

DISCUSSION PAPER

# Connections, Collaboration and Networks:

Developing Potential Through Business Support in the Creative Industries

## ABOUT ACCA

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ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 131,500 members and 362,000 students throughout their careers, providing services through a network of 80 offices and centres. Our global infrastructure means that exams and support are delivered – and reputation and influence developed – at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities. Our focus is on professional values, ethics, and governance, and we deliver value-added services through our global accountancy partnerships, working closely with multinational and small entities to promote global standards and support.

We use our expertise and experience to work with governments, donor agencies and professional bodies to develop the global accountancy profession and to advance the public interest.

Our reputation is grounded in over 100 years of providing world-class accounting and finance qualifications. We champion opportunity, diversity and integrity, and our long traditions are complemented by modern thinking, backed by a diverse, global membership. By promoting our global standards, and supporting our members wherever they work, we aim to meet the current and future needs of international business.

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**On 12 March 2009 ACCA hosted a highly engaging ideas forum as part of ESRC's Festival of Social Science, focusing on communication channels for creative businesses and the role of the accountant.**

**Fostering debate between internationally respected scholars and leading practitioners, the roundtable was part of the successful Ideas Forum series advanced by ACCA's Research Committee. Participants engaged in stimulating, informed debate, resulting in a wealth of material to guide ACCA's truly cutting-edge research agenda.**

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**Watch the roundtable on ACCA TV  
<http://virtualconference2.acca.twofourdigital.net/creative-economy/index.aspx>**

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The forum was chaired by Sir George Cox and drew informed contributions from high-profile speakers: Sir Chris Powell, chairman of NESTA; Tony Silver, media partner, Silver Levene; Dr Joan Burks, CEO of the Centre for Creative Business, London Business School; Helen Brand, chief executive, ACCA; and Dr David Guy, head of knowledge transfer, ESRC. Participants were individually selected for their knowledge and expertise.

*What can we do to encourage innovation and the use of creativity in the current economic climate? How do we better stimulate, guide and support the creative thinking that matters so much? How do we give confidence to the people who have ideas for new business ventures and how do we give justifiable confidence to those who really ought to invest in them?*

Sir George Cox, speaking at the ACCA/ESRC ideas forum on creative industries, 12 March 2009

The creative industries are a large, burgeoning business sector, which will soon account for 10% of the UK economy<sup>1</sup> and is already employing 1.8 million people. Businesses in this sector 'rely on individual creativity and imagination allied with skill and talent, and produce wealth and jobs through the generation and exploitation of new intellectual property and content'.<sup>2</sup> It is a highly competitive and innovative sector: research by the National Endowment for Science, Technology and the Arts (NESTA) has found that firms that spend twice the average amount on creative inputs are 25% more likely to introduce product innovations.<sup>3</sup>

The creative sector encompasses a wide range of activities. The Department of Culture, Media and Sport (DCMS) defined the creative industries 11 years ago as comprising 13 sectors: advertising, architecture, the art and antiques market, crafts, design, designer fashion, film, interactive leisure software, music, the performing arts, publishing, software and computer services, and television and radio.<sup>4</sup> This is not a 'catch-all' definition and has been revised by various commentators.

1 *Intangible Assets and SMEs*, Report of the ACCA seminar held February 2007.

2 *Creative Industries Mapping Documents*, Department for Culture, Media and Sport (DCMS), 1998–2001.

3 *Beyond the Creative Industries: Making Policy for the Creative Economy*, The National Endowment for Science, Technology and the Arts (NESTA) Policy Briefing, NESTA, 2008.

4 *Ibid.*

## ESRC FESTIVAL OF SOCIAL SCIENCE

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The Economic and Social Research Council (ESRC) funds research and training in social and economic issues. The organisation's planned expenditure for 2009/10 is £204 million and it funds over 2,500 researchers in academic institutions and policy research institutes throughout the UK. ESRC has international research interests in issues of importance to business, the public sector and government.<sup>5</sup>

The ESRC's Festival of Social Science is an annual, week-long programme of events that take place across the UK, featuring public debates, conferences, workshops, interactive seminars, film screenings and virtual exhibitions. One of the aims of the Festival is to engage with business and policymakers; this was the stream ACCA focused on with the ESRC grant, by hosting an Ideas Forum with an associated online discussion board on ACCA's website along with filmed speakers' presentations.<sup>6</sup>

## ACCA IDEAS FORUMS

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ACCA's Ideas Forums are by-invitation-only debates among a small group of informed contributors, allowing dynamic, focused and interactive discussion, rather than being merely simple question and answer sessions. They aim to set out the landscape of current knowledge before discussing the key issues; these discussions themselves identify unanswered questions. The majority of participants are drawn from industry and policy rather than academia, so discussion is led from a practical or policy, rather than theoretical or conceptual, perspective and the questions for applied research that emerge are of direct relevance to those working in or for the sector. As a result, ACCA's Research Committee is able to direct its research agenda to address 'real world' issues.

## DEVELOPING THE THEME

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ACCA's deputy president, Mark Gold, has been spearheading ACCA's championing of the creative industries sector for a number of years, and developing ACCA's voice at policy as well as practice levels. The theme of the debate was developed by ACCA's work with Silver Levene, a small-to-medium-sized practice (SMP) specialising in supporting the creative sector, of which Mark is a partner.

5 Economic and Social Research Council. ESRC Society Today – About ESRC. <http://www.esrcsocietytoday.ac.uk/ESRCInfoCentre/about/index.aspx> [accessed 05.12.08 and 30.11.09]

6 More information about the ESRC Festival of Social Science can be found at: <http://www.esrcsocietytoday.ac.uk/ESRCInfoCentre/FSS/default.aspx>

The government's Creative Economy Programme was led by DCMS in partnership with the former Department for Business Enterprise and Regulatory Reform (BERR)<sup>7</sup> and the Department for Innovation, Universities and Skills (DIUS). The Programme revealed that SMEs in creative industries lack formal business and training plans, which 'suggests that an approach to business support that acknowledges and understands the underlying characteristics of the creative industries is needed'.<sup>8</sup> Business support services, on the other hand:

*need to have a deeper understanding of creative businesses and the markets for creative products and services in order to help firms to develop core skills such as business strategy skills, financial planning and marketing. Such services will need to tap into the motivations of creative entrepreneurs and present business skills in a language and in a form that they will respond to.*<sup>9</sup>

Businesses in the creative sector need accountants with the ability to communicate well – the key soft skill that enables information to be pitched at an appropriate level. Creative businesses must be flexible to adapt within their fast-changing sector, for example, by adopting technological improvements; success depends on the ability to identify beneficial partnerships and connections. Accountants are able to add significant value, beyond tax and audit, by developing relationships as business advisers, and may facilitate direct collaboration of creative businesses that operate in niche industries.

### **CONNECTIONS, COLLABORATION AND NETWORKS: DEVELOPING POTENTIAL THROUGH BUSINESS SUPPORT IN THE CREATIVE INDUSTRIES**

The forum fostered discussion and explored ways of developing the potential of smaller creative businesses by examining the adequacy of existing information channels and forms of support, and considering opportunities for their development, including how networks can be generated. Our aim was to provide a forum that would help identify gaps in current knowledge: a direct outcome of the event will be the development of a call for applied research with practical and policy relevance, which will aim to address at least one of these knowledge gaps.

The creative sector includes a wide variety of industries; the DCMS definition from its 1998 Mapping Document is over 10 years old and has been revisited. The Work Foundation, NESTA and various commentators have developed the definition of creative industries further: they are industries that create original products that have added functionality and are then commercialised.<sup>10</sup>

<sup>7</sup> BERR is now the Department for Business, Enterprise and Skills (BIS).

<sup>8</sup> *Creative Britain: New Talents for the New Economy*, DCMS, 2008.

<sup>9</sup> *Creating value: How the UK Can Invest in New Creative Businesses*, NESTA, 2005.

<sup>10</sup> J. O'Connor, *The Cultural and Creative Industries: A Review of the Literature*, Creative Partnerships, 2007.

Creative industries have also been defined by the conditions in which profit is made, ie services, content and experiences, rather than by the core or peripheral qualities of creative products.<sup>11</sup> Developments in the sector have raised questions and Graham Hitchen, an independent project adviser posited:

*the world is changing and I think that what we continue to call the creative industries [are] changing. Is Google a creative industries company? Is Apple in the music industry or is it in IT? Or is it actually in computer manufacture or services? Is Dell a service company or is it a computer manufacturer? This is not just a glib point about language; it's about thinking [about the] longer term.*

In addition to the diversity of the sector, there is also its scale. Sir Chris Powell commented that there are an 'extraordinary number of small creative businesses in the UK and, as an industry sector, [these have] a very high reputation worldwide'. He went on to say that, in the current economic climate, 'we expect it [the creative sector] to tank more than most industries during the recession – some of it is pretty discretionary – but we expect it to come out of the recession very much faster than other industries'.

Sir George Cox defined the central focus of the ideas forum:

*How can creative businesses be better supported, better stimulated, better guided by having greater connections, more interfaces with other disciplines, more collaboration and better networking?*

How potential can be increased by collaboration was explained by Dr David Guy as: 'in simple mathematics, I believe that networking collaboration is something like  $1+1=7.5$ '. ESRC has identified the creative sector and creative industries as a priority sector for its business engagement strategy. Engaging and networking with a variety of sectors and professions is informative and may bring about shared knowledge and new ways of working, yet it can also be problematic; it may be difficult to bring together people from different backgrounds as those within similar circles have a tendency to mix with each other – and niche industries are just that: niche. Effective networking events need a focused issue and purpose to be successful and to avoid being perceived by participants as purely a business development opportunity for the organisers. An ideas forum participant, Alistair Mitchell, the CEO of the ICT SME Huddle, laid out the key issues for purposeful networking as: being selective, invitation-only for control, and focused on a problem, a need rather than an industry so as to build networking across sectors and involve participants from different backgrounds.

<sup>11</sup> *Creating Growth: How the UK Can Develop World Class Creative Businesses*, NESTA, 2006.

Helen Brand underlined the importance of understanding creative businesses:

*Understanding the ways in which these businesses create value is crucially important. This is a particular challenge given the sheer diversity of creative industries. In these times of economic uncertainty, helping to strengthen planning and training in these businesses, many of which already lead the way in terms of competitiveness, innovation and entrepreneurship, could be a key factor in helping the UK power its way out of the current downturn.*

As a starting point, understanding creative businesses will involve appreciating the ingenuity of the sector and will enable meaningful support to be provided by governments, and by public sector and private sector bodies. Dr Joan Burks emphasised that the creative industries continue to be dominated by small businesses, with many sole traders and firms employing fewer than 10 people, and that many of these businesses do not survive beyond two years. Sir Chris Powell was of the opinion that creative businesses remain small owing to:

*the different reasons why most creative businesses start, and I don't think those creative businesses start from having a great desire for profit or a wish to conquer the world. Normally, in my experience, it's because they want to do their own thing. They are normally a breakaway from the larger organisation. They want to practise their craft in their own way and get peer recognition for doing that.*

Moreover, he went on to say that the owners of many creative SMEs do not have the time to create business plans because they are busy running their business. Many owner-managers take an 'organic' approach to the growth of their business.<sup>12</sup> DCMS have reported that 39% of creative industry firms do not have a business plan, 64% do not have a training plan, while 70% do not have a training budget, all of which can limit their business success.<sup>13</sup>

Tony Silver elaborated on the role of the accountant.

*Accountants are in a unique position because we are often the conduit between government organisations that are offering training and finance, and the creatives who view these organisations as very slow and paper-driven. But the problem is that, all too often, accountants and creatives do not speak the same language. Good communication between the two is crucial, as the successful businesses tend to be the ones run by people who are prepared to listen to advice.*

12 Op. cit., NESTA, 2005.

13 Op. cit., DCMS, 2008.

Numerous research studies have shown that accountants provide the most frequent source of business advice for SMEs.<sup>14</sup> Tony Silver reiterated this point; for creative businesses, their 'first port of call is probably their accountant rather than their bank manager'. SME owners often do not have the time or resources to address the administrative side of running a business; therefore this advice is not just restricted to compliance work but extends to advice, for example, on employment law and health and safety legislation.<sup>15</sup> David Brady of Silver Levene stressed that it is important for service providers, such as accountants and lawyers, to understand not only the creative sector and its niche industries, but also the links between them, to enable owners to develop the business.

Accountants need to be attuned to creative industries, to understand how these businesses operate, both internally and with other creative industries, so as to communicate business advice in relevant ways, otherwise mistrust could develop owing to a lack of understanding. Communication is a key skill and, if advice is pitched appropriately, it will encourage greater confidence and trust. Sir Chris Powell emphasised that effective policies and support for creative industries need to be adapted to the sector, in acknowledgement of its differences. For creative industries, structural and technological changes present opportunities and threats, such as distribution issues in the music and film industries or making income from digital content of newspapers.

Support, whether through appropriate policies or advice, or providing access to finance, must be given with an understanding of the issues that creative industries face. The public sector often takes 'catch all' approaches to investment in creative industries that do not take account of the opportunities and barriers faced by creative businesses that occupy different parts of a complex value chain.<sup>16</sup> Fleming (2007) recommends that initiatives that 'build partnerships with intermediaries to connect specific expertise to specific issues flexibly, and introduce free-flowing networks of intermediaries interfacing with investees and investors, will have a far greater impact'.<sup>17</sup>

14 The following journals are but a few examples of research that has examined this issue: Berry, A. J., Sweeting, R. and Goto, J. (2006), 'The Effect of Business Advisers on the Performance of SMEs', *Journal of Small Business*, 13 (1), 33–47. Jay, L. and Schaper, M. (2003), 'Which Advisers Do Micro-firms Use? Some Australian Evidence', *Journal of Small Business and Enterprise Development*, 10 (2), 136–43. Carter, S. and Mason, C. (2006), *Lifting the Barriers to Growth in UK Small Businesses* (No. Policy Document 331): Federation of Small Business.

15 *Accountancy Futures*, 1, ACCA, 2010.

16 T. Fleming, *Investment and Funding for Creative Enterprise in the UK*, in C. Henry, (ed.), *Entrepreneurship in the Creative Industries: An International Perspective*, Edward Elgar, 2007.

17 *Ibid.*

Sir George Cox's view on the global financial crisis is that:

*People are keeping their heads down, not investing if they can avoid it; they are postponing investment, postponing new initiatives, worried about survival, shedding skills. What matters isn't just getting through this recession, and that's true for a company or an industry or a nation, but what you look like when you come out the other end. What we're going through now is reshaping businesses. Tomorrow's winners are being formed and shaped now.*

Government needs to be aware of how creative industries operate, so as to create effective policies tailored to their needs and requirements. Tony Silver explained:

*financing in feature films, for example, is a bit like a house of cards. You don't move from point A to point B to point C; you have to get all the elements in place together and you have to build it up and the minute that one element falls out of place, the whole lot collapses and you're back at ground zero.*

The UK government currently spends £4.3 billion each year supporting SMEs, in addition to £3.6 billion-worth of tax breaks,<sup>18</sup> so it is critical that this investment is directed to those businesses that are making the most significant contribution to the UK economy.<sup>19</sup>

Creative industries are perceived as carrying a great deal of risk, owing in part to volatility; large resource commitments; and uncertainties in demand, technological or regulatory change.<sup>20</sup> Shelagh Wright from Demos and Laura Gander-Howe of the Arts Council England suggested that the government could play a role in supporting and stimulating demand-side growth of the sector with public procurement, and referred to the New Deal of the 1930s, whereby Roosevelt's government launched a series of initiatives to kick-start the US economy during the Great Depression. Public procurement is risk averse, however, and this is not congruous with innovative solutions or the characteristics of the sector. Investment and support in the creative industries need to complement existing, effective initiatives and join them together so that different types of creative business face a coherent 'landscape'; the public sector all too often adopts a piecemeal approach that lacks clarity and partnership in both focus and form.<sup>21</sup>

A long-term perspective is necessary for understanding how creative businesses create value. Alastair Mitchell supported this opinion anecdotally:

*in the early stages of a business, government bodies and investors expect almost immediate profits, whereas they should be focusing on the long term. This is especially true for the creative industries. The people who built Google had no idea what they'd built. It was only when someone gave them a million dollars and said 'I think this could be very, very big' that they actually went and did it.*

Governments need to consider long-term support, not just what might have short-term impact or be useful in a financial crisis. Graham Hitchen advocated that the government should think about what business models will look like in 10 to 20 years' time and the kind of interventions and framework that could be developed to support them. Sir George Cox also took a long-term view on the issue of international competitiveness by questioning what will happen when developing countries move from supplying the world with cheap labour to investing in hi-tech industries, research and highly skilled labour forces. A review group is considering how to sustain investment in UK content in the digital age, stimulate investment in next-generation broadband, create sustainable local media and ensure there is a skilled workforce.<sup>22</sup>

But just how far should government interventionism go? Sir George noted that there is a difference between creating jobs and creating wealth and also a difference between government intervention in a crisis and remaining a long-term stakeholder. The example given was the recent banking crisis. The government is torn between getting banks back into private ownership, which means making profits and issuing dividends on the one hand, but also avoiding risky lending on the other – while at the same time encouraging banks to lend to small businesses and start-ups.

Dr Roya Ghafele, University of Oxford, an IP specialist on the knowledge-based economy, explained:

*This crisis is not going to be resolved by itself. It calls for active engagement. It requires that companies in the creative industries start to understand how to manage their key asset, which is intellectual property. This requires a different understanding of intellectual property, of moving from an intellectual rights paradigm where we look at it primarily as a legal concept, as a way of preventing others from using your ideas, to seeing it as the currency of the knowledge-based economy.*

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18 *SME Finance and Innovation in the Current Economic Crisis*, Centre for Business Research University of Cambridge, 2009, cited in op. cit., ACCA, 2010.

19 Op. cit., ACCA, 2010.

20 Higson et al., *Creative Business – Crafting the Value Narrative*, Centre for Creative Business, 2007.

21 Op. cit., *Investment and Funding for Creative Enterprise in the UK*.

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22 *BBC NEWS | Politics | Dyke to chair Conservative review*, <[http://news.bbc.co.uk/1/hi/uk\\_politics/8008272.stm](http://news.bbc.co.uk/1/hi/uk_politics/8008272.stm)>, accessed 23 June 2009.

The Gowers Review recommends that the reporting of intangible assets needs improvement, in particular for intellectual property (IP) reports.<sup>23</sup> Creative businesses may be supported by appropriate policies and funding, but also internally by understanding their IP and commercialising their innovative know-how as a product. In many economies it is SMEs, not large corporations, that are responsible for innovation; Bob Bunting, the current IFAC president, often reminds us that of every 13 patents issued in the US, 11 are issued to SMEs.<sup>24</sup> The creative industries may be unfairly disadvantaged when accessing finance from banks, given how much of the value of the business is based around IP, and this value is not reflected on the balance sheet. A sale of a music catalogue, for example, will incur substantial capital gains tax liabilities if intellectual property rights are included on the balance sheet as an asset, but if the intangible is treated as a stock then losses can be offset.<sup>25</sup>

Valuing firms that are rich in intangibles will be increasingly problematic during a downturn, and Ian Brinkley of The Work Foundation expects that bank lending is:

*going to get worse rather than better because if we had problems putting a proper value on intangible-rich firms when times were good, it's going to be far worse when times are bad. The financial sector is getting more conservative about what it invests in.*

In light of shrinking public finance, he questioned how the government will identify what works for creative industries, what does not work and what will have an effect. It is necessary to ask the right questions and to be able to provide knowledgeable, innovative solutions.

Dr Joan Burks recommended a joined-up approach for creative industries, government, education and business.

Joined-up thinking is still needed at all levels across government departments regionally and nationally to ensure that policy initiatives have a focused direction. We need to provide, through a consolidated approach, access to information regarding the support services available at all levels, through support agencies, HE, FE, and the public and private provision and we need to keep a consistent focus on business growth and sustainability.

Companies are broadly satisfied with the quality of the graduates they recruit, although there are some mismatches between their needs and the courses offered by some universities.<sup>26</sup> University media studies degrees

need to equip graduates with the necessary practical or specialist skills to enter the film, music or television industries.<sup>27</sup> The Sector Skills Councils (SSCs) give employers the opportunity to work together to identify their needs for particular skills, but employers may give up on the process unless the SSCs can have a more direct influence on university courses.<sup>28</sup>

Dr Joan Burks reported that the Lambert Review recommended that education initiatives should not be compartmentalised but should work in tandem with creative expertise, business skills and universities to support new creative businesses. Nick Wilson from Kingston University agreed on the importance of avoiding compartmentalising and drawing distinctions between creatives and business people. It is crucial to be inclusive and engage people from outside creative industries; the focus should be on valuing skills.

The forum participants were in agreement that there needs to be a cultural shift; creatives and business people should have opportunities to collaborate early on. Alastair Mitchell commented on how small creative businesses can become large creative businesses: 'when you put together someone who's got a great idea with someone who can see that what they've built is 10 times better than the person who built it even though it was going to be, that's when you get a great business being formed'. Business knowledge should be fostered among school-age children, and they should also be encouraged to consider how to monetise their creative products and become business-oriented.

## UNDERSTANDING WHAT IS NEEDED

'Creative industries' is a broad term, and one that is changing as the sector develops. SMEs in the creative sector need business support that is not just about facts and figures, but includes well-communicated advice that is tailored to their sector and the linkages within it. Accountants are in a unique position to engage with and connect niche industries, to identify value and to increase impact through developing information channels and collaboration. Governments need to understand how creative industries operate so that they can create informed policies with a clear focus, giving joined-up support; this, coupled with encouraging and nurturing individuals' creativity from an early age, will help to equip entrepreneurial businesses now and for the future.

23 'Recommendation 31: DTI should consider whether guidance for firms on reporting of intangible assets could be improved, including the provision of model IP reports Gowers Review of Intellectual Property', HM Treasury, 2006.

24 Op. cit., ACCA, 2010.

25 ACCA Working Party on Creative Industries.

26 *Lambert Review of Business – University Collaboration*, HM Treasury, 2003.

27 Francis Beckett, 'Media Studies? I'd Prefer a Law Degree ...' *Education, The Guardian*, 4 September 2006. <<http://www.guardian.co.uk/media/2006/sep/04/mondaymediasection.education>>, accessed 5 December 2008.

28 Op. cit., HM Treasury, 2003.

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