

Tradition-driven business models at luxury companies: revealing value-creation and value-capture activities

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Abstract

Purpose – *The purpose of this study is to explore how luxury companies can use knowledge embedded in tradition to set up effective business models.*

Design/methodology/approach – *Given the limited coverage in previous literature regarding the manner in which tradition can be leveraged by companies to create and capture value, this paper adopts a qualitative approach, i.e. the exploratory analysis of a single case study, namely, that of the high-end Italian hotel Borgo Egnazia.*

Findings – *Within a focus on luxury firms, this paper conceptualizes the tradition-driven business model highlighting activities aimed at creating and capturing value by using knowledge embedded in tradition. Combining value creation and value capture with tacit and codified knowledge, the authors are able to highlight the components of a business model that uses tradition as its main distinctive resource.*

Originality/value – *To the best of the authors' knowledge, this is the first study to explore how companies use tradition to create and capture value.*

Keywords *Tradition, Value creation, Value capture, Business model, Luxury companies*

Paper type *Research paper*

1. Introduction

The concept of business model (BM) embodies the way a firm does its business, translating strategies into operative activities that allow it to create and capture value (Afuah and Tucci, 2001; Osterwalder *et al.*, 2005; Zott and Amit, 2010); it is rooted in the company's implicit and explicit knowledge (Chen *et al.*, 2020). A BM defines the way in which a company creates value for customers as well as how it captures this value (Teece, 2010; Zott *et al.*, 2011).

As regards the luxury sector, investigations into BMs and their relative value creation and capture processes have generally been overlooked, which calls for additional inquiry into these topics (Eckhardt *et al.*, 2015; Makkar and Yap, 2018). Previous research has highlighted the view that the quality of products and services provided to customers is the basis for an effective BM (Guercini and Milanesi, 2017). However, luxury companies are increasingly being pushed to go further and reinterpret their conventional way of doing business, and thus their BMs. This is imperative if they want to remain competitive in a market that is experiencing rapid changes (McKinsey and Co., 2020) characterized by fluctuating consumer behavior and economic conditions, as well as by technological progress (Dhaliwal *et al.*, 2020; Yeoman and McMahon-Beattie, 2018).

There has been a shift from a concept of luxury linked to material goods to one that is increasingly connected to passions and experiences (Holmqvist *et al.*, 2020). Luxury companies are investing heavily to improve their BMs and respond to such challenges, as

customers consider their psychological needs, personal service, sustainability, relaxation, health treatments, social activities and mental development to be key choice drivers (Ko *et al.*, 2016).

Indeed, the need to develop BMs that reflect such trends makes it imperative to leverage peculiar resources with which to generate successful, unique and authentic experiences. In this context, BMs need to be built on resources that are able to satisfy new customer expectations (Klaus and Manthiou, 2020; Ritala *et al.*, 2018) by identifying new sources of value creation (Presenza and Messeni Petruzzelli, 2019) that trigger customers' willingness to pay (Bowman and Ambrosini, 2000; Teece, 2018).

Tradition, in particular, is emerging as a factor that can determine a firm's success, because it constitutes a distinctive resource that yields potential advantages in terms of both value creation and capture, and it can generate the authenticity that customers seek (Presenza *et al.*, 2019). Tradition can be defined as the set of collective knowledge developed over time in a given context (Hibbert and Huxham, 2011). Previous literature has studied the topic of tradition and its relationship with a company's knowledge set (Manfredi Latilla *et al.*, 2018). In particular, Caniato *et al.* (2009) have shown how tradition can be a competitive driver for luxury companies. Despite this ferment around the theme, there is still limited understanding of how companies can create and capture value through the valorization of knowledge embedded in distinctive sources of tradition.

Prompted by this gap in research, this study aims to explore how luxury companies use tradition as the foundation for their BMs in order to respond to new market trends. The paper is organized around the following research question: how can luxury companies use knowledge embedded in tradition to set up effective BMs? To answer this, we have focused on luxury hospitality companies as our research setting. Building on the resource-based view (RBV), we contend that this sector clearly shows how tradition has the potential to be considered a valuable resource for developing unique offerings and a sustained competitive advantage (Barney, 1991; Wernerfelt, 1984). Luxury hotels, in particular, have been increasingly challenged by changing tourist behaviors (Pung *et al.*, 2020) and thus are seeking to innovate their BM accordingly (Zach *et al.*, 2020). We conducted qualitative research to analyze and discuss an exploratory case study, namely, that of the Borgo Egnazia Hotel, located in the Apulia region of southern Italy. This high-end hotel relies on local traditions for the distinctive resource in its BM. The hotel's exponential growth over the past decade suggests that it presents a perfect case for studying how tradition-based activities make it possible to create and capture value. Indeed, Borgo Egnazia has been recognized as one of the best hotels in the world¹, and it has doubled its revenue in the past 10 years. Our analysis shows that tradition can be used as a valuable resource that can generate a sustainable competitive advantage. In doing so, we contribute to the literature by conceptualizing the tradition-driven business model (TDBM), i.e. the BM entirely built on tradition, and we identify the activities that characterize this particular BM based on a temporal search for knowledge in the past that constitutes a valuable, rare, imperfectly imitable and non-substitutable resource (Barney, 1991). Findings underline both value creation and value capture activities that bring theoretical contribution in the definition of the TDBM and managerial implications as we practically underline how it is possible for luxury hotels to build such kind of offer. In this manner, we contribute to the RBV literature and, in particular, to its territorial perspective, as well as to the growing body of research that sees tradition as factor in building valuable BMs.

The following section reviews existing studies on tradition and how it can be thought of as a valuable resource. An explanation of our research methodology is then presented, along with the presentation of the case being investigated. In Section 4, we describe the practical activities the BM is based on and through which Borgo Egnazia creates and captures value by leveraging codified and tacit past knowledge. Finally, a discussion of our findings is followed by an acknowledgment of theoretical and practical implications.

2. Theoretical background

In the tourism industry and in particular in the luxury subsector, customers have been shifting their preferences towards authentic experiences that generate psychological outcomes rather than material ones (Bazi *et al.*, 2020; Chung *et al.*, 2020; Iloranta, 2019). Tourists' willingness to pay for such experiences requires firms to carry out a careful search for key resources around which to create and sustain their competitive advantage based on uniqueness of this kind. Organizations need to identify the distinctive resources their BMs are built on (Chen *et al.*, 2020; Del Giudice *et al.*, 2017). This allows them to affirm the valuable, rare, imperfectly imitable, and non-substitutable resources that are determinant in product differentiation and in gaining a sustainable competitive advantage (Barney, 1991); they allow firms to deliver unique value to their customers. In the RBV, these kinds of resources are not simply rooted within a specific organization. Rather, they can also belong to a territory and characterize the organizations that host them (Hervás-Oliver and Albors-Garrigós, 2007). Firms that exploit such shared regional resources can enhance their performance and build competitive advantage (Li *et al.*, 2015).

Following on this premise, we argue that tradition presents all the characteristics needed to be considered a distinctive and unique resource that can generate a sustainable competitive advantage (Crupi *et al.*, 2020) based on the firm's ability to deliver unique and authentic experiences. At the same time, customers recognize the value of these experiences because they cannot find them anywhere else (Negro *et al.*, 2011).

Tradition has been defined as the result of the "accumulated cultural productivity of society" (Ashworth, 1994, p. 20). It can be thought of as knowledge pertaining to the past (Magistretti *et al.*, 2020) developed, understood and reinterpreted by various communities that share common values and materials (Hibbert and Huxham, 2011). Tradition is highly idiosyncratic and cannot be easily replicated by other players from different territories and contexts (Chen *et al.*, 2020; Kanter, 2005). This unique and distinctive nature makes tradition a valuable resource and a potential source of sustainable competitive advantage (Di Minin and Faems, 2013) for companies belonging to a specific territory if they aim to build their offerings upon traditional elements. Katila (2002) defines a temporal search as the process through which firms can create competitive advantage through acts of innovation, entrepreneurship, and organizational renewal by searching for, accessing, and using knowledge created at different points in the past. There are several cases that show how building value based on the use of elements originating in past knowledge enables firms to create and capture value (Capaldo *et al.*, 2017; Gorgoglione *et al.*, 2017; De Massis *et al.*, 2016; Messeni Petruzzelli and Savino, 2014, 2015; Messeni Petruzzelli *et al.*, 2018). For example, when enjoying traditional products that reflect the history and architecture of a different cultural context, customers have unique, authentic and transformative experiences (Kirillova *et al.*, 2017), thus allowing firms to differentiate and position their offerings (Gorgoglione *et al.*, 2017). In this manner, through the interiorization and recombination of traditional elements (De Massis *et al.*, 2016), organizations are able to design activities that create new and meaningful value for customers (Presenza and Messeni Petruzzelli, 2019).

From this perspective, tradition can also function as a source of value capture, for several reasons (Bowman and Ambrosini, 2000). First, uniqueness – generated through the use of tradition – is a source of bargaining power (Di Minin and Faems, 2013), because a specific tradition cannot be easily replicated. Exploiting traditions that are peculiar to a specific area reduces the risk of misappropriation by competitors who belong to different cultural and geographical contexts (Messeni Petruzzelli and Savino, 2014). Second, the use of raw materials that reflect local traditions may allow companies to lower costs by using local, more sustainable supply chains (Linton *et al.*, 2007). Furthermore, activities based on tradition are built on reliable knowledge and resources, validated over time, that enable firms to reduce development and utilization costs and thus increase profits (Heeley and Jacobson, 2008).

Presenza *et al.* (2019) explained how the use of tradition may be of great relevance, thanks to the recombination of past knowledge that may be sourced both within the firm and within the territory to which the firm belongs, and this may, in turn, be codified or tacit (Cowan *et al.*, 2000). Codified knowledge may take the form of raw materials, manufacturing processes and products signs (Brusoni *et al.*, 2005; Dell'Era and Verganti, 2007). Tacit knowledge mainly refers to the assumptions and values that form the basis of an organization or territory's traditional culture (De Massis *et al.*, 2016; Paniccia and Leoni, 2019). In other words, the embeddedness of firms in a geographical and cultural context characterized by well-defined tradition is a potential source of value creation and value capture, and the recombination of past knowledge may allow the company to design activities that deliver unique and authentic experiences.

In the following section, the analysis of our case study will contribute to an understanding of the role played by knowledge embedded in tradition when setting up effective BMs for luxury companies. The assumption is that a BM that relies on tradition does so because this valuable, rare, imperfectly imitable and non-substitutable resource can secure the competitive advantage that organizations pursue (Ehls *et al.*, 2020; Scuotto *et al.*, 2017), and that the planned temporal search for knowledge embedded in traditions and its related strategic recombination can become resources that can be proactively managed (Sirmon *et al.*, 2007; Weindruch, 2016). The goal is to explain how BMs based on knowledge embedded in traditions can generate value creation and value capture for companies.

3. Research design

3.1 Methodology

Given the limited amount of research on the manner tradition can be leveraged in the luxury sector, our approach is based upon an exploratory single-case qualitative study, as this is appropriate when describing new and emerging phenomena (Eisenhardt, 1989; Yin, 1994).

Our study focuses on tourism, and particularly on the hotel industry, which is mainly centered on offering authentic experiences to tourists, thus aligning it with the aim of this paper, i.e. to study BM adaptation to changing customer needs. Tradition has been recognized as a relevant asset for tourism companies (Presenza *et al.*, 2019), allowing them to offer products and services that meet changing tourist expectations (Paniccia and Leoni, 2019; Prayag *et al.*, 2017). Moreover, high-end hotels are a good setting to study the behavior of luxury companies due to the growing trend of global repositioning towards the upper segments of the market (Liu *et al.*, 2017).

We selected Hotel Borgo Egnazia because it can be considered a critical and extreme case (Eisenhardt, 1989; Pratt, 2009) with respect to the theoretical goals of the paper. Hotel Borgo Egnazia, located in the Apulia region, is one of the leading hotels in the world, having won several prestigious awards that confirm this position^[1]. All Borgo Egnazia activities are based on a planned temporal search for local traditions and on their strategic recombination. We conducted our analysis through the triangulation of both primary and secondary data provided by different sources.

3.2 Context and setting

Founded in 2010, Borgo Egnazia is located in Savelletri di Fasano, in the province of Brindisi (Italy). The hotel reported revenue of about €50m in 2019 and it has 550 beds in 183 different rooms, divided as follows: 144 regular rooms, 11 suites and 28 villas. Among its numerous facilities, there are six different restaurants, a golf course and a wellness spa. The company has 150 permanent employees, rising to a total of about 850 in peak season. Borgo Egnazia bases its range of offerings on the local traditions of the destination where it is located.

The philosophy of Borgo Egnazia is expressed in the concept of “Nowhere else” that is used as its promotional message. This reflects the idea that people visiting Borgo Egnazia can have a unique experience they cannot find anywhere else in the world, thanks to a hotel BM entirely based on the application of local traditions.

3.3 Data collection

We collected data between September 2019 and January 2020. The data sources were sorted into four groups:

1. archival records;
2. documentary information and videos;
3. observations; and
4. interviews.

First, we collected archival records such as newspapers and magazine articles available online. The six Borgo Egnazia websites, YouTube videos and documentary information provided by the hotel were examined. In particular, internal reports gave us the chance to better understand the philosophy behind the hotel's strategies.

Second, we collected primary data by visiting Borgo Egnazia three times between December 2019 and January 2020. Here we collected interviews with owners and managers, and conducted in-depth observations of all the units in the hotel. These activities culminated in the creation of a database, including 29 pages of structured field notes, 218 pages of single-spaced interview transcripts and other related documents, such as trade press and archival data. This wealth of sources helped identify the main issues and ensured data triangulation (Decrop, 1999; Flick *et al.*, 2004).

Archival records allowed us to chronicle the hotel's focus on traditions and the main activities implemented to create value for tourists, thereby generating new data and enabling the verification of existing information from other sources (Layder, 1993). Collecting documentary information allowed the authors to step into the case and thus support verbal information (Salvato and Corbetta, 2013). The documents created by Borgo Egnazia included in-depth information and technicalities that codify the activities implemented by the hotel, thereby revealing its BM. Direct observation during the three visits to the hotel allowed us to extract value from an “insider” perspective (Locke, 2011). Specifically, observations provided conceptual insights that helped us link theoretical concepts relating to BMs, value creation and value capture to the case analyzed (Gephart, 2004).

Finally, the semi-structured interviews with key informants allowed us to cover a specific range of topic areas, connecting analytical categories with respondents' experiences (Gephart, 2004). This approach made it possible to clarify some of the concepts that were vague at the beginning of the data collection process, sometimes drawing our attention to new activities that had not been considered previously (Flick *et al.*, 2004). In summary, triangulation between these different data sources allowed us to develop a robust and reliable analysis (Decrop, 1999; Flick *et al.*, 2004).

3.3.1 Archival records. We started by collecting data in newspapers and online magazines that discuss Borgo Egnazia and what it offers. Most of these articles were provided by the press section of the main Borgo Egnazia website. In all, a total of different 116 articles were analyzed.

3.3.2 Documents and videos. We accessed 17 documents provided by Borgo Egnazia that include detailed information about the hotel and its activities. Furthermore, we collected information from the six main Borgo Egnazia websites. We analyzed 11 videos on the Borgo Egnazia Youtube channel describing stories and details regarding employees and the use

of local traditions. Finally, we studied a 132-min collection of six interviews on YouTube with Aldo Melpignano, the CEO of the hotel.

3.3.3 Direct observations. During three visits to Borgo Egnazia between December 2019 and January 2020, we had the chance to inspect the structure, familiarize with various areas and interact with several people ranging from owners and top managers to waiters and housekeepers.

3.3.4 Semi-structured interviews. We collected primary data via face-to-face interviews in January 2020. The authors jointly interviewed 13 of the main informants at Borgo Egnazia so as to document its managerial perspective (Eisenhardt and Graebner, 2007; Table 1).

An interview protocol was developed, supported by open-ended questions. These were designed to provide us with a clearer understanding of the issue being investigated. The Appendix reports an example of the question asked to the interviewees.

The semi-structured interviews were presented by introducing the general aim of the study without making any assumptions regarding the topic. In this way, we encouraged interviewees to talk freely about the aspects they thought to be most relevant. Then, a narrative interview method was adopted, which could include topics in the immediate context, potentially producing unanticipated insights (Eriksson and Kovalainen, 2015). This also encouraged the interviewees to talk freely and uninterruptedly. When necessary, more detailed questions were posed to clarify their thoughts concerning the hotel's general organization and the specific strategies developed in their temporal search process.

3.4 Data analysis

The analysis of results was based on a comparative analysis approach (Dyer and Nobeoka, 2000). This methodology suits multifaceted phenomena (Elo and Kyngäs, 2008) and allows to constantly compare data coming from different sources allowing to constantly adjust conceptual categories and emerging theoretical concepts until theoretical saturation is reached (Browning *et al.*, 1995; Strauss and Corbin, 1997). Each component of our data embodies a practice implemented by Borgo Egnazia, which emerged from each of the data sources analyzed. To ensure the quality of the case-study findings, we conducted between-method data triangulation to capture investigated phenomena from different perspectives (Denzin, 2012; Yin, 1994). We ended up with the identification of 82 practices. The comparative analysis allowed us to compare these practices among them and aggregate into activities depending on the function to which they are referred. This process was reiterated until theoretical saturation was reached. At the end, we identified ten activities that group the different practices. To understand how the activities characterize the BM of

Table 1 Informants and their position in the company

Informant	Position	Interview's duration
Aldo Melpignano	Owner	1 h 18 min
Camilla Vender	Brand Protector	43 min
Maurizio Leonardi	Director of Food and Beverage	41 min
Andrea Pomo	Vice president Operations	1 h 25 min
Eliseo Giannoccaro	Talent Director	1 h
Marisa Melpignano	Shareholder and Founder	45 min
Domenico Schingaro	Executive Chef	46 min
Erica D'Angelo	Director of Wellness Center	55 min
Giuseppe De Benedetto	Sales Director	1 h 14 min
Giuseppe Pace	Events Director	56 min
Massimo Comes	Finance Director	53 min
Sauro Mariani	Vice President Sales & Marketing	42 min
Teo Moccia	Asset Manager	43 min

the company, and relying on our theoretical background, we identified two criteria that allow to categorize each activity: tacit versus codified past knowledge, and value creation versus value capture. The categorization followed three distinct steps. First, we referred each of the data collected, i.e. the practices, to the two categories related to knowledge: codified or tacit. In a separate step, we conducted the same operation for the categories value creation and value capture. In this way, each of the identified activities was categorized as related to tacit or codified knowledge, and to value creation or value capture. Out of the ten activities, four belong to tacit knowledge and six to codified knowledge. On the other side, six were referred to value creation and four to value capture. In the third step, we crossed the two criteria, and four categories were finally identified, as:

1. value creation through tacit knowledge;
2. value creation through codified knowledge;
3. value capture through tacit knowledge; and
4. value capture through codified knowledge (Table 2).

This iterative process between theory and evidence led us to identify some distinctive drivers that are useful in understanding the main value capture and creation activities that use tradition to develop a distinctive BM. Each author carried out all the steps independently.

4. Findings

In the following sections, we explain the relevance of tradition as the main resource in Borgo Egnazia's BM. Then, we illustrate all the practical activities the BM is based on and through which Borgo Egnazia creates and captures value by leveraging past codified or tacit knowledge.

Table 2 Activities through which Borgo Egnazia creates and captures value

<i>Sources of tradition</i>		
Value creation	<p>Tacit knowledge</p> <p><i>Local staff:</i> hiring local staff members who know the territory and its traditions well, are passionate and proud of it and give tourists a local feeling</p> <p><i>Local storytelling tradition:</i> enhancing the value of products and services by telling customers about their historical and cultural background</p> <p><i>Reviving local traditions and crafts:</i> proposing experiences based on traditional ways of working or traditional products and crafts now close to extinction, such as the <i>massaia</i>, by doing research within the local territory. The Borgo Egnazia academy trains staff in knowledge of such elements</p>	<p>Codified knowledge</p> <p><i>Local activities collection:</i> local advisers (concierges) can propose experiences to customers based on points of interest and activities previously selected and categorized</p> <p><i>Local food and traditional recipes:</i> by proposing local dishes, customers can have unique experiences they cannot find anywhere else</p> <p><i>Local traditional architecture:</i> using traditional local architecture all over the hotel to create a unique local feeling. The three types of accommodations provided reflect old-style Apulia housing</p>
Value capture	<p><i>Local sense of hospitality:</i> optimizing organizational processes by empowering staff and giving them the freedom to create relationships with customers and the responsibility to solve problems and propose innovations. These characteristics reflect the history and characteristics of the Apulian sense of hospitality</p>	<p><i>Local traditional festivals:</i> proposing traditional festivals open to tourists and locals (who pay admission) where local products are sold</p> <p><i>Hubs for local traditions:</i> the Bottega is a shop where Borgo Egnazia gathers and sells traditional products made by local artisans</p> <p><i>Vertical integration of local supply chains:</i> creating food and beverage products by internalizing production processes and reducing external supply. Moreover, the use of local raw materials from local producers lowers supply costs</p>

4.1 Role of tradition

Tradition is at the core of Borgo Egnazia's BM. The hotel designs all its activities through a recombination of past knowledge, which may refer to value creation or value capture. Indeed, during his interview, Aldo Melpignano, the owner of the hotel, said:

Tradition is our main resource. We totally rely on what our territory has always offered us, including local handicrafts, food, and agriculture. We have a number of strategic projects to resume and valorize local traditions.

In this manner, tradition permeates Borgo Egnazia's business and not only relates to accommodation, but also embraces elements such as food, beverage and handicrafts. In other words, tradition constitutes the main source of activities creating value for customers. As confirmed by Erica D'Angelo, director of wellness, this approach is consistent with emerging market trends that aim to satisfy non-material needs by having unique and authentic experiences. Aldo Melpignano also stressed this concept:

Today, the keywords in tourism, for our target market, are authenticity, experiences, and sustainability. Tourists look for transformative experiences, so our approach has to embrace every aspect of their stay: eating, wellbeing, and lifestyle. We satisfy them by offering our local tradition.

Hence, Borgo Egnazia creates value for customer by making full use of traditions. Moreover, Massimo Comes, head of finance, argued that tradition is a means to capture value. That is, by offering products rooted in local traditions, Borgo Egnazia leverages the Apulian culture to enrich its product line. "Bottega Egnazia" provides an example of this strategy, being a shop – within the hotel – that sells local products apparently not related to the hotel business, such as clothes and ceramics. Instead, these products allow the hotel to increase its revenue while contributing to creating a sense of place and delivering unique experiences.

Another aspect that characterizes Borgo Egnazia's BM is the coherence and transparency through which tradition is transmitted to customers. To be perceived as valuable by customers, Borgo Egnazia's offerings reflect its authentic liaison with its surrounding. An example is the use of traditional Apulian music. Sauro Mariani, vice president of sales and marketing, said:

Our goal is to satisfy tourists with something that is unique and true, and tailored to our customers' needs. However, we do not try to make our offerings likable at all costs. We deliver them in the most authentic way possible.

In the following sections, we undertake an in-depth analysis of the activities through which Borgo Egnazia creates and captures value.

4.2 Value creation through tacit knowledge

4.2.1 Local staff. About 95% of Borgo Egnazia's local staff comes from Apulia, and this is for two main reasons. First, local inhabitants know their territory and its traditions well, are passionate and proud of them and transmit a local feeling for tourists, who value such attitudes. The second reason is that Borgo Egnazia does not have to educate its staff to fully understand the knowledge underlying local traditions. On the contrary, the staff itself brings new traditions into the hotel by proposing alternative ways of doing things, often typical of their own families. Local advisers constitute the best exemplars to carry out this activity. They can be thought of as tradition-driven concierges. The Borgo Egnazia's document titled "Manifesto del Borgo" was provided to us by Eliseo Giannoccaro and it describes the local adviser as:

A local who loves his region and wants to show our guests Apulia and the true soul of the Apulian people. Every local adviser is able to satisfy guests' wishes to discover the secrets of the region with tailor-made experiences.

Local advisers establish a deep relationship with their customers and suggest authentic experiences they can have. In some cases, they even invite guests to their own homes to allow them to experience the real Apulian lifestyle.

4.2.2 Local storytelling tradition. The local storytelling tradition provides the narration of stories that support all the products and services provided by Borgo Egnazia. The staff presents all experiences with a story that underlines historical and cultural aspects of the territory. For example, when tourists go for a private dinner at a Borgo Egnazia partner vineyard, they are told the story of that vineyard in detail. In this way, tourists have a clear perception of the value of the experience they are having, because they are able to assign a specific meaning to it. By telling tourists the local, historical and cultural background of specific products or experiences, Borgo Egnazia creates more value. The storytelling, indeed, differentiates products by clearly positioning them in the mind of the customers. Maurizio Leonardi, head of the food and beverage unit, said in his interview:

The seafood that we sell is caught every day by local fishermen. In terms of cost efficiency, it would be better for us to buy farmed fish, but we do not do this, although the customers would hardly notice the difference. We actually enhance this difference by telling our customers the story behind their food.

4.2.3 Reviving local traditions and crafts. The offerings at Borgo Egnazia are constantly being renewed because the hotel always seeks to discover new elements of local traditions that are peculiar to the region. By constantly looking for traditional elements within their territory, the hotel always has new experiences to offer to its customers. For example, one of the projects to revive local traditions involves crafts. One of the key figures at Borgo Egnazia is the so-called *massaia* [homemaker], a person providing a specific set of services offered for the villas. Once widely used in a peasant society, the *massaia* was a woman who took care of the progress of her home, skilled not only in household chores, but also in the care and administration of the whole family. The *massaia* is indeed more than a conventional server. The meaning of this special job duty has been described directly by Andrea Pomo, head of operations and general manager:

Here at Borgo Egnazia, she is a person who prepares breakfast for you, and takes care of you. And she does not need to speak English. The important thing is her heart and her kindness, which is typical of Apulian hospitality. These qualities touch customers directly, regardless of cultural or linguistic barriers.

4.3 Value creation through codified knowledge

4.3.1 Local activities collection. One of the ways in which Borgo Egnazia codifies traditional knowledge is by compiling points of interest and activities previously selected and categorized so they can be offered to customers. In other words, Borgo Egnazia builds and constantly updates a database listing all the local traditional attractions. This instrument is particularly relevant to support the work of local advisers. Giuseppe De Benedetto, sales director, said:

The local advisers have a set of tools that turn tourists' desires into reality. We screen the services we offer, and we develop a database with which the local advisers can design experiences for customers.

The database can contain a vast range of information types. For example, it can include specific local fairs like the Fasano patron saint feast[2], or vineyards in the area that produce indigenous grape varieties.

4.3.2 *Local food and traditional recipes.* Traditional dishes constitute one of the main sources of authenticity for the hotel, and thus for value creation. Apulian gastronomic production is rich and very diversified. This means it is possible to offer customers many traditional dishes they cannot find anywhere else. Indeed, Borgo Egnazia does not simply experiment with new dishes but rather it also offers true traditional recipes created by following the rules and approaches of the local cuisine. This is possible, thanks to its diversified amenities, because Borgo Egnazia includes six restaurants reflecting six different philosophies. Indeed, *Due Camini* is its gourmet restaurant; *La Frasca* is a traditional Apulian tavern; *Cala Masciola* is a restaurant specialized in seafood; *Mia Cucina* is a pizzeria where people can also learn to cook traditional dishes; *Il Cortile* is an open-space restaurant where customers can compose their own dishes; and *Da Frisella* is a restaurant entirely dedicated to children. Despite these diversified offerings, all the restaurants are connected through their use of products rooted in tradition. Indeed, Domenico Schingaro, the *chef de cuisine*, said:

In the gourmet cuisine I do not use caviar, but the simplest raw materials typical of this area. I like to propose products a customer has never seen, like shrimp from Gallipoli, thus keeping it authentic and strongly embedded in our traditions.

One aspect required by this BM is the connection between tradition and innovation. Among the different cuisine styles, and through the gourmet restaurant *Due Camini*, Borgo Egnazia creates different products by applying new techniques that make its products and services even more unique.

Chef Schingaro said that:

I think innovating means going back, looking for products that have been lost, and then experimenting by applying new techniques. Here at Borgo Egnazia we're going to open a laboratory completely dedicated to research and experimentation with new recipes using traditional products.

Such a transformation is the key to renewing the heritage of unique activities designed by Borgo Egnazia. In this process, experimenting with new ways of combining traditional elements is fundamental in the development of successful innovations that make the hotel recognizable in its market.

4.3.3 *Local traditional architecture.* Architecture is the initial element that signals something to customers. [Figure 1](#) shows Borgo Egnazia's classical Apulian interior. Even in its furniture

Figure 1 The interior of Borgo Egnazia proposes the style of traditional Apulian architecture



design, only traditional elements are used, so the rooms, suites and villas reflect the style of traditional houses. In this way, as stated by Teo Moccia, asset manager, tourists are immediately plunged into a well-defined cultural context that is not replicable in other places, right from the beginning of their stay.

Along with local foods and recipes, architecture is a tangible element that allows tourists to experience something that is unique. Here too, however, Borgo Egnazia incorporates modernity, without merely reproducing tradition as it is. In the document “Manifesto del Borgo” provided by Borgo Egnazia, it states:

There are three proposed accommodations, that are different in inspiration, atmosphere, and size but all conceived as a harmonious fusion between innovation and history, modernity and authenticity.

Borgo Egnazia innovates its offerings by creating products and services, and experimenting with new ways of using traditional elements. As it does with local food, the architecture also provides constant new experiences and thus new value for tourists. One aspect of Borgo Egnazia’s architecture is the way it clearly exemplifies innovation starting from traditional elements.

In an interview released on the Borgo Egnazia’s YouTube channel, the architect of the structure, Pino Brescia, said:

Our ceramics tell the story of the people who have lived around us. We try to revive this story by reinterpreting it. To do that, we produce common ceramics by reassembling styles and materials coming from the past.

This means that traditional elements can be recombined to propose new products and services based on traditions.

4.4 Value capture through tacit knowledge

4.4.1 Local sense of hospitality. The sense of hospitality of a specific area is, of course, something very unique. Borgo Egnazia can leverage this cultural aspect to capture value. The Apulian sense of hospitality is characterized by direct relationships and shared responsibilities. These aspects make the staff’s behavior and their relationships with customers distinct. For example, local advisers establish direct relationships with tourists by contacting them before their arrival, treating them in a friendly manner during their stay, and staying in contact after their stay. In her interview, Marisa Melpignano said:

At Borgo Egnazia you often find our staff talking with customers in a friendly way; sometimes the customers go to our employees’ homes for dinner or in the morning they go for a swim together.

In this way, Borgo Egnazia creates loyalty and long-lasting relationships with customers. This aspect is highly relevant given that about 10%–15% of sales come from repeat clients. Another aspect that reflects local values is the sense of shared responsibility typical of the Apulian people. In Apulian hospitality, each person contributes to welcoming guests, making them feel comfortable and fulfilling their needs. Thus, everyone is responsible for guests’ satisfaction. To transfer this sense of responsibility into their business, Borgo Egnazia implements a form of shared leadership. The idea of shared leadership is that all the employees are free to solve problems that fall within their responsibility without an obligation to ask their managers.

The two aspects described above are the essence of Borgo Egnazia’s sense of hospitality, and there are cases in which the two aspects manifest themselves simultaneously. For example, the staff also has a direct relationship with the management team and can

suggest innovative ideas without going through formal procedures. Camilla Vender, owner and brand protector, provided an example:

This summer, people from housekeeping brought me a stack of the Bottega's shopping bags that our customers had left in their rooms. They told me that instead of wasting these bags, we could use them in a different way, like making them reusable by customers as sarongs. It was a success.

These examples show that Borgo Egnazia empowers its staff by giving them responsibility in solving problems and proposing innovations. This capacity, in turn, allows them to speed up and optimize organizational processes, and lower costs. In addition, the freedom to establish friendly and long-lasting relationships with tourists creates a solid and loyal relationship between Borgo Egnazia and its customers. All these aspects allow the hotel to capture value.

4.5 Value capture through codified knowledge

4.5.1 Local traditional festivals. Borgo Egnazia periodically organizes festivals typical of the Apulian tradition. Two examples are the spring festival and the tomato festival. These festivals are organized within the shared spaces of the hotel, such as the courtyard and the square. Festivals are modeled after village fairs, which mix elements from the arts, music, clothing, gastronomy and handicrafts. One of the distinctive elements of such fairs is the presence of local artisans selling their products. As also confirmed by Giuseppe Pace, event director, Borgo Egnazia's website describes these events as follows:

Traditional rural festivals are tributes to Apulian village festivals. The summer harvests, the September harvests, the local artisanal wonders of the Christmas markets. These are all celebrated, with local delicacies cooked on the spot.

Borgo Egnazia thereby replicates traditional festivals, which become a source of revenue by selling local products. Most events also have an admission ticket for anyone who is not a hotel guest.

4.5.2 Hubs of local traditions. Bottega Egnazia includes the interesting case of a shop that serves as a hub for local traditions. Staff members constantly keep an eye out for little known traditional products made by local artisans. In some ways they work as guardians of tradition, and their role is to revive these products and market them in the Bottega shop. Products are grouped into categories such as olive oil, fashion and ceramics. Most of the products are made by Borgo Egnazia or by local artisans and sold under the Borgo Egnazia brand. Moreover, Bottega Egnazia also sells its products through an e-commerce platform. Thus, Borgo Egnazia can capture value by leveraging local tradition and simultaneously promoting it in a win-win effect that also benefits the local community as a whole.

4.5.3 Vertical integration of local supply chains. The local dimension of their BM allows the hotel to cut supply chains by buying raw materials from local producers or even to exploit vertical integration by internalizing the production of specific products. For example, Borgo Egnazia grows most of the vegetables that are used in its restaurants on site.

Egnazia Vermouth is an interesting example of vertical integration. Borgo Egnazia, indeed, produces its own vermouth. This liquor is made with components produced in the area of the Borgo and is used as a featured ingredients at the bar. Egnazia Vermouth is also interesting in terms of its innovation and recombination of traditional elements. As a matter of fact, vermouth is not a traditional Apulian liquor, but the territory offers all the ingredients required to produce it.

The internalization of part of the production process lowers supply costs for Borgo Egnazia, which in turn captures a higher part of the value produced. In addition, when Borgo Egnazia

cannot produce its own raw materials, it makes use of the local supply chain made up of small local producers. This choice allows them to lower costs while simultaneously supporting the local economy. Schingaro confirmed this approach during an interview, saying that:

This approach has allowed us to lower costs by 10%, internalize production and use small local producers. In this way we have generated great results.

In sum, by internalizing part of the production process and buying materials from local supply chains, Borgo Egnazia has captured value, mainly by lowering supply costs.

5. Discussion

Our findings support the view that tradition can be considered a valuable territorial resource on which differentiation and sustained competitive advantage can be built (Hervás-Oliver and Albors-Garrigós, 2007; Li *et al.*, 2015). In addition, we provide evidence of Borgo Egnazia's temporal search process. A complex BM has emerged, which melds a series of activities that aim to create and capture value through the exploitation of tacit and codified knowledge embedded in traditions. We define this complex BM as the TDBM. It is defined as the BM that uses tradition as its distinctive resource on which to build both value-creation and value-capture activities. To the best of the authors' knowledge, this is the first paper that defines this particular kind of BM. Previous research already highlighted that designing new BMs not necessarily entails the implementation of innovative technologies, but rather they have to adapt companies' activities to their resources and social capital (Chesbrough, 2007). Agreed with this literature, we argue that TDBM is about structuring value creation and value capture upon activities not only related to technological innovation, by evidencing that a BM may be entirely built on a resource that reflects territorial characteristics, i.e. tradition. Other studies already conceived the possibility to build a BM on elements coming from traditional elements of the territory (Vrontis *et al.*, 2016) but these studies did not try to unveil tradition-based activities to create and capture value, thus not describing what is a BM based on tradition. TDBM is different from a BM as usual for three main aspects: first, it is entirely based on knowledge embedded in tradition. Thus, it is a BM through which the firm is truly representative of its territory and uses its tradition both in value creation and value capture activities. In this way, the TDBM delivers unique experiences mainly built on the representation of a territory and its community rather than on firm's peculiarities. In other words, characteristics reflecting the tradition of the territory become firm's characteristics.

Second, the TDBM leads the firm to a number of choices not just related to the best economic conditions searchable on the market, but rather it gives priority to the use of knowledge embedded in the past. In other words, the company that adopts a TDBM gives higher priority to traditional elements of the territory – on which it builds all value creation and value capture activities – rather than mere economic aspects focused on financial returns. For example, some parts of the supply chain are not designed according to operation aimed at optimizing the cost–benefit relation. Rather, the firm works to go beyond the simple value capture from local stakeholders. It develops specific initiatives to support the preservation and valorization of local past knowledge. This is clearly expressed both for value creation and value capture activities reported in Table 2.

Third, implementing a TDBM means involving a number of other actors located on the territory that are additional sources of the experience provided by the company. In other words, the TDBM creates a shared offer that makes the entire territory becoming potential elements of the offer of the firm. These elements show the ethical and open nature of the TDBM in the sense that, differently from a BM as usual, it leverages elements external from the firm, but from which both the firm and the community benefit.

Our findings regarding the deep knowledge of tradition stressed by the hotel also confirms what several authors (Del Giudice *et al.*, 2017; Magistretti *et al.*, 2020;

De Massis *et al.*, 2016) have already noted: firms that base their strategies on a temporal search approach should look for lesser known traditional elements by carrying out constant research in their territory.

At the same time, this tradition needs to be continuously innovated by finding new combinations to implement past knowledge (Savino *et al.*, 2017). This continuous process allows firms to use tradition as a resource that cannot easily be replicated in different contexts and simultaneously allows them to differentiate themselves from competitors in the same region who could also access the same resources (Duarte Alonso *et al.*, 2021; Lee and Marvel, 2009). It means that firms should not simply use tradition as is, to implement a TDBM. Rather, they should seek to create new products and services by promoting a novel recombination of traditional elements.

The mix of these aspects and their combination with internal knowledge makes tradition a resource that is not replicable. Furthermore, a TDBM needs to reflect the tradition to which it refers in a transparent fashion (Chen *et al.*, 2020). All these elements are connected to one another, following a coherent approach (Zott and Amit, 2013). Above all, they reflect true stories, values and attitudes that are typical of their territory. Our study demonstrates that it is not enough for hotels to deliver tradition to customers. Indeed, tradition also needs to be communicated, so that customers can assign defined meanings to products and services (Messeni Petruzzelli and Savino, 2014). Such meanings make the value proposition more substantial, increasing product differentiation and customers' awareness of what is on offer (Negro *et al.*, 2011).

Table 2 summarizes the specific activities carried out by Borgo Egnazia in terms of value capture and value creation. Each quadrant encapsulates the components of the TDBM produced by the combination of tacit and codified knowledge and value creation and value capture. In all cases, it is clear how the dual connection between the hotel and its surrounding territory is essential. The firm leverages local tradition to commercialize a business idea, and the territory benefits from the promotional effect the hotel delivers to its customers.

The first quadrant contains three components, which are local staff, the local storytelling tradition and the revival of local traditions and crafts. All of them reveal a deep temporal search for tacit knowledge embedded in the territory. Examples include the search for workers within the local community as well as the search for traditional ways of doing things and traditional products and crafts that were almost lost over time. In this manner, residents are involved and stimulated to interact in a process of reciprocal value creation, fostering "value co-creation" (Grönroos, 2008). These activities become facilitators of tradition, arising from local ways of doing things and from stories that are rooted in the past and engender positive feelings for customers, thereby increasing their willingness to pay for the company's products and services (Ryder, 2014).

Borgo Egnazia carries out a temporal search for tacit knowledge to capture value as well. This is shown in the second quadrant with the example of the local sense of hospitality. It is a complex set of attitudes, validated over time, that reflects how local families traditionally welcome guests, while optimizing organizational processes (Heeley and Jacobson, 2008). Borgo Egnazia uses this tradition to create direct and friendly relationships with customers and empowers its staff to solve problems and propose innovations. It shows how local culture is a meaningful driving force behind the "cultural revival" of a place (Scarpato, 2002). This activity thus appears to be a way to extract local historical, social and naturalistic characteristics (ideographic and organizational) (Basile *et al.*, 2021) and use them to optimize organizational processes.

To create value, Borgo Egnazia has also developed processes in their temporal search to extract codified knowledge. In the third quadrant, there are three activities in this regard: the collection of local activities; local food and traditional recipes; and traditional local

architecture. This is in line with the views of [Messeni Petruzzelli and Savino \(2014, 2015\)](#). They maintain that the rediscovery of geographical areas rich in tradition might constitute a *locus* wherein distinctive resources can be used to build a competitive advantage if they are based on “the positive stereotypes that foreign customers have about products from those areas” ([Aichner, 2014](#), p. 81).

The last quadrant includes three activities that refer to value capture through a temporal search for codified knowledge. They are local traditional festivals, hubs of local traditions and vertical integration of the local supply chain. These activities highlight Borgo Egnazia’s ability to open its internal boundaries through smart management of relationships with a plethora of external players. As suggested by [Della Corte et al. \(2018, p. 1296\)](#), “relationships are intended as any kind of cooperation with different stakeholders such as partnerships, strategic alliances, agreements.” They also state that these manifestations of cooperation take the form of long-lasting relationships, mainly based on trust and sincerity. To this end, companies aiming to design a TDBM that harnesses knowledge embedded in tradition should establish a solid relationship with the local environment that is the source of the traditions they intend to capitalize on. In other words, there is a co-evolution mechanism that requires constant dialogue between the firm and its environment ([Paniccia and Leoni, 2019](#)). In this manner, the careful management of stakeholders helps firms interiorize and reinterpret both past and new knowledge in a novel and creative way ([Della Corte et al., 2018](#)). In this specific case, it also supports the firm by securing higher revenue for the hotel, thanks to the sale of diversified products and lower costs, accomplished by internalizing part of the production process and establishing commercial relationships with local suppliers ([Linton et al., 2007](#)).

5.1 Theoretical contributions

Our research contributes to the existing literature in several ways. First of all, we contribute to the RBV, and particularly to its territorial perspective ([Hervás-Oliver and Albors-Garrigós, 2007](#); [Li et al., 2015](#)) by showing that tradition can be considered a resource that can generate a sustainable competitive advantage, because it is highly idiosyncratic and strongly connected to the socio-cultural environment to which it belongs ([Negro et al., 2011](#)). In turn, this connection can provide elements that generate unique experiences that are not replicable in different contexts, hence increasing their value for customers; they also increase the bargaining power of the company, which is a source of value capture ([Bowman and Ambrosini, 2000](#); [Klaus and Manthiou, 2020](#); [Di Minin and Faems, 2013](#)).

Second, we have introduced the concept of TDBM coming from the use of knowledge embedded in traditions as a distinctive resource on which to develop a BM. In line with previous research on BMs ([Manfredi Latilla et al., 2018](#); [Reinhold et al., 2017](#)), we conclude that this approach capitalizes on activities that are designed by recombining past knowledge to furnish the transformative experiences that customers increasingly seek ([Carvajal Pérez et al., 2020](#); [Pung et al., 2020](#)). At the same time, it is important to note that this should not merely reflect traditions from the past, but rather that organizations need to be capable of updating these traditions, lining them up with new and emerging market needs and expectations. TDBM differs from a BM as usual as it strongly links the offer of the firm with the offer of the territory. Therefore, it creates an offer which is shared among several different elements of the territory in a co-creation perspective that benefits both the firm and its hosting community.

Finally, we reveal the activities through which the TDBM is implemented. Such activities should be schematized depending on whether they allow value creation or capture, and whether their source of tradition is in codified or tacit past knowledge ([De Massis et al., 2016](#)). These activities call for the involvement of the local community and its stakeholders, in a process of co-production of value ([Fissi et al., 2020](#)).

5.2 Managerial implications

This paper suggests guidelines to effectively implement a TDBM driven by the exploitation of tradition embedded in past knowledge. Managers and executives should constantly look for peculiarities throughout their local territory and deliver them to customers in two main ways: by proposing traditions as they are, and by finding new combinations of traditional elements. Specifically, managers and executives may find inspiration to design their TDBMs by implementing strategies that increase the value generated for customers and, in turn, their willingness to pay for unique and authentic experiences based on tradition. Moreover, the development of a TDBM provides the chance to enhance the firm's value by expanding their product line and implementing efficient supply strategies, which may lead to higher revenue and lower costs.

With reference to the hospitality industry, the recent COVID-19 pandemic also deserves some reflection. The epidemic will shape travel behavior and influence the measures required to overcome tourists' uncertainty and anxiety (Gössling *et al.*, 2020; McKinsey and Co., 2020). Initial evidence highlights the fact tourists will increasingly expect well-being and safe experiences (World Health Organization, 2020). Accordingly, we argue that tradition may be a good fit for such needs, given that it naturally incorporates values of health and relaxation. Therefore, we encourage managers to consider a BM driven by the use of past knowledge as one possible way to recover from the pandemic crisis.

5.3 Limitations and future research

This paper is not exempt from limitations. First, we rely on an exploratory case study that has led us to the conceptualization of a new theoretical framework. The abductive reasoning of this approach does not allow us to verify our results. We thus expect future research will test the concepts highlighted in this paper through the analysis of further empirical studies. Second, new studies could further investigate a TDBM for luxury companies embedded in different cultural contexts. The effect exerted by the local territory may indeed shape the way in which companies conceive of and implement activities in this type of BM. Furthermore, future studies should apply the concepts proposed here to contexts other than high-end hotels, which, even though they are a well-suited setting for the study of luxury companies, present peculiarities that could differ from other sectors.

Our study mainly investigates how hospitality firms exploit traditions that come from their local territory. The mechanisms that underlie the relationship between the company and the territory need to be further investigated to understand how firms might contribute to the development of the broader destination through the promotion of local traditions.

5.4 Conclusions

In conclusion, the present paper introduces the concept of the TDBM, defined as a BM that uses tradition embedded in past knowledge of a territory as its distinctive resource. As we have highlighted building on the RBV, the TDBM differs from a BM as usual for three main reasons related to the fact that tradition allows companies to embrace and leverage different actors on the territory as part of their offer. Such tradition becomes the key success factor for the companies that adjust their value creation and value capture activities, accordingly, giving higher importance to such past knowledge than to mere economic reasons. Finally, the study unveils specific activities rooted in tacit or codified knowledge that allow luxury hotel companies to implement the TDBM.

Notes

1. For example, Europe's leading luxury hotel and villas, Italy's leading family resort. For an extensive review of the awards it has received, visit the website www.borgoegnazia.it/award/

- The patron saint feast day is celebrated in honor of the *Madonna del Pozzo* [the Lady of the Well] and *San Giovanni Battista* [St. John the Baptist] on the 3rd Sunday of each June. The entire community of the small town of Fasano participates in this traditional ceremony, which preserves the rites and folklore of this ancient event.

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Appendix. An example of the questions asked to Borgo Egnazia's key informant

Question

- Which are the success factors of Borgo Egnazia?
- Which are the resources upon which Borgo Egnazia bases its offer?
- Which values of the Borgo Egnazia family owner have influenced the hotel's BM the most?
- Which traditional values of the Itria Valley have influenced the hotel's BM the most?
- How has the hotel used the territory and its traditions, turning them into a competitive advantage for its business?
- Can you make some example of products developed starting from local tradition?
- Can you describe the relationship between Borgo Egnazia and its stakeholders?
- What is the role of Borgo Egnazia in managing the offer that involves the whole territory?

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