TRADITION DRIVEN INNOVATION STRATEGIES AND FIRM PERFORMANCE: THE CASE OF ITALIAN OPERA HOUSES

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ABSTRACT:

When a firm's brand positioning is exclusivist and rooted in the past, innovation strategies may be bounded by tradition. This paper analyzes how tradition affects new product development strategies. The opera houses' field is selected as an ideal laboratory to study the relation between innovation and tradition. As a matter of fact opera houses' brand positioning revolves around their mission of conservation and preservation of a traditional form of art. While critics and experts encourage these institutions to renew their artistic offer, opera houses are also called to preserve their role of guardianship of an operatic patrimony of the past. They therefore need to select forms of innovation that stem from tradition .
The authors develop hypotheses on the effect of different forms of tradition driven innovation strategies on opera houses' economic performance. These hypotheses are tested using data on 30 Italian opera houses, collected from 2006 to 2010.

Keywords: innovation, tradition, identity, opera

INTRODUCTION

Literature typically classifies product innovation as either incremental or radical. Incremental innovation refines existing products and reinforces established designs; it consists in minor improvements that enable firms to differentiate from competitors, without departing significantly from industry standards. Incremental innovation is easily accepted by the market (Abernathy and Utterback, 1978; Dewar & Dutton, 1986; Ettlie, 1984; March, 1991; Vermeulen et. al 2006). By contrast, radical product innovations provide firms with major differentiation opportunities and require great changes which often significantly modify existing product attributes (Chandy & Tellis, 1998).

Innovation efforts may sometimes be limited by brand positions (Beverland et.al, 2010). For firms in specific industries, as in the case of luxury fashion houses, embracing processes of change may carry the risk of diluting brand identity (Cillo & Verona, 2008). In these contexts, product innovation is therefore bounded by tradition, as value is related to a great extent to an established brand image. This may prevent firms from adopting radical forms of innovation which significantly depart from their legacy (Beverland et.al, 2010). This is the reason why, in this type of companies, product innovation is strongly path dependent on the specific brand identity rooted in the past (Lloyd, 2006).

This paper analyzes how tradition affects new product development. Tradition can be defined as the transmission of the past through a constellation of symbols that are received, interpreted and modified over time (Hibbert and Huxham, 2010). On the one hand tradition may hinder radical product innovation (Beverland et. al, 2010) and generate resilience to change. On the other hand, tradition is also a mutable concept and may shape the future by opening opportunities stemming from consolidated patterns (Hibbert and Huxham, 2010). In the case of cultural products, tradition allows for value to be passed from one generation to the other and for identity building (Lloyd 2006).

While existing studies analyze which innovation typologies are undertaken by firms with different positioning in terms of brand identity (Beverland et.al, 2010), very few of them theorize the existence of innovation forms that stem from tradition. In this article, we try to bridge this gap first by defining tradition driven innovation strategies and, second, by examining their impact on firms' performance.

Our research is set in the opera houses' field, which is an ideal laboratory to study the relation between tradition and innovation. On the one hand, opera houses promote themselves as the guardianship of an operatic patrimony of the past and are worldwide perceived as conservative institutions. On the other hand, critics and experts encourage opera houses to renew their offer in order to contribute to the development of the field, while the audience is always seeking editions of the past most popular titles. In building their reputation and in protecting their sustainability, opera houses therefore have to balance expectations for new productions by critics, for new releases of classic repertoire by the broad audience with their identity as cultural institutions embedded in a specific country and cultural milieu.

Our main findings show that opera houses' performances are higher when theatres reinterpret the past while differentiating their offer from that of other theatres; while modernity and genre diversification do not lead to performance, non conformity does, suggesting to opera houses to dig into their roots to find the repertoire more consistent with own identity. Moreover, the effect of non-conformity in the selection of opera titles on opera houses' performance is negative under high levels of modern repertoires, suggesting that indeed the space for innovation in opera houses is constrained. By contrast, aesthetic innovation positively moderates the effect of genre diversity on opera houses' performance.

The paper is structured as follows. First we develop an extensive framework exploring forms of innovation in tradition and developing hypotheses on their impact on firms' performance. Then we test the hypotheses on panel data relative to 30 opera houses' product portfolios from 2005 to 2010. The main implications of the study are discussed at the end of the paper.

INNOVATION WITHIN TRADITION: CONCEPTUAL FRAMEWORK

Management literature classifies innovation according to different criteria. Most of existing studies suggest that innovation can be incremental or radical in nature. Incremental innovation refines or reinforces existing and established products and are generally more easily accepted by the market (Abernathy and Utterback, 1978; Dewar & Dutton, 1986; Ettlie, 1984; March, 1991; Vermeulen et. al. 2006). By contrast, radical product innovations provide firms with major differentiation opportunities and involve great changes which often significantly depart from existing product attributes (Chandy & Tellis, 1998). Radical product innovation violates prevailing practices and contradicts institutionalized expectations about what is appropriate and beneficial to the organization (Dijk et al. 2011; Aldrich & Fiol, 1994; Dougherty & Heller, 1994).
Other authors adopt a different perspective, evaluating the newness of a product on the basis of different referents. In this regard, a firm's product can be considered as new with respect to either the firm's own past or to benchmark organizations (Castaner and Campos, 2002). Other studies classify innovation according to the content of change pursued, that can be either technological or symbolic (Hirschman, 1982; 1986; Hounshell, 1984). Technological innovation is focused on the introduction of some new tangible features never previously found in a specific product class (Hirshman, 1982; 1986; Cappetta et.al 2006), Unlike technological innovations, that have never existed in the present form prior to creation, symbolic innovations are based on the reinterpretation of existing product attributes, leading to a new meaning to an existing product, generating a secondary diffusion for it (Hirschman 1982; 1986). Symbolic elements, including aesthetic ones, are becoming fundamental drivers in rejuvenating product portfolio, particularly when markets approach maturity and in contexts characterized by technological standards, such as the consumer electronic industry (Cillo & Verona, 2008; Talke et al. 2009). The combination of symbolic and aesthetic innovations results in stylistic innovations, that occur when both the social meaning and the visual attributes of a product change (Cappetta et.al, 2006). Moreover, innovation often occurs through the general strategy of recombination, where organizations combine in new ways preexisting knowledge, experiences, materials or technologies, to produce novel products (Schumpeter, 1939; Henderson and Clark, 1990; Hargadon and Sutton, 1997). Hybridization is an example of recombination as it offers a way for organizations to combine commonly understood and accepted themes and to increase variance in outcomes, while deviating from standard product conventions (Hsu, 2012). Research studies find organizations that mix categories achieve positive outcomes through innovation and competitive differentiation (e.g. Porac et al., 1989; Deephouse, 1999; Haveman and Rao, 2006).

Finally, as argued by Beverland (2010), innovation can range from being market driven to driving the market. Market driven innovation strategies are triggered by market trends, competitors and consumers' actions. By contrast, innovation forms that drive the market are pursued by firms that want to maintain their brand ongoing status, driving customers along. In this case, brands are positioned around the idea of product superiority, authenticity, loyalty to an original set of competences, (i.e. higher end, iconic brands in luxury, fine wine, jewelery and the like) (Holt, 2004; Beverland et. al, 2010). In these sectors, firms are particularly exposed to the risk of diluting their identity when they undertake change processes. Loyal consumers may question the brand's ongoing status if the innovation effort does not match the brand's historical position (e.i. fine wine consumers often dislike radical innovation, seeing such efforts as attacking the brand authenticity) (Ernst, 2002). These firms' brand positioning therefore hampers the possibility to undertake radical forms of innovation (Beverland et. al, 2010). At no point, consumers or competitors' actions are identified as a source of innovation; by contrast, it is brand heritage that serves as reference point for new product development. Brand identity thus defines brand positioning. The brand positioning in turns helps the firm to create a distinctive place in the market (Ghodeswar, 2008).

When brand positioning is exclusivist and rooted in the past, firms' innovation strategies evolve only within the boundaries of their traditions. Specifically, we argue that in these cases the driver of change can only be found within a firm's own heritage (e.i. looking at past collections, archives...) (See Beverage, 2010 on the champagne industry). In this regard, tradition is both a constraining factor and a source of inspiration for new product development. Innovation in tradition therefore derives from the intersection between incremental and symbolic innovation but lies within the boundaries of a firm's own tradition, providing opportunities to differentiate from competitors, while still preserving its identity. In this respect, we argue that tradition driven product innovation strategies are based on incremental product improvements consistent with past products' attributes, and mainly symbolic and aesthetic in their contents.

While several studies have focused on the influence of different brand positions on firms' innovation efforts, very few of them measure the effect of tradition driven innovation strategies on firms' performance. Moreover, measures of performance typically focus on product profitability or market shares growth (Vermeulen, 2006; Mc Nally et al, 2010). This runs the risk to overlook the capability of the firm to increase the number and variety of its stakeholders, which is a major risk that tradition poses. Because their identity is embedded in tradition, firms tend to loose grip with different constituencies, and be perceived as outdated and ultimately irrelevant even if profitable; we therefore suggest that a major indicator of performance is the ability of the company to leverage on tradition to propose innovations able to enlarge the stakeholder base, as a driver for resources attraction, increase of financial flexibility and market potential. With specific reference to opera house, diversified revenue structures increase financial stability and sustainability and it is thus a better indicator than profitability to measure success (Tuckman and Chang, 1991). This is particularly evident when public support decreases. While there are studies measuring the relation between governance and opera houses' performance in terms of revenues diversity (Lai, 2009), no study, to our knowledge, is focused on the relationship between opera houses' artistic portfolios and their ability to attract resources from a variety of stakeholders. Variety of stakeholders is therefore a proxy of performance that guarantees not only financial flexibility, but also artistic autonomy.

EMPIRICAL SETTING

The present study is set in the opera houses' market, which is an ideal laboratory to study tradition driven innovation strategies. Opera houses' brand positioning revolves around their mission of conservation and preservation of a traditional form of art. This limits the possibilities to change their market identity (Kim and Jensen, 2011). Opera houses' market identity is very much associated with tradition, as these theatres increasingly produce a very limited set of historically established operas that guarantee market success. Moreover, opera companies worldwide are increasingly building their seasons choosing among a small number of popular 18th and 19th century operas with very limited commitment to new music (Towse, 2003; Boerner, 2004). Radical innovation occurs when pieces by composers with new music styles, especially 20th century opera, are proposed to the audience (Martorella, 1977; Heilbrun & Gray, 1993). More typically, innovation may consist in unconventionality in an institution's repertoire (i.e., the extent to which the repertoire diverges from others in a given season) (DiMaggio & Stenberg, 1985; Pierce, 2000; Heilbrun, 2001; O'Hagan and Neligan, 2005; Pompe et al., 2011). In this regard, incremental innovation might consist in bringing back underexploited operas from famous composers. Second, it may consist in the symbolic combination of different old and new music styles (e.g. baroque, classic, romantic and contemporary) with new visual forms, to rejuvenate an opera portfolio by means of new meanings and aesthetics.
Data gathered from the Opera Europa database clearly highlights the rarity of radical forms of innovation (e.g. modern and contemporary operas) among the twenty most-played works worldwide from 2007 to 2011. Verdi's La Traviata, Puccini's La Bohème and Bizet's Carmen are at the top of the ranking while Britten's Turn of the Screw, the most frequently represented 20th century opera, is only in 73th place (Opera Europa, 2011). In this scenario, radical product innovation seems virtually not existent.
The constraints of tradition on theatres' identity and activity has an impact on the institutional level: theatres increase their legitimacy and performance by conforming to standard norms (Di Maggio & Powell, 1983; Deephouse, 1999). The result of these isomorphic behaviors, as far as the repertoire is concerned, determine two consequences: the public is not educated to appreciate variety, as blockbusters are repeated over and over (Hoegl, 1995; Pierce, 2000; Heilbrun, 2001; Dowd et al., 2002; Boerner, 2004) and theatres with very different origins and identity find it increasingly difficult to express their uniqueness via their repertoire choices.

HYPOTHESES DEVELOPMENT

Unconventional opera titles (non - conformity) and opera houses' performance

Replication of existing, standard products allows organizations to anticipate audience reception. At the same time though it also prevents organizations from achieving the success often associated with innovation (Hsu et.al, 2012). This may enable them to increase differentiation which in turn would reduce competition for resources and improve performance (Baum and Mezis, 1992; Baum & Singh, 1994; Hannan et.al, 1990; Porter, 1980;

1991). In the opera market, theatres may improve their performance and reach a distinctive positioning by programming underexploited opera titles.
Performing unconventional, original opera titles may lead opera houses to attract the interest of a variety of stakeholders. Distinctive offers may attract the attention of private funders who want to differentiate their image from their competitors (Castaner & Campos, 2002). At the same time, the rediscovery of underperformed operas triggers the support of those who are interested in the rediscovery and valorization of the operatic patrimony such as critics, experts and public funders (Baumol and Bowen, 1966; Martorella, 1977; Heilbrun and Gray, 1993; Alexander, 1995; Campos and Castañer, 1998; Pierce, 2000). We therefore argue:

Hp.1. Unconventional opera titles are positively related to opera houses' performance

Diversity of music styles (symbolic innovation) and opera houses' performance

Most of existing research defines the audience as risk averse and conservative; however, segments may exist with a preference for more innovative productions or less performed actors and authors (Castaner and Campos, 2002). Recent studies highlight that critics and experts (who are part of the audience) prefer unconventional over standardized artistic outputs and expect theatres to present innovative offers (Kim and Jensen, 2011). Similarly, other authors suggest that corporations do not always support conventional performance. Instead, they seek to associate their brand to innovative artistic products or more differentiated theatres, while still avoiding the risk to support radically new works (Castaner and Campos, 2002). Even empirical evidence on public funders' preferences seem contradictory; most authors argue that governments generally reward creativity, experimentation and innovation (Baumol and Bowen, 1966; Martorella, 1977; Heilbrun and Gray, 1993; Alexander, 1995; Castaner & Campos, 2002; Pierce, 2000). But as suggested by Pierce (2000) and Castaner and Campos (2002), public funders at different government levels and with different political orientation may have different attitudes towards innovation in opera houses' programs. What emerges from this framework is a variety of stakeholders' interests. While some of them expect opera houses to be conservative in managing their product portfolio, others expect opera houses to innovate, pushing the boundaries of their current products' attributes. We argue that opera houses can reconcile contradictory stakeholders' interests by diversifying their portfolios of opera styles, consistent with evidence on symbolic innovation. Following this view, when opera houses combine a diversified mix of old and new music styles, they are better equipped to satisfy the expectations of a variety of stakeholders' tastes.

We therefore argue:

Hp.2. Diversity of music styles (symbolic innovation) is positively related to opera houses' performance

THE MODERATING ROLE OF MODERNITY

Opera houses' attendance decreases sharply when radical innovation is pursued (e.g. contemporary and modern operas). A large part of the audience still prefers a traditional repertoire of the past (Pierce, 2000). The increased complexity and tonal expansion make contemporary operas less accessible to audiences without an understanding of music (Pierce, 2000). Similarly, being part of the audience and sharing the same conservative taste, corporate or individual donors typically dislike contemporary music and opera (Fuchs, 1969). The exclusion of new works from the repertoire may be attributable in part to the private donors' aversion to contemporary works (Fuchs, 1969; Schuman & Stevens, 1979).
By contrast, authors argue that public stakeholders (local and central government representatives) generally reward innovation and experimentation in the opera field (Baumol and Bowen, 1966; Martorella, 1977; Heilbrun and Gray, 1993; Alexander, 1995; Campos and Castañer, 1998; Pierce, 2000). To attract the interest of public funders, theatres are therefore encouraged to program radically new works that may negatively affect opera houses' performance in terms of revenues diversification. Radical product innovation can thus cause a rupture with the past, radically changing private stakeholders' perceptions of the brand. This in turn will negatively affect opera houses' ability to diversify their pool of funding. On this basis, we argue that when unconventional titles are selected from a modern and contemporary repertoire, opera houses' performance decreases. In other words, we expect radical product innovation (e.g. modern and contemporary operas) to negatively moderate the positive effect of non - conformity on opera houses' performance. As a result, unexploited opera titles have a positive impact on firms performance if they remain within the boundaries of tradition. When original titles are selected from the archive of opera houses' traditional repertoires, they have a positive impact on firms' performance. By contrast, when these titles are chosen from modern repertoires, their effect on firms' performance is negative. This gives us the following hypothesis:

Hp.3. Modernity negatively moderate the effect of non - conformity on opera houses' performance

THE MODERATING ROLE OF AESTHETIC INNOVATION

In many industries, the aesthetic elements of a product are becoming more and more important in achieving a distinctive company's competitive advantage (Cillo & Verona, 2008). In particular firms can use new aesthetic elements to face competitive challenges in stable environments (when constituents' expectations about product features are taken for granted, when technological features progress according to increasingly taken for granted patterns...). Aesthetic attributes have been acknowledged as product dimensions along which firms enhance differentiation and achieve competitive advantage (e.g., Abernathy & Clark, 1985; Christensen, 1997). On this basis, we argue that aesthetic innovation may strengthen opera houses' differentiation strategies. By presenting unconventional opera productions with new visual forms (e.g. scenes, costumes, stage directions) not previously presented by any other companies, opera houses improve the originality of their artistic choices, triggering a strong word of mouth and media attention (Donato, 2004).
This in turn attracts the attention of private funders, who typically look for visibility while supporting opera companies (Donato, 2004; Santoro, 2010). At the same time, it may catch the curiosity of conservative audience groups while feeding critics and experts' need for newness and experimentation. We therefore argue that unconventional opera titles presented with new aesthetics can help opera houses pursue experimentation and creativity while diversifying the pool of financial resources collected from its funders.

Hp.4. Aesthetic innovation positively moderates the effect of unconventional opera titles on opera houses' performance.

Going one step further we argue that aesthetic innovation also enhances the positive impact of genre diversification on opera houses' performance.
In opera houses new productions, including new visual attributes (e.g. set designs, stage directions and costumes not previously used by any other opera house), enable theatres to re-interpret both old and new opera repertory with new visual forms. In so doing they reinforce the creation of new meanings coming from the alternation of different genres inside opera houses' portfolios. Aesthetic innovation contributes at expanding the set of potential new solutions deriving from the combination of old and new genres. Mixing traditional (baroque, romantic..) and new music genres (modern and contemporary) reinterpreted with new aesthetics allows opera houses to enhance the hybridization of their artistic seasons which combine tradition and search for novelty. This in turn gives opera houses an opportunity to build a more distinguishable market identity while matching a variety of stakeholders' expectations.

Hp.5. Aesthetic innovation positively moderates the effect of symbolic innovation on opera houses' performance

METHODS

Sample and data collection

We tested the hypotheses in the Italian opera sector from 2006 to 2010. We selected only those opera houses which had data available for the period in question, and we constructed a panel data set containing information on 30 opera houses observed over time. Nowadays Italian opera houses are a fragmented sector, characterized by an offer shared out by a high number of different non-profit institutions, some of them both producers and distributors (Cori, 2004). The most important Italian opera institutions are *Lyric and Symphonic Foundations* (LSFs) and *Teatri di Tradizione* (TDT). The LSFs, noted for their prestigious opera seasons, are located into the largest Italian towns.[1] In the majority of cases they compete on a regional market but sometimes their prestige and high quality reputation allow them to expand their potential market by competing on a national and international scale (Cori, 2004). By contrast TDT are usually smaller than LSFs in size, and mainly located in medium size cities. From an organizational point of view Italian TDT are comparable to small scale firms that present different juridical forms (Cori, 2004).

Data on opera houses programming choices, funding mix and number of subscribers were collected from specialist yearly magazines (*Annuari EDT/CIDIM dell'Opera Lirica in Italia*), widely regarded as industry references. Each annual issue provides artistic and economic information about the operas performed by Italian opera houses. Each opera is documented by means of various qualitative and quantitative data such as titles, composers, number of the reruns and cast (stage directors, conductors, scenes designers, choirmaster, orchestra and choir). Data on gdp per inhabitant were respectively gathered from the Chamber of Commerce in Milan and Istituto Tagliacarne database, which periodically publish statistics on the development of Italian cities.

MEASURES

Dependent variable

Revenue diversity index. It is the inverse of the herfindahl index (HI) which is measured by summing the squares of the revenue source share of total income. The revenue diversification index is expressed as

$$DI = 1 - HI = 1 - \sum_{i=1}^{n} (S_i^2)$$

where S_i is the revenue source share of organization *i*, and *n* is the number of revenue sources of organization *i*. Revenue source share is calculated as:

$$\frac{\text{Revenue source amount}_i}{\text{Total revenues}_i}$$

Data available consist of the following revenue sources: (1) national funds; (2) local government funds (regions); (3) local government funds (municipalities and provinces); (4) audience; (5) private funders.

The index varies from 0 to 1 where 0 corresponds to the minimum level of diversification while 1 is the maximum level of diversification.

Independent and moderating variables:

Innovation as originality, 'non conformity'. According to DiMaggio and Stenberg innovation not only occurs when new works enter the opera repertory, but also when old works that have fallen into disuse are brought back in (DiMaggio & Stenberg, 1985). In this regard, opera houses can bring back operas that are rarely performed. For example, by programming underperformed operas by Mozart (e.g., *La Finta Giardiniera*), an opera house is less conventional in its artistic choices compared to one whose season revolves around well-known Mozart masterpieces (e.g. *Don Giovanni*). By performing operas that are rarely introduced in theatres' repertoires, opera houses have the opportunity to build differentiated product portfolios and highlight their market identity.
The Conformity index is calculated as the average number of times the opera titles programmed by a given theatre are also programmed by the other theatres in the sample. In this paper we use the inverse of the conformity index. Theatres programming less known titles score high on this index, while theatres programming popular titles score low.

Innovation as genre diversity. (Symbolic innovation). It is the inverse of the herfindahl index, which is calculated as the sum of the squared values of the shares of different opera genres: baroque, romantic and modern & contemporary operas. The closer the index is to 1, the higher the degree of genre diversification of an opera repertory, whereas the closer index is to 0, the higher its degree of concentration. Consistent with previous research studies (Heilbrun, 2001), we classified the opera genres based on the composers' dates of birth. Baroque music includes composers born from 1561 (date of birth of the first baroque opera composer) till

1713. Romanticism includes composers whose date of birth is comprised between 1791 and 1880. Finally, modern and contemporary composers were born from 1881 till nowadays.

Aesthetic innovation. Innovation does not only encompass the content of a performance, but also its aesthetic elements (Castaner & Campos, 2002). In this paper, we measure changes in the aesthetic elements of a performance by developing a new production index. This index is calculated as the percentage of new opera productions (including new set design, stage directions, costumes) developed by a theatre in a given year divided by the average percentage of new productions developed by the sampled theatres in that year. The higher the index, the higher the percentage of new productions developed by a theatre with respect to the average percentage in the sample.

Radical innovation: modernity vs. tradition

Opera houses can undertake radical forms of innovation that violate prevailing practices. In this regard, opera houses may program modern and contemporary operas (Martorella, 1977 ; Heilbrun & Gray, 1993) which can be considered as radical forms of innovation as they significantly alter existing musical structures expanding the borders that define the traditional and most frequently performed repertory of the past. In this paper, we calculated radical innovation as the ratio of modern over traditional works programmed yearly by an opera house. Following Heilbrun (2001), we defined "modern and contemporary operas" as those composed by musicians whose date of birth is 1881 or later. These composers had therefore developed their adult operatic style in the 20th century (Heilbrun, 2001; Kim and Jensen, 2011). Examples of these composers are Berg, Stravinsky, Korngold, Weill, Glass and Adams.

Control variables

We used the *total number of programmed runs* to control for an opera house's program size. We measure this as the number of performance runs an opera house set up in year *t.*

We also included *time dummies* and *theatre dummies* .

Subscriber rate. Measured as the number of subscriptions divided by the theatre capacity.

GDP of the local territory. We used the gdp per inhabitant to control for the wealth of the local territory where the theatre is located.

Model estimation

Our model uses a linear specification:

$$y_{it} = x_{it}\beta + \alpha_i + \varepsilon_{it}$$

where the revenue diversification index for opera company *i* is the dependent variable.

In our model, the possible determinants of y_{it} are the following explanatory variables x_{it}:

- Genre diversity/symbolic innovation
- Aesthetic innovation
- Portfolio non conformity/originality
- Interaction effect between non conformity and modernity
- Interaction effect between non conformity and aesthetic innovation
- Interaction effect between genre symbolic and aesthetic innovation
- Subscriber rate
- GDP per inhabitant
- Number of programmed runs

We estimated the model with a robust fixed-effects regression using STATA version 10.0. Robust regression accounts for heteroscedastic robust standard errors and controls for potential outliers. Fixed-effects regression makes it possible to control for omitted variables in the panel data, assuming that omitted variables vary across entities but do not change over time (Stock and Watson, 2007). In our case, the fixed- effect regression model has 30 dummy variables, thus absorbing the influence of all omitted variables that differ from one theater to another but are constant over time. By removing the effect of those time-invariant characteristics from the predictor variables, we can assess the predictors' net effect. We also included time fixed effect in our model, to control for omitted variables that are constant across entities but vary over time.

RESULTS

In table 2 are presented models testing the effect of different forms of innovation practices on opera houses' revenues diversity. Model 1 (Table 1) is an examination of the effects of the control variables number of total runs, subscriber rate, gdp, time and firms dummies on the opera houses' ability to diversify their flows of funding sources. In Models 2, we added the 4 forms of innovation as independent variables, namely non conformity, modernity, genre diversity and aesthetic innovation. In model 3 we introduced the three interaction terms. Control variables alone explain 69% of variance (Model 1). The higher R square in model 3 (compared to model 1 and 2) is an indication that the inclusion of the three interaction terms increased the proportion of variance explained by the regression equation.

As can be noted in model 3, the relationship between non conformity and opera houses' revenues diversity is positive and significant ($\beta = 0.006$, $p < .001$), thus confirming our hypothesis 1.

Moreover in model 3 the relationship between diversity of music styles (symbolic innovation) and opera houses' performance is not significant. Hypothesis 2 is therefore not supported.

The interaction between non conformity and modernity is negative and significant ($\beta = - 0.007$, $p < .05$), suggesting that the effect of non-conformity in the selection of opera titles on opera houses' performance is negative under high levels of modern repertoires. This confirms our hypothesis 3.

Similarly the interaction between non conformity and aesthetic innovation is negative and significant ($\beta = - 0.003$, $p < .10$), meaning that aesthetic innovation negatively moderates the effect of non-conformity on opera houses' performance. Hypothesis 4 is therefore not supported.

Finally the interaction effect between genre diversity (symbolic innovation) and aesthetic innovation is positive and significant ($\beta = 0.084$, $p < .05$). This highlights that aesthetic innovation positively moderate the effect of genre diversity on opera houses' performance, confirming our hypothesis 5.

RESULTS

TABLE 1. MODEL ESTIMATION. RESULTS OF MODERATED REGRESSION ANALYSIS

	Dependent variable: *Revenues Diversity Index*		
	Model 1	Model 2	Model 3
Control variables			
Number of total runs	- 0.000 (-0.56)	-0.000 (-0.17)	0.000 (0.02)
Subscriber rate	0.000 (0.01)	0.001 (0.39)	0.002 (0.45)
GDP	0.000 (1.47)	0.000 (1.62)	0.000† (1.75)
Time dummies	Included	Included	Included
Firm dummies	Included	Included	Included
Main effects			
Non conformity - originality	-	0.002** (2.77)	0.006*** (4.17)
Radical innovation - modernity	-	-0.044** (-2.81)	-0.127** (-3.32)
Genre Diversity -Symbolic	-	0.079* (2.39)	- 0.000 (-0.01)
Aesthetic	-	- 0.000 (-0.04)	-0.072* (-2.30)
Interaction effects			
Non conformity * Modernity	-	-	-0.007* (-2.33)
Non conformity * Aesthetic	-	-	-0.003† (-1.92)
Symbolic * Aesthetic	-	-	0.084* (2.12)
Constant	0.445*** (1.95)	0.400*** (1.78)	0.413† (1.85)
No. of observations	150	150	150
R-sq	0.77	0.802	0.83
Adjusted R – sq	0.69	0.732	0.75
F	10.24***	10.72***	11.32***

Significance:
***p < .001; **p < .01; *p < .05; †p < .10; t-statistic in parenthesis

TABLE 2. DESCRIPTIVE STATISTICS AND CORRELATION MATRIX

	Variable	Mean	SD	Min	Max	1	2	3	4	5	6	7	8
1	Revenue diversity index	0.598	0.106	0.196	0.736	1							
2	# of total runs	28.72	24.24	4	122	0.066	1						
3	Subscriber rate	2.032	2.074	0	11.64	-0.083	0.684†	1					
4	GDP	27.661	5684	15.131	39.991	0.179†	0.216†	-0.051	1				
5	Non conformity	-14.731	6.668	-42	1	-0.209†	0.027	-0.100	0.048	1			
6	Radical/ Modern	***ity*** 0.203	0.424	0	4.5	-0.234†	-0.068	-0.084	0.160†	0.145†	1		
7	Genre diversity/ symboli	0.288 c	0.234	0	0.915	0.169†	-0.048	-0.161†	0.130	0.188†	0.298†	1	
8	Aesthetic	0.861	0.644	0	2.83	0.043	0.388†	0.164	0.080	0.181†	0.194†	-0.049	1

CONCLUSIONS:

In this paper we analyzed how firms can successfully combine tradition and innovation to improve their performance. In particular, we explored the issue of new product development for opera houses, with the objective of uncovering how innovation can be developed in highly conservative environments.
First, we found that opera houses improve their performance (measured as the ability to diversify their funding sources) when they develop tradition based innovation strategies. Specifically, our results show that opera houses are in a best position to build a multistakeholder system of financial support when they differentiate their offer from that of other theatres by proposing unconventional opera titles. However the positive effect of non-conformity on theatres' performance is significantly constrained by modernity. This implies that opera houses can successfully improve their financial flexibility when they program unconventional opera titles selected from a traditional repertoire, consistent with their identity, while unconventional titles selected from modern repertoires may potentially hamper their performance. Similarly, opera houses' performance is low when unconventional titles are presented with a new visual form.
What emerges from this framework is that very limited spaces for innovation exist in this sector. In this respect, opera houses should develop innovation strategies that lie within the boundaries of their tradition and allow them to combine the need to be different with the need to conform to their tradition. This in turn would enable opera companies to differentiate their offer while still keeping a strong and recognizable link with the past, both from a musical and a visual point of view.
Second, we found that highly diversified opera houses' portfolios improve opera houses' performance. By mixing different old and new genres/music styles, opera houses enhance their ability to please both conservative and innovation oriented stakeholders' groups. This symbolic form of innovation creates new meanings which arise from the combinations of different genres (from the past and the present). Our last findings show that aesthetic innovation strengthens the positive effect of symbolic innovation on firms' performance. New aesthetics contribute to reinterpret a diversified opera portfolio with new visual forms (set design, stage direction, costumes). In this regard, opera houses can mix established elements with new ones, reinterpreting this combination by means of new aesthetics. This in turn allows them to match different stakeholder' interests.
What all these results have in common is the role of tradition as a starting point that guide and allow innovation strategies in the opera field.
In this paper we reject the view of tradition as an innovation depressing factor. Instead, we theorize and empirically prove the existence of tradition based innovation strategies that evolve and are developed only within the boundaries of a firm tradition, tightly linking to its specific history. These forms of innovation enable firms whose market and brand identities are rooted in the past to reconcile often conflicting stakeholders' interests, thus achieving higher financial flexibility. These forms of innovation may enable these firms to better express their identity via different combinations of repertoire choices that evolve from the past.

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