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Regional Knowledge Intensity and the Handicrafts Firm's Performance: The Competitiveness Advantage of Cultural Resource Heterogeneity

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Abstract

In the context of High-quality cultural industry development, the revival of traditional handicrafts and their clustering not only invigorates the cultural market but also reflects the effectiveness of cultural consumption intentions in stimulating firm performance. This research focuses on the cultural and creative market, analyzing the scarcity of cultural resources and the comparative advantages across knowledge-intensive regions from a resource-based perspective. It further examines how cultural and creative derivatives based on traditional handicrafts generate perceived cultural value, and how the development of cultural infrastructure—both high-intensive and low-intensive—enhances cultural consumption intentions, activates market resources, and strengthens industry competitiveness. Using panel data from 31 provinces and municipalities in China from 2015 to 2021, this study investigates the impact of perceived value of cultural resources, innovation capability of cultural and creative design, and the intensity of cultural infrastructure construction on the performance of handicrafts firms. The findings aim to provide pathways for leveraging traditional crafts, including new growth drivers, overcoming urban-rural disparities, and building culture-driven business models in the cultural and creative industry.

Keywords: RBV Theory; Handicrafts Firms; Cultural Creative Market; Firm Performance.

1 Introduction

As culture, technology, and industry become increasingly intertwined, the traditional framework that focuses solely on technological resources as a performance-enhancing is no longer sufficient to explain the cultural innovation endowment needed to facilitate urban and rural development. When cultural consumption becomes a key driver of regional economic growth, it stimulates revenue diversification, enhances asset value through brand-driven differentiation, and fosters stable, long-term cash flow within creative and related industries. Earlier studies mostly emphasized that the level of cultural consumption reflects the broader socioeconomic context of a region (Katz-Gerro, 1999; Lo & Liao, 2021; Thanh et al., 2021), its stage of economic development, educational resources, disposable income, labor market conditions, and social security system. Regions with higher levels of cultural consumption also tend to show greater demand and standards for cultural creativity. Hence, technological innovation is increasingly driven by the high demand for cultural industry development.

Within this context, traditional handicrafts firms are transforming through technological upgrading, leading to new product forms, communication channels, and consumption fields. Consumers are no longer satisfied with products that are merely practical or functional. Increasingly, they seek products that express personal taste and aesthetic distinction (Hoyer & Stokburger-Sauer, 2012; Sabir et al., 2019). Items with strong design elemeants, mainly rooted in distinctive cultural motifs, can gain a competitive edge in the marketplace. Therefore, our empirical research focuses on China's traditional handmade craft market. Before 2021, as China’s economy shifted from rapid expansion to high-quality growth, cultural consumption saw slower spending growth. Between 2014 and 2019, the cultural industry grew by an average of 11.28% annually, outpacing the national GDP growth rate of about 6% during the same period. Although growth in sectors such as media, advertising, performing arts, and leisure activities began to moderate, the quality and sophistication of these sectors improved. This suggests that consumers were shifting from purchasing cultural goods to seeking richer cultural services and experiences. By 2020, the value added by cultural industries accounted for 4.43% of GDP, with content creation growing by 11.1%.

As mentioned above, our research aims to investigate how the cultural industry, as a leading driver of innovation, enhances market valuation by integrating culture and technology. We suggest that the perceived value of cultural resources, firms’ innovation capability, and the development of basic cultural infrastructure across urban and rural areas jointly influence consumers' willingness to purchase in the traditional crafts market. To facilitate the mechanisms through which cultural industries drive sustainable growth, strengthen firms’ market valuation, and expand the financial attractiveness of the cultural economy.

2 Literature review

2.1 The perceived value of cultural resources

Cultural and creative products differ fundamentally from functional consumer goods. Unlike products designed solely for utility, cultural goods derive their market appeal from the added value of cultural meaning and creative design (Klamer, 2003; McCain, 2006). As a result, consumers often find it challenging to separate practical usability from aesthetic appreciation. Traditional consumer behavior theory holds that purchase intention underlies consumption behavior and that product value is realized only after the consumer makes and completes a purchase decision (Sadikoglu & Olcay, 2014; Toft & Lueg, 2015). Therefore, the discussion of perceived value and willingness to consume can be approached from both micro-level (individual) and macro-level (organizational) perspectives. At the micro level, previous behavioral studies have extensively examined individual determinants of cultural consumption. Okechukwu et al. (2018) identified key factors influencing consumer decision-making, including product characteristics, experiential quality, perceived value, and social function. Empirical evidence from De Medeiros et al. (2016) further indicates that hedonic experience during the shopping process enhances consumers' perceived value and, in turn, strengthens their willingness to consume. Ahmad and Omar (2018) also found that aesthetic emotion mediates the relationship between product attitude and purchase intention, where perceived beauty exerts a significant positive effect. These studies collectively confirm that perceived usability, enjoyment, and emotional resonance are all significant predictors of consumers' willingness to purchase cultural goods.

However, at the macro level, fewer studies have examined how institutions, enterprises, and investors form their willingness to engage with the cultural and creative market. With the rapid development of digital finance and Internet-of-Things technologies, cultural industries have diversified from traditional crafts and intangible heritage items into technology-enabled cultural products, virtual crafts, and cultural services. For institutional actors, investment willingness is often viewed as a direct reflection of the perceived market value of cultural products (Ghazouani et al., 2019; Mo, 2012). Nevertheless, because culture is symbolic and intangible, it is not easy to assess return on investment solely through financial reports or market surveys. Much of the capital entering cultural and creative sectors is therefore angel investment, driven more by subjective preference and intuitive judgment than by financial performance indicators.

This subjectivity often creates a mismatch between investment valuation and actual market returns. Donthu and Yoo (1998) indicate that perceived unfairness occurs when consumers believe the quality, reliability, or assurance of cultural products falls short of expectations. Similarly, Hofstede (2011) viewed culture as a symbolic system, suggesting that cultural creativity reflects the dynamic interaction between cultural symbols and consumers' perceived values. Firms should extend their focus beyond product functionality to encompass aesthetic form, material quality, and sensory experience (Karami et al., 2016). From a resource-based perspective, these symbolic, aesthetic, and experiential qualities represent unique, inimitable cultural resources that underpin sustained competitive advantage (Lo & Tan, 2019; Tiwari & Ahamed, 2018).

Hence, the perceived value of cultural resources determines how effectively cultural capital can be

converted into market valuation. A higher perceived value enhances consumer appreciation and willingness to pay, while simultaneously reinforcing investor confidence and capital inflows into the cultural and creative market (Z. Li et al., 2021). Thus, the interaction between cultural resource perception, firm innovation, and market valuation offers a critical lens for understanding how the cultural industry transforms intangible symbolic assets into tangible financial performance and sustained growth.

2.2 The firm's innovation capability in traditional handicrafts

Based on RBV's explanatory power, intangible cultural resources rooted in heritage serve as strategic assets that enhance market valuation and consumer willingness to engage in cultural consumption (Peters et al., 2011). By transforming cultural distinctiveness into sustainable innovation and perceived emotional value, firms in the cultural creative industries convert symbolic capital into financial performance and long-term competitive advantage (Aaltonen et al., 2015; Lo et al., 2020). However, traditional handicraft products are constrained by the need to preserve craft heritage and to adhere to traditional artisanal methods and materials. Moreover, their functional attributes cannot be directly compared to those of technology-driven products. This dual constraint limits the extent of innovation possible within traditional crafts. As Schmidt and Druehl (2008) distinguish between incremental and disruptive innovation, disruptive products tend to address unmet or neglected needs, while incremental innovation focuses on gradual improvements to existing products and technologies. For traditional craft-based cultural goods, innovation does not seek to overturn market structures or reshape user behavior (Holmquist et al., 2019). Instead, the core challenge lies in leveraging design innovation to strengthen cultural identification, enhance user engagement, and expand the consumer base without compromising the craft's cultural integrity.

Further, Bertola et al. (2016) proposed a non-functional value innovation system that distinguishes between a product's essential functional utility and its culture-driven innovation value. This framework provides a valuable basis for distinguishing between functional value and the added cultural–creative value derived from the firm. Specifically, traditional craft-based cultural products embody three key dimensions of value: craftsmanship, innovative design, and service quality. Unlike most technologically driven product innovations, traditional crafts are constrained by materials, motifs, and techniques; thus, innovation primarily occurs in visual form and packaging design, where cultural creativity can be most effectively expressed (Han et al., 2017; Jimale & Ndede, 2017). Through continuous innovation, firms can enhance consumer satisfaction, strengthen repurchase intentions, and foster brand reputation and premium pricing. When a product achieves value spillover, the added design value of cultural innovation resonates emotionally with consumers, creating shared meaning and emotional co-perception.

2.3 Heterogeneous competitive advantage facilitates the creation of firm performance.

Culture, as an embodiment of spiritual civilization, serves not only as the symbolic expression of social values but also as the material foundation for firm business (Bertola et al., 2017; Gasparin et al., 2020). In the economic region development, the strategic deployment of cultural resources and facilities often precedes the configuration of transportation, commercial, healthcare, and educational infrastructures, reflecting their role as macro-level mechanisms of value creation and differentiation (Altinay et al., 2016; Fu et al., 2019). Based on RBV theory, the heterogeneity of cultural resources implies that, in their uniqueness, historical depth, and symbolic capital, constitutes a source of sustained competitive advantage that cannot be easily imitated or substituted (Aquino et al., 2018; Dwivedi & Weerawardena, 2018).

In recent years, the deep integration of the cultural and tourism industries, which emphasize experiential, symbolic, and identity-based dimensions of consumption, has enhanced value co-creation between cultural producers and consumers. Some tourism destinations that effectively leverage their distinctive cultural endowments can embed cultural narratives into tourism, commercial services, and lifestyle consumption, thereby enhancing both brand equity and consumer loyalty (Cao et al., 2021; X.Chen & Lee, 2021; Harrigan et al., 2021). As a result, cultural consumption has evolved from a secondary leisure activity into a core driver of high-quality growth in the tertiary sector, reinforcing the logic that cultural resource heterogeneity contributes to superior financial outcomes through differentiated value creation, sustained consumer engagement, and the amplification of urban competitiveness. Such culture and resource differentiation not only strengthens the intangible asset base of urban economies but also translates into tangible financial performance growth through increased tourism revenues, higher property values, and expanded consumption in creative industries (Kourtit & Nijkamp, 2019; Santagata, 2002).

Within the framework of knowledge-intensive industry development, cultural facilities serve as dynamic, adaptive components of local service systems, exerting a strong pull on regional development and industrial upgrading (Raza et al., 2017; Wang et al., 2019). However, divergent levels of knowledge intensity have led to a dual structure in cultural consumption and industrial ecology between urban and rural areas. In high knowledge-intensive urban contexts, residents exhibit a greater demand for cultural consumption, underscoring the need for diverse public cultural facilities that enrich spatial experiences, enhance cultural literacy, and reinforce collective cultural identity (Cohendet & Simon, 2008; Wood, 2002). Urban cultural infrastructure, therefore, serves as both a carrier of innovation and a platform for transforming knowledge into cultural and economic capital.

Conversely, low knowledge-intensive rural areas exhibit distinct advantages in their heterogeneous cultural resource endowment, including rich local traditions, intangible heritage, and landscape-based symbolic resources (Yigitcanlar et al., 2008). These resources, though less dependent on technological input, constitute a unique form of cultural heterogeneity that supports differentiated development paths. Unlike cities that rely on knowledge accumulation and creative industry agglomeration, rural regions leverage cultural authenticity and ecological integrity to drive culture-led tourism and experiential

economies (J.Li, 2020). In other words, the urban high knowledge-intensive model, characterized by innovation-driven cultural consumption and creative industry clustering, and the rural low knowledge-intensive model, distinguished by the capitalization of heterogeneous cultural resources and tourism-oriented revitalization, reveal that the growing demand for cultural consumption in urban areas can be effectively complemented by the diverse and distinctive cultural resources of rural regions, forming a mutually reinforcing dynamic in which urban innovation stimulates cultural market expansion. Rural heterogeneity provides the material and symbolic foundation for sustainable cultural supply and value creation.

More details, the rapid rise of digital technology has profoundly reshaped the business model of traditional handicrafts and value-creation pathways, enabling the revitalization and reinterpretation of rural cultural resources within the broader framework of knowledge-intensive development. Through technology-enabled mechanisms—such as virtual exhibitions and digital platforms for intangible cultural heritage (ICH)—traditional crafts, folk customs, and local cultural memories can transcend geographic boundaries, enabling cross-regional communication and real-time consumption (Alivizatou, 2019). This process not only enhances urban consumers' cultural identity and purchasing motivation but also transforms heterogeneous rural resources into dynamic economic assets, thereby improving regional financial performance (Z.Chen et al., 2021). Although urban areas possess superior cultural infrastructure and higher knowledge intensity, rural regions retain comparative advantages in historical heritage, folk traditions, and natural landscapes. The integration of these heterogeneous cultural resources into the market system through digitalization and cultural tourism expands the scope of cultural consumption. It strengthens the endogenous growth momentum of the tertiary sector. Such heterogeneity constitutes a rare, inimitable, and value-generating resource, providing sustained competitive advantage that enhances profitability, stimulates industrial upgrading, and balances urban–rural disparities. Thus, urban cultural consumption demand is effectively complemented by the diversified and authentic cultural resources of rural regions, forming an interdependent value network in which technological empowerment and cultural differentiation jointly drive high-quality economic growth and improved financial performance.

3 Hypothesis

3.1 The perceived value of cultural resources and the performance of handicrafts manufacturing firms

The perceived value of cultural resources reflects not only a region's collective cultural identity and residents' behavioral characteristics but also the symbolic and economic potential of culture within the broader social system. From the perspective of RBV, cultural resources represent intangible assets that are rare, inimitable, and socially embedded (Teece, 2014). Their perceived value is thus not a static attribute but a dynamic construct that emerges from the continuous interaction among social cognition, consumer behavior, and organizational innovation (Diefenbach, 2006). In this sense, the perceived

value of cultural resources constitutes both a foundation for developing sustainable competitive advantages and a key driver of cultural consumption behavior.

Through the revitalization and creative use of cultural resources, traditional handmade craft manufacturers can strengthen their brand image and social reputation, while simultaneously cultivating distinctive cultural preferences and stable consumption patterns among regional residents. The value of cultural products extends beyond mere functional attributes to encompass emotional resonance, social symbolism, and the expression of cultural identity (Carmeli, 2004). Accordingly, this study follows the perceived value proposed by Sweeney and Soutar (2001), which conceptualizes perceived value as comprising emotional, social, and functional value, to systematically examine the structure of perceived value in traditional craft-based cultural and creative industries.

First, in terms of emotional value, cultural and creative products evoke aesthetic appreciation, cultural memory, and emotional resonance through their sensory and symbolic expressions, thereby enhancing consumers' affective experience and psychological satisfaction. The transmission of emotional value serves as a critical source of competitive advantage, shaping not only consumers' subjective preferences and purchase intentions but also long-term brand loyalty and word-of-mouth diffusion (Blazevic et al., 2013). Second, regarding social value, cultural and creative products function as symbolic markers of identity and social affiliation. They enable consumers to express social status, aesthetic taste, and cultural identity through consumption, thereby reinforcing a sense of belonging and social recognition within peer networks (Mahadin & Akroush, 2019). In this process, cultural resources acquire enhanced symbolic meaning, elevating their perceived worth within social contexts. Third and last, from the perspective of functional value, while cultural products possess material utility, their overall evaluation increasingly depends on cultural added value and design innovation (Sijoria et al., 2019). Owing to geographical, historical, and socio-cultural heterogeneity, local cultural resources exhibit distinctive competitive advantages.

As mentioned above, the perceived value of cultural resources thus embodies both the differentiation advantage of cultural products and the innovation capability to integrate resources, innovate design, and convey cultural emotion. A high perceived value of cultural resources enhances consumers' sense of worth and cultural identification with creative products, thereby strengthening repurchase behavior and firm performance. Hence, the following hypothesis is proposed:

H1: <u>The perceived value of cultural resources has a positive effect on firm performance.</u>

The Innovation Capability of handicrafts manufacturing firms and performance

The traditional innovation in handicrafts is inherently constrained. The challenge lies in the fact that technological innovation often represents a disruptive force to conventional craftsmanship (Knorringa et al., 2016), reshaping industrial ecosystems and altering the inheritance of artisanal skills. As Trunfio and Campana (2020) observed, the prevalence of standardized, technology-driven production has

diminished the tactile and cultural values that traditionally distinguished handicraft products. A handicrafts firm's ability to coordinate and mobilize its cultural resources and capabilities for sustained innovation is a crucial thing. Firms with strong capacity for sustainable innovation can maximize the value of their cultural resources and transform them into enduring sources of competitive advantage. Consequently, how artistic and creative manufactories manifest innovation becomes the key determinant in maintaining the locational and cultural advantages embedded in their resource bases.

At the same time, contemporary consumers increasingly reject the mass-produced uniformity of industrial products and conventional representations of cultural motifs. Instead, they seek hybrid cultural products that blend tradition with modern aesthetics, social trends, and popular culture, integrating craftsmanship with creative design to form pluralistic expressions of cultural identity (Haines et al., 2007). This transformation underscores the synergistic relationship between technological and cultural innovation, in which content creation, creative design, and cultural services jointly enhance the cultural and emotional value of innovative products, forming the core of their cultural competitiveness.

From an RBV standpoint, innovation capability thus reflects a firm's competence to recombine tangible and intangible resources, such as traditional craft knowledge, design creativity, and technological adaptation into value-creating systems that meet evolving consumer preferences. A higher level of innovation capability not only improves product differentiation and perceived quality but also strengthens consumers' emotional engagement and willingness to engage in cultural consumption. Accordingly, the following hypothesis is proposed:

H2: The innovation capability of cultural and creative design has a positive effect on firm performance.

The knowledge-intensive handicrafts manufacturing sectors and performance

The competitiveness of cultural and creative industries depends not only on tangible resources such as infrastructure and financial investment but also on intangible capabilities, including knowledge intensity, creativity, and cultural embeddedness. Urban regions with abundant cultural infrastructure and high knowledge intensity tend to generate stronger absorptive capacity for innovation and market adaptation. Conversely, rural regions with low knowledge intensity often face difficulties in transforming cultural resources into sustainable competitive advantages, thereby weakening the correlation between infrastructure construction and firm performance (Kristiansen, 2002). The knowledge intensity of the traditional craft industry implies that the degree to which firms rely on professional design, cultural interpretation, and creative R&D capabilities to produce cultural value (Potts, 2010). High knowledge-intensive sectors, including creative design, digital cultural production, and cultural IP development, can better leverage cultural infrastructure to enhance product differentiation and consumer engagement, thereby driving superior firm performance. By contrast, low

knowledge-intensive sectors, such as simple craft replication or labor-intensive souvenir manufacturing, may fail to transform cultural resource advantages into market competitiveness, potentially leading to resource misallocation and efficiency losses.

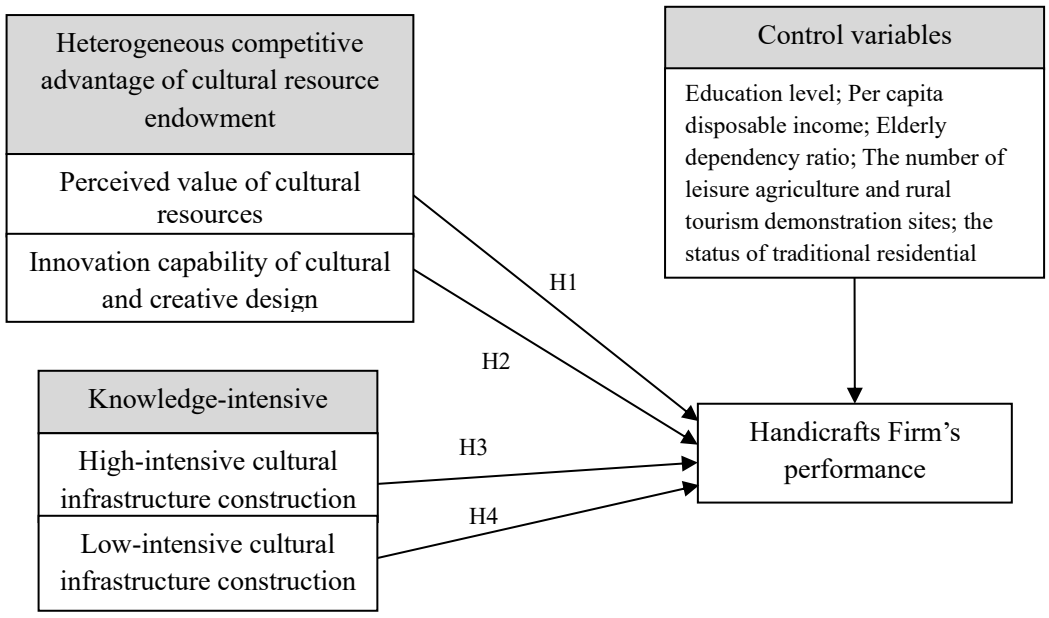
Therefore, our research further refines Hypothesis 3 by distinguishing the moderating effect of knowledge intensity on the relationship between cultural infrastructure construction and firm performance:

Hypothesis 3-1: ***In high knowledge-intensive handicrafts sectors, cultural infrastructure construction positively affects firm performance.***

Hypothesis 3-2: ***In low knowledge-intensive handicrafts sectors, cultural infrastructure construction negatively affects firm performance.***

Framework

Figure 1. The heterogeneous competitive advantage of high knowledge-intensive handicrafts manufacturing industries



4 Measurement

4.1 Dependent variable

4.1.1 Handicrafts firm's performance

In this research, the firm performance of handicrafts is designated as the dependent variable. Following the empirical study of Shafi (2021), which measures firm performance using the total income of enterprises engaged in handicraft sectors in year t. Accordingly, this variable is denoted as TC_{it}. It represents the total number of handicraft firms in the province or municipality i in year t.

4.2 Independent variables

4.2.1 Perceived value of cultural resources

We follow the RBV theory and posit that cultural creativity, as a scarce resource with unique attributes, possesses both irreplaceability and inimitability (Barney, 1996; Woo et al., 2020). Building upon the VRIN framework, the perceived value of cultural resources is assessed through the lenses of economies of scale and investment value. According to the cultural industry value assessment system proposed by Ellis (2019), this research identifies and summarizes the formula of perceived value of traditional craft cultural resources as follows:

$$Perceived\ Value_{it} = \frac{\ln(K_{it})}{\ln(W_{it})}. \quad (1)$$

In Formula (1), the perceived cultural market value is denoted as PV_{it}. It represents the value of cultural resources in the province/municipality *i* during year *t*. *K* indicates the production efficiency of the cultural industry; therefore, K_{it} reflects the output value of cultural derivative products generated by province/municipality *i* in year *t*. It is important to note that non-traditional handmade craft, cultural, and creative products do not accurately capture consumer perceptions of the traditional craft cultural industry; hence, such samples are excluded. This exclusion ensures a more precise measurement of the economic production of conventional craft, scale, cultural, and creative products in year *t*. Furthermore, *W* denotes investment and financing activities related to the traditional craft cultural industry, with W_{it} representing the total investment and financing volume in the province/municipality *i* for the conventional craft cultural market during year *t*.

4.2.2 Innovation capability of cultural and creative design

In addition to the influence of perceived cultural resource value on firm performance, the creative capability of the cultural industry is regarded as another key variable (Chang et al., 2018; Hussein et al., 2021). The improvement and expansion of cultural consumption business models rely fundamentally on the cultural industry's ability to sustain innovation, adapt to, and lead market demand. Azadegan et al. (2008) argues that the greater the number of creative organizations within an industry, the higher its potential for breakthrough innovation. At present, many cultural and creative derivatives that integrate modern elements with traditional culture retain ancient craftsmanship in their production processes while incorporating extensive digital technologies and artificial intelligence applications in design innovation (Shafi et al., 2021). As a result, patents related to cultural and creative design are increasingly concentrated in the field of aesthetic and appearance development. Accordingly, this study adopts R&D activities associated with the traditional craft industry as the measurement indicators for the innovation capability of the cultural sector, as presented below:

$$Innovation\ Capability_{it} = \frac{\sum_{j=0}^{n} G_{it}^{j}}{G_{it}}. \quad (2)$$

As shown in Formula (2), the innovation capability of the cultural industry is denoted as IC_{it}. It represents the cultural innovation capacity of cultural and creative organizations in province or municipality i during year t. j refers to the status of patent-based R&D; thus, G_{it}^{j} indicates the number of patents developed by G cultural and creative organizations in province i during year t, while G_{it} represents the total number of cultural and creative organizations in that province and year.

4.2.3 Knowledge-intensive cultural infrastructure construction

Furthermore, our research suggests that analyzing only the perceived value of cultural resource endowments and innovation capability can outline the competitiveness of the cultural industry. Still, it may not sufficiently capture China's current developmental context, particularly the unbalanced and inadequate development between urban and rural areas. To address this, the model, based on a knowledge-intensive view, incorporates cultural infrastructure construction as an additional variable to examine its impact on firm performance. Basic cultural infrastructure is further categorized into urban cultural facilities CP_{it} and rural cultural facilities NCP_{it}.Following the perspective of Walters et al. (2019), basic cultural infrastructure includes libraries, museums, theaters, cinemas, art galleries, concert halls, cultural centers, and other public cultural spaces that provide residents with venues for interaction and leisure. Shafi et al. (2019) further classified cultural spaces into three functional categories, including knowledge, fitness, and entertainment, encompassing cultural information service points, celebrity residences, cultural stations, old streets and alleys, and newsstands. Building on these frameworks, this research collects and categorizes data on basic cultural facilities within each region. For instance, public cultural centers, museums, and libraries in urban areas generally serve as platforms for disseminating and popularizing traditional culture. In contrast, cultural stations in rural areas often lack sufficient books, exhibits, and archival materials, thereby limiting their capacity for cultural communication. Consequently, CP_{it} represents the logarithmic sum of libraries, museums, art galleries, and other cultural centers in a province or municipality i during year t. Similarly, NCP_{it} denotes the logarithmic sum of rural cultural facilities such as cultural stations, newsstands, village reading rooms, and cultural bulletin boards in the same province and year.

4.3 Control variables

Based on the preceding literature review and theoretical framework, this study uses the following indicators as control variables to analyze the structural factors influencing handicraft firms' performance. This approach also enables exploration of heterogeneity across cities and towns, thereby enhancing the model's robustness. Specifically, the study incorporates per capita disposable income,

education level, the risk of healthcare ratio, the number of tourism agriculture, rural tourism demonstration sites, and the status of traditional residential villages to construct a socioeconomic factor system that affects cultural consumption (Gao & Wu, 2017; Wong & Zhu, 2015). Among them are denoted by DPI_{it}, EB_{it}, $HCit$, CTD_{it}, and HV_{it}, respectively. Per capita disposable income and the numbers of tourism, agriculture, and rural demonstration sites are log-transformed to normalize their distributions. Education level is measured by the ratio of individuals who have never attended school to the total population aged six and above, reflecting the overall educational attainment within each region (Bachleitner & Zins, 1999). The risk of healthcare ratio indicates the demographic pressure on the working population, which may influence household consumption structure and cultural spending patterns. The number of tourism agriculture and rural tourism demonstration sites represents the degree of rural tourism development and reflects the activation of cultural and ecological resources that promote cultural consumption. Finally, the status of traditional residential villages serves as an indicator of tangible cultural heritage preservation, capturing the historical and cultural depth of each region and its influence on residents' cultural identity and willingness to consume.

Besides, we incorporate a comparative advantage perspective to capture the knowledge-intensive structural heterogeneity in firm performance between urban and rural regions. Urban areas generally exhibit stronger resource endowments and innovation capabilities, reflected in higher per capita disposable income and educational attainment. These factors jointly contribute to a stable cultural consumption capacity and a heightened aesthetic demand, which underpin sustained investment in cultural and creative goods. In contrast, rural regions exhibit comparative advantages rooted in unique cultural resources and the stability of cultural consumption in aging societies. Although rural areas typically lag in income and education, their higher healthcare risk ratio indicates strong intergenerational emotional bonds and greater persistence of traditional cultural identity and affective consumption patterns. Moreover, through the combined forces of cultural tourism development and digital dissemination, rural tourism agriculture, and demonstration sites and traditional heritage villages serve as key drivers of heterogeneous cultural consumption.

As mentioned above, the selection and operationalization of these control variables fully reflect the heterogeneous developmental contexts and divergent motivational structures underlying urban–rural cultural consumption. This comprehensive design enhances the robustness of the empirical model. It provides a solid theoretical and data-driven foundation for understanding the mechanisms that shape cultural consumption behavior across different regional contexts.

5 Methodology

5.1 Data samples

This study utilizes panel data to examine the development of the traditional handicrafts industry across

31 Chinese provinces and municipalities from 2015 to 2021. From the perspective of regional resource endowments and the perceived value of cultural industries, the study analyzes the structure and business models of China's traditional craft culture industry. The data were collected from the China Cultural Industry Database, the CSMAR Database, the China Tourism Statistical Yearbook, and the China Statistical Yearbook for the Tertiary Industry. According to the definitions and classifications of the Cultural Industry Database, the sample includes four municipalities, nine provinces in the eastern region, seven provinces in the central region, and eleven provinces in the western region, covering data related to cultural markets, museums, cultural arts, public services, and other relevant sectors.

5.2 Research model

The study employs a panel data regression approach. The model examines the overall development status of the traditional craft industry across 31 provinces and municipalities, aiming to clarify the key development factors of China's traditional handicraft industry. Further, to capture trends in firm performance development in China's cultural industry and to reveal the core competitiveness and value-creation advantages enabled. This approach informs strategies to address regional resource imbalances and insufficient integration between urban development and cultural industry growth, while exploring pathways for heterogeneous and innovative development.

Given the broad scope and diverse categories of traditional crafts, a purely micro-level analysis cannot provide a comprehensive view, whereas a macro-level analysis risks overlooking essential details. Therefore, this study draws upon prior literature and the official definitions of China's cultural industry, employing spatial regional division to structure the analysis. To ensure objectivity and rigor of empirical research. Based on these principles, the basic econometric model for cultural and creative industry development is specified as follows:

$$TC = \int (PV, IC, CP, NCP), \tag{1}$$

$$TC_{it} = C + \alpha_1 PV_{it} + \alpha_2 IC_{it} + \alpha_3 CP_{it} + \alpha_4 NCP_{it} + \varepsilon_{it}, \tag{2}$$

$$TC_{it} = C + \alpha_1 PV_{it} + \alpha_2 IC_{it} + \alpha_3 CP_{it} + \alpha_4 NCP_{it} + \alpha_5 DPI_{it} + \alpha_6 EB_{it} + \alpha_7 HC_{it} + \alpha_8 CTD_{it} + \alpha_9 HV_{it} + \varepsilon_{it}. \tag{3}$$

For the model robustness, this study incorporates control variables into Equation (2), as shown in Equation (3). According to Equation (2), a 1% increase in PV_{it}, IC_{it}, CP_{it}, and NCP_{it}, is associated with an increase in TC_{it} by $\alpha_1\% + \alpha_2\% + \alpha_3\% + \alpha_4\%$. This main effect is intended to capture the development trend of cultural consumption among urban and rural residents in China.

6 Results

6.1 Descriptive Statistics

The descriptive statistics presented in the table below include the mean, standard deviation, maximum and minimum values, variance inflation factor (VIF), and the number of observations. In the multicollinearity diagnostic tests conducted for all variables in the study model, none had a VIF above 10, indicating acceptable multicollinearity. This indicates that the sample does not suffer from serious multicollinearity issues, and thus the estimations of the associated models are unlikely to be substantially biased.

Table 1. Descriptive statistics analysis

Variables	Observes	Min	Max	Mean	Std.	VIF
PV	217	1.20	3.27	2.25	0.40	1.66
IC	217	0.30	2.59	1.87	0.42	2.44
CP	217	1.23	2.32	1.91	0.29	6.00
NCP	217	2.32	3.66	3.01	0.34	7.98
DPI	217	4.87	66.80	34.41	18.39	1.27
EB	217	0.65	0.99	0.95	0.03	1.18
HC	217	64.20	100	97.30	5.38	1.15
CTD	217	1.99	3.29	2.55	0.26	3.85
HV	217	53	1292	375.01	232.76	3.12

6.2 Panel data regression analysis

Given that this study employs panel data, it is necessary to test the stationarity of the variables to avoid potential spurious regression effects associated with time-series data. In this study, the panel unit root tests employed include LLC, IPS, ADF-Fisher, and PP-Fisher methods (Kadim & Sunardi, 2019; Zulfikar & STp, 2018). The results indicate that the primary effect variables are the perceived value of cultural resources, innovation capability of cultural creative design, and cultural infrastructure construction in knowledge-intensive handicrafts sectors. The control variables are all stationary series. Therefore, incorporatings socio-economic variables as controls for the comparative advantages of urban and rural development is justified. The specific results are as follows:

Table 2. Panel unit root test results

Tests / Variables	LLC	IPS	ADF	PP
ΔPV	-7.29 (0.00)***	-5.02 (0.00)***	209.92 (0.00)***	247.06 (0.00)***
ΔIC	-16.88 (0.00)***	-4.59 (0.00)***	137.46 (0.00)***	191.86 (0.00)***
ΔCP	-8.76 (0.00)***	-1.86 (0.00)**	121.56 (0.00)***	87.54 (0.00)**
ΔNCP	-5.16 (0.00)***	-2.40 (0.00)***	172.13 (0.00)***	150.09 (0.00)***
ΔDPI	-20.29 (0.00)***	-2.91(0.00)***	107.58(0.00)***	148.79(0.00)***
ΔEB	-1.87(0.01)**	3.71(0.01)**	15.26(0.01)**	15.97(0.01)**

ΔHC	-7672.44(0.00)***	-10031.60(0.00)***	110.36(0.00)***	221.17(0.00)***
ΔCTD	-5.96(0.00)***	2.05(0.01)**	77.45(0.04)**	198.41(0.00)***
ΔHV	-16.04(0.00)***	3.02(0.01)**	35.18(0.01)**	43.34(0.04)**

Note：*$p < 0.10$，**$p < 0.05$，***$p < 0.01$.

Further, the model was estimated using the Pooled EGLS method, and Table 3 presents the estimation results for both the random and fixed effects. According to the Hausman test results, the random effects model is more appropriate for this research. The model estimates the impact of various dimensions of the high-quality development of the traditional craft industry on cultural consumption intention. The adjusted R-square value of 0.96 indicates a very high goodness-of-fit, suggesting strong explanatory power for the model.

Table 3. Regression analysis results

Variables	Random effects	Fixed effects
C	6.99 (51.49)***	5.88 (2.15) ***
PV_{it}	4.61 (6.19)***	2.37 (7.49)***
IC_{it}	0.41 (14.95) ***	1.61 (1.71) *
CP_{it}	4.76 (49.75) ***	5.57 (0.28)
NCP_{it}	-0.79 (32.24)***	-0.51 (1.90)*
Hausman	11.32	
Adj-R^2	0.96	0.59
F	135.29	0.14

Note：*$p < 0.10$，**$p < 0.05$，***$p < 0.01$.

The random-effects estimation results show that the regression coefficient for the perceived value of cultural resources ($\gamma = 4.61$, $p = 0.00$) is significantly and positively associated with firm performance. Thus, Hypothesis 1 was supported. The regression coefficient for the innovation capability of cultural creative design ($\gamma = 0.41$, $p = 0.00$) supports Hypothesis 2, confirming that innovation capability positively affects cultural consumption intention. Based on the status of cultural infrastructure construction, this research finds a strong positive effect of high knowledge intensive on firm performance ($\gamma = 4.76$, $p = .00$). In contrast, the estimated coefficient for low knowledge intensive is negative and statistically significant ($\gamma = -0.79$, $p = .00$). Consequently, while Hypothesis 3-1 and Hypothesis 3-2 are both supported, the negative of rural cultural infrastructure construction coefficient indicates a more complex effect in townships.

6.3 Inference

This study finds that the divergence in knowledge-intensive handicrafts manufacturing firms reflects

structural differences in resource endowments and innovation capacity between urban and rural regions. In fact, industrial development can be viewed as a process of transforming input into outputs, and this study measures the perceived value of cultural resources by examining market capital investment in the traditional craft industry. The results reveal that a 1% increase in investment in cultural resources leads to a 4.61% increase in the firm's performance. It is implied that cultural development has effectively transformed cultural resources into productive forces, advancing the materialization of cultural industries. Urban cultural infrastructure, including libraries, museums, galleries, and performance spaces, benefits from higher levels of human capital and a dense demand for creativity. Consequently, investments in urban cultural infrastructure are more likely to generate measurable improvements in firm performance by enhancing cultural services, stimulating creative output, and strengthening organizational innovation capacity.

Similarly, the traditional craft industry has encouraged diversified operations and emphasized the development of peripheral industries. Cultural creative organizations should pay greater attention to market dynamics and leverage industry barriers and potential to promote regional distinctiveness. We find that a 1% increase in innovation capability yields only a 0.41% increase in firm performance, suggesting that cultural innovation has yet to achieve effective performance transformation. This finding reflects the broader context of cultural–tourism integration, where location-based advantages and creative design–driven business models are often replicated. Consequently, many traditional craft products face challenges such as homogenization, low quality, and insufficient leadership in innovation. Developing a more distinctive approach to seeking differentiation amid homogenized competition to foster cultural identity and value creation represents the actual manifestation of innovation capacity within the cultural creative industries.

In contrast, the construction of low knowledge-intensive cultural facilities has shown a significant negative relationship with firm performance. It is implied that increased investment in rural cultural infrastructure does not effectively enhance firm performance in the cultural and creative sectors. While the cultural market potential of rural regions may exceed that of urban areas in terms of spatial scope, their productivity, industrial concentration, and spillover capacity remain substantially weaker. As a result, investments in rural facilities are often single-dimensional and heavily dependent on government funding, lacking the diversified competitive dynamics and market vitality observed in cities. Hence, investment in rural areas remains largely supply-driven and oriented toward physical expansion rather than functional integration or market demand. And then, limited absorptive capacity means lower disposable income, weaker education systems, and the absence of creative ecosystems, which restrict rural handicrafts manufacturing firms' ability to transform new infrastructure into performance gains. Lastly, rural facilities often suffer from under-utilization and low operational efficiency, with new buildings lacking sustained programming, digital connectivity, or integration with tourism and creative networks. In essence, the current pattern of rural cultural investment has created

short-term inefficiencies and resource misallocations that suppress firm-level returns.

These findings challenge the prevailing assumption that large-scale rural investment alone can resolve the problem of unbalanced and insufficient development between urban and rural areas. This research considers that traditional craft and cultural industries should not rely solely on rural infrastructure expansion as a developmental pathway. Instead, urban resources and creative clusters should act as catalysts, transferring knowledge, technology, and design capabilities to rural regions. This high–low knowledge-intensive coupling mechanism can transform rural resource endowments into productive capabilities, thereby fostering sustained firm performance growth.

6.4 Robust test

Considering the uneven development and heterogeneous competitive advantages between urban and rural areas, this study introduces socio-economic environmental variables into the main-effect estimation model to control for the impacts of perceived cultural resource value, innovation capability in cultural creative design, and knowledge-intensive cultural facility construction on firm performance. The estimation results are presented as follows.

Table 4. Robust test estimate

Variables	**Random effects（t/p）**	**Fixed effects（t/p）**
C	-8.58(-3.19/0.00)***	-0.35(-0.10/0.91)
PV_{it}	0.17(3.19/0.00)***	-0.09(-1.42/0.15)
IC_{it}	0.24(2.45/0.00)***	0.59(4.05/0.00)***
CP_{it}	0.77(3.19/0.00)***	0.41(1.11/0.26)
NCP_{it}	-1.54(5.87/0.00)***	-0.78(1.90/0.05)*
DPI_{it}	0.01(3.54/0.00)***	0.01(2.08/0.03)**
EB_{it}	3.72(2.12/0.03)**	1.81(1.25/0.21)
HC_{it}	0.02(4.09/0.00)***	0.01(2.36/0.01)**
CTD_{it}	0.51(2.78/0.00)***	-0.04(-0.17/0.86)
HV_{it}	0.01(7.18/0.00)***	0.01(3.42/0.00)***
Hausman	26.85	
Adj-R^2	0.81	0.52
F	105.11	26.17

Note：$^{*}p < 0.10$，$^{**}p < 0.05$，$^{***}p < 0.01$.

Under the inclusion of control variables, the main-effect relationships remained stable and continued to exhibit significant positive impacts on firm performance, with the adjusted model fit being satisfactory (adj-R^2 = 0.81). This indicates that the combined influence of socio-economic control

variables, including disposable income, education level, the risk of healthcare ratio, tourism agriculture, rural tourism demonstration regions, and traditional village heritage, substantially enhances the model's explanatory power.

Notably, from the perspective of a high knowledge-intensive region, per capita disposable income exerted only a modest effect on firm performance ($\zeta = 0.01$, $p = 0.00$). In contrast, education level had a much greater impact ($\zeta = 3.72$, $p = 0.03$). This finding aligns with theoretical expectations: individuals with higher educational attainment tend to possess greater aesthetic literacy and are more likely to value and purchase handmade or culturally embedded products. Higher disposable income merely provides the capacity to consume but does not necessarily translate into higher intention or performance effects in the cultural industries.

While a low knowledge-intensive region, both the risk of healthcare ratio ($\zeta = 0.02$, $p = 0.00$) and the presence of traditional villages ($\zeta = 0.01$, $p = 0.00$) had relatively small and limited impacts on firm performance. This suggests that while demographic structure and historical heritage carry symbolic significance, they are insufficient to drive measurable performance improvements in rural cultural industries. The findings highlight a structural challenge underlying the current development model of rural cultural industries—namely, that large-scale capital inputs have not effectively translated into sustainable performance gains. This is further supported by the significant negative effect of rural cultural facility construction on firm performance ($\zeta = -1.54$, $p = 0.00$), consistent with the main model results and demonstrating the model's robustness. The negative relationship suggests that large-scale investment in low knowledge-intensive areas may, in the long term, lead to inefficiencies and resource misallocation. Many newly built cultural facilities in rural regions lack sufficient human capital, creative ecosystems, and market linkages, thereby limiting their ability to convert capital inputs into productive cultural or commercial output.

Finally, as shown in Figure 4, tourism agriculture, and rural tourism demonstration regions exerted a positive and significant effect on firm performance ($\zeta = 0.51$, $p = 0.00$), indicating that top-down policy initiatives—such as the "Rural Library Project" and the establishment of cultural centers—have already achieved some success. Building on these foundations, this study argues that, from a resource-based view (RBV) and comparative advantage perspective, enhancing the perceived value and innovative potential of heterogeneous cultural resources — primarily through technological

empowerment and coordinated development—represents a critical pathway to increasing interregional resource mobility and improving firm performance in China's cultural industries.

7 Discussion and conclusion

The abundance of cultural resources is intrinsically linked to the high-quality development of the cultural and creative industries. Empirical evidence from this study confirms that the perceived value of cultural resources, rather than their sheer quantity, is the key determinant of improved firm performance. Only when cultural assets acquire market recognition and perceptual value can investments in such resources be effectively transformed into tangible performance outcomes. The evidence from China shows that the preservation and transmission of cultural resources have relied heavily on public funding, resulting in limited market-driven dynamism. Consequently, the mobility of resources emerges as a critical factor underlying the disparity between urban and rural cultural performance. In traditional craft industries, the tension between preservation and innovation often constrains the potential for creative differentiation. Many cultural organizations and creative enterprises exhibit homogenized development patterns due to a lack of strategic innovation and practical market orientation. Thus, sustainable competitiveness requires continuous differentiation to activate regional cultural advantages through creative transformation and adaptive reuse, thereby generating unique perceptual and creative values.

Moreover, the structural divergence between urban and rural areas is increasingly evident in the spatial evolution of the cultural and creative industries. Urban consumers, benefiting from higher living standards and aesthetic literacy, are increasingly demanding products that embody design quality, craftsmanship, and symbolic meaning. For these consumers, brand reputation and aesthetic experience outweigh purely functional or economic considerations, prompting cultural and creative firms to enhance design sophistication and integrate differentiated cultural identities into their brand strategies. Conversely, in rural contexts, lower consumer awareness and weaker purchasing motivation hinder the marketization of traditional crafts. Consequently, rural areas tend to serve as the origin rather than the destination of craft-based industries. To bridge this gap, revitalizing localized cultural resources through creative transformation offers a promising pathway. Developing experience-based cultural tourism models that integrate cultural heritage and creative design can effectively reduce rural communication costs, optimize investment in cultural infrastructure, and enhance firm performance across the regional cultural economy.

8 Managerial Implications

From a governance and managerial standpoint, the findings underscore the need to move beyond quantitative facility expansion toward qualitative integration, capability enhancement, and networked

innovation within the cultural and creative industries. Sustainable regional development requires transitioning from state-led, investment-driven models to market-oriented, knowledge-intensive collaboration that aligns with the principles of the resource-based view. Urban cultural hubs—characterized by technological capacity, human capital, and institutional maturity—should function as centers of innovation and knowledge diffusion, while rural areas, endowed with cultural authenticity and creative potential, can serve as sites of cultural production and experiential value creation. To bridge structural disparities and unlock latent competitiveness, several strategic priorities emerge: (1) strengthening managerial and curatorial capabilities in rural cultural facilities through targeted training and knowledge transfer; (2) fostering urban–rural creative partnerships, such as joint exhibitions, cultural tourism circuits, and city-supported craft cooperatives; (3) leveraging digital platforms to overcome spatial constraints, expand market reach, and integrate regional creative ecosystems; and (4) stimulating private-sector participation to enhance investment efficiency, operational sustainability, and innovation dynamism.

Empirical evidence from our research demonstrates that dense cultural infrastructure and cross-sector collaboration generate positive spillover effects that elevate firm performance and regional competitiveness. Integrating distinctive local cultural resources into digital and urban creative circuits can mitigate industrial homogenization and foster diversified cultural identities. Ultimately, the transition toward a knowledge-driven, cultural creative economy will depend not on the equal allocation of fiscal capital but on the effective transfer and recombination of innovative knowledge, innovation capabilities, and cultural capital across spatial and institutional boundaries.

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