

Entrepreneurial Reactions to Uncertainty in the Creative Industries

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Dr. Anna M. Dempster

Department of Management

Birkbeck College

Malet Street, London

WC1E 7HX

a.dempster@bbk.ac.uk

It is now widely accepted that the creative and cultural industries are central to the social and economic welfare of many nations including the United Kingdom¹. These sectors are based on the generation and exploitation of ideas from “individual creativity, skill and talent.”² As such they are a fundamental contributor to the ‘knowledge economy’, and central in the Innovation process. Furthermore, in the service-intensive and post-industrial era which characterises many Western countries, they are also a key source of national competitiveness.³

And yet we have relatively little understanding of the underlying dynamics of the creative sectors, not to mention of the decision making process and management solutions that creative entrepreneurs make use of and depend on. So, while the creative industries are often held up as the panacea for future economic growth, much debate surrounds precisely *how* creative entrepreneurs can better position themselves to create and appropriate value and how this *creative* value can translate into wider economic gains.

While the creative industries have been notoriously problematic to define, there exists at least one point of agreement amongst policy makers, practitioners and academics -- that the creative sectors are characterised by extremely high levels of uncertainty. This makes participation (at all levels) risky and rewards highly uncertain. This is further complicated by the fact that these sectors are often portrayed as inter-connected and highly complex and dynamic systems exhibiting specific spatial and geographic tendencies, such as clustering.

This highly unpredictable nature of demand, coupled with the volatility of supply, and the interaction between them, as well as the asymmetric nature of relations which characterises many creative marketplaces, make them extremely difficult to predict.⁴ This is a serious issue for entrepreneurs and those operating in such an environment and has popularised William Goldman’s widely cited observation that here, “nobody knows anything.”⁵ Furthermore, such market structures translate into highly risky investment options which can alienate investors and result in many (traditional) sources of financing (e.g. a simple bank loan) becoming a less viable option for creative industry participants – and especially at the more entrepreneurial end of the scale. Although public sector subsidies do exist, they are fragmented, variable and inconsistent over time⁶.

And yet it is precisely these harsh conditions of the creative marketplaces that creative industries entrepreneurs must face and manage. In spite of their contribution to the

wider economy, industry entrepreneurs are all too often left to confront the vagrancies of commercial realities with relatively little or no support, training or tools to manage their risk or exposure or to understand and analyse the distribution of their returns.⁷ Even where sources of financial support do exist, cultural and educational barriers mean access is still limited for many creative industries participants⁸. The casualties are often precisely those entrepreneurs and small to medium sized organizations which are widely seen in the innovation literature as being the well-spring of future creative ideas and innovations.

This paper proposes to investigate entrepreneurial reactions to the underlying uncertainties they face and considers a number of strategies that entrepreneurs use to manage these uncertainties and their exposure over time. Drawing on both case-study based research in the theatre industry in London and empirical data across the creative sectors, this paper proposes a simple framework by which entrepreneurs can distinguish between sources of uncertainty – enabling them to better manage their risks and exposures. The paper considers both what is common practice amongst entrepreneurs in this sector as well as highlighting the potential for a more conscious and strategic approach to uncertainty mitigation and risk management.

By unpacking sources of uncertainty and the structure of risk and return, the current research aims to better enable creative industries participants to match investment opportunities and what they can offer -- to the needs of investors, in terms of satisfying specific (and pre-specified) investor's risk appetites. As such, even highly risky creative businesses can become an important component of an investor's portfolio. Becoming more attractive to a wider range of investors will, in turn it is argued here, attract more people to the industry, 'level the playing field' between established and larger players as opposed to smaller and newer entrants, and generally contribute to the health of the industry as a whole.

ENDNOTES

¹ See for example the DCMS publications: *Creative Industries Mapping Document* (1998); *Creative Industries Mapping Document* (2001) and *Creative Industries Economic Estimates* (2007)

² The DCMS definition for the creative industries was finalised in the *Creative Industries Mapping Document* (2001) as "those that are based on individual creativity, skill and talent. They also have the potential to create wealth and jobs through developing and exploiting intellectual property."

³ See for example: *Understanding Knowledge Societies: In twenty questions and answers with the Index of knowledge Societies*, United Nations, New York, 2005. See also: *The Global Competitiveness Report 2007-2008* published by World Economic Forum: specifically see: Chapter 1.2 "The Global Competitiveness Index: Measuring the Productive Potential of Nations" by Michael E. Porter, Christian Ketels and Mercedes Delgado. (p.51-81)

⁴ A number of academic scholars have written directly and indirectly on this topic. For further information and a brief review of this literature see Dempster A.M.,(2006); "Managing Uncertainty in Creative Industries", *Creativity and Innovation Management*, Vol. 15, No. 3, pp 224-233.

⁵ William Goldman, *Adventures in Screen Trade: A Personal view of Hollywood and Screenwriting*, (New York: Warner Book, 1984) Also referred to as the 'nobody knows' property in Richard Cave's seminal book 'Creative Industries' as one of the defining characteristics of these sectors.

⁶ See the DCMS publication: *Developing Entrepreneurship for the Creative Industries* (2006) which highlights the lack of a coherent policy strategy for encouraging entrepreneurship in the Creative industries sectors. Sources of Arts funding were so confusing that to help practitioners navigate the landscape the DCMS published a 70 paged document: *Guide to Arts Funding in England* (June, 2007).

⁷ For example, this is a recurring theme in the House of Commons – Culture, Media and Sport Committee – Fifth Report of Session – 2004-2005

⁸ This was one of the general conclusions of the *Business Support and Access to Finance - Final Report* published in November 21, 2006]