Strategy at the Imperial College Business School, Imperial College London. Professor Phillips has published more than 100 academic articles and book chapters including articles in the *Academy of Management Journal*, *Academy of Management Review*, *Management Science*, *Sloan Management Review*, *Organization Science*, *Journal of Management Studies*, *Strategic Organization*, *Organizational Research Methods* and *Organization Studies*. Professor Phillips is currently the Editor-in-Chief of *Innovation: Organization and Management* and the Editor of the Cambridge Elements Series in Organizational Theory. He is also on the editorial board of the *Academy of Management Journal* and is the Past Division Chair of the OMT Division of the Academy of Management.

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