

Cultural Business Modelling Entrepreneurial Style

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Introduction

We live in tumultuous times. The predicted economical growth has been halted, money is getting scarce, the European Dream is being challenged by growing feelings of national resistance. The political landscape is changing, with supplementary consequences for the Cultural and Creative Industries (CCIs).

Until recently cultural organisations could count on private and governmental organisations that would support the cultural landscape. This is no longer the case. The CCIs have to take their fate in their own hands, and are looking for new markets, new product ideas and new audiences in order to survive. In doing so, they have to balance between creative and cultural driven necessities and financial business modelling.

Reality: Common Characteristics

A Theatre Company loses the governmental support and a sponsor

The message was loud and clear and came at an unexpected moment: the Director of the local Theatre Company had just learned that the municipal government was planning to cut back on the subsidies with an unprecedented 20%. No, not because of the economical crisis - which had of course consequences for the upcoming annual budget – but more because of the new political momentum at the City Hall; subsidized institutions should become less geared towards governmental subsidies and should generate more genuine income. What the City Hall did not know is that the Director has had a serious conversation with the local Bank Manager, who has been the local sponsor for years. Not that the Bank was not satisfied with the results of their sponsor activities, but at Headquarters they had decided that culture should no longer be the central topic on the priority list. The bank has to move to sports, sustainable industries and social cohesion.

In total the sponsorship contract accounted for some 10% of the Theatre Company's annual budget. A fast calculation learned that the Director would have to face a deficit of at least 25% for the upcoming year. Cutting back here and there would no longer do the job. More severe measurements will have to be taken. The Director decides to confront his staff with the situation. He informs the Management Team ASAP, and the Governmental Bodies will have to be informed at short notice.

A Game-developer is facing investments

Not far from the Theatre a different scene evolves. A Game Development company struggles with the question whether they should accept the lending conditions offered by the local bank. Because of the growing international demand additional investments is dearly needed – at least some EUR 50.000 – in order to invest in equipment, to start marketing trips in order to sell their products, and hire local specialist's advice. There are tremendous growth opportunities, yet the individual members of the Management Team will have to back up the bank loan with their personal guarantee. The personal financial support of family and friends has worked well in the beginning, but a new phase will have to be initiated.

In addition to this financial debate there is the discussion about the artistic values; is growth indeed our main goal, and shouldn't we be satisfied with the way things are handled now? Indeed, people do not earn large salaries, but everybody is driven by the quality of the products made. And don't we lose our independence if we get involved in the money game? The team isn't capable to come to a decision and will ask the advice of a well-known and much experienced colleague.

Reorganising a Regional Museum

At the time of the appointment of the new Managing Director the Regional Museum has been in the local press several times, resulting in a negative image and reputation. The local Gazette has even covered the events on its front page; the personnel of the museum resist the upcoming reorganisation and the recent appointment of the new director. For the new director the resistance came as a total surprise. The personal and Board of Government were very positive, her personal profile fits the list of requirements perfectly; entrepreneurial type, attract new target groups, building a relationship with the commercial community, support enhanced cooperation with the other cultural institutions in the region (the archive, schools, the Museum, etc). It is clear that the Governmental Board supports the new director, but also wants to avoid painful discussions with the personnel.

Am I a cultural entrepreneur?

The examples above illustrate that in the Creative Industry organisations share a number of common characteristics with their colleagues in more commercial sectors. Yes, one can expect that they deliver cultural goods; yet at the

same token they execute economical powers. (Hagoort, 2007) They are involved in a process of integrating the artistic freedom as an immaterial, content-oriented value, and entrepreneurial freedom as a material value, supportive to immaterial (cultural) values. They combine the Homo Economicus and Homo Ludens. (Mokre, 2007)

In a Europe-wide survey regarding cultural entrepreneurship within the 27 EU Member States five basic components of cultural entrepreneurship have been identified. (Kooyman R. ..., 2010) For the Cultural Entrepreneur five characteristics can be identified, that confronts them with disquieting questions:

1. Have I developed within my organisation or enterprise a long-term *cultural vision* (for the upcoming five years)?
2. Do I master the skills to scan the possibilities of *new product/markets/target groups*?
3. Am I capable to turn cultural and creative ideas into *financial results* (Return on Creativity)?
4. Do I hold the skills to *communicate effectively* with the different parties involved in our endeavours?
5. Do I hold the *managerial capacities* and am I capable of promoting the teamwork needed?

Seen from an *occupational perspective* creative entrepreneurs own and manage one's own business enterprise. They can be categorized as '*business owners*'; they create value. In essence, the creative entrepreneur is a creator of economical value. (Sternberg, 2005) Next, they are engaged in *innovative practices*, and/or assuming entrepreneurial *risk* - i.e. pursuing new untapped markets, developing product innovations; recognizing and seizing economic *opportunity*, or the *pursuit of change*, etc. In accordance with Joseph Schumpeter they show entrepreneurial behaviour:

- Developing new and innovative products;
- Proposing new forms of organization;
- Exploring new markets;
- Introducing new production methods;
- Searching for new sources of supplies and materials. (Schumpeter, 1975)

As any other entrepreneur they share the willingness to assume risks in the face of uncertainty. Risks such as a possible loss of business capital or the personal financial security, risk associated with the uncertain outcome of an entrepreneurial undertaking. (Knight, 1921) They treasure the alertness of opportunity, the focus on the detection of entrepreneurial opportunities either for financial profit, or content based. This alertness allows the entrepreneur to exploit market opportunities that have been overlooked or gone undiscovered by others. (Kirzner, 1973)

As other entrepreneurs they share the change perspective. As Peter Drucker states: '*Entrepreneurs see change as the norm and as healthy*'. They do not have to bring about the change themselves. But, and this defines the entrepreneur and entrepreneurship, the entrepreneur always searches for change, responds to it and exploits it as an opportunity. (Drucker, 1985)

Likewise these Cultural Entrepreneurs are involved in networks of multiple and changing clients, competitors, colleagues, etc. In accordance with the perspective of Gartner entrepreneurs share the activity to create organizations. '*What differentiates entrepreneurs from non-entrepreneurs is that entrepreneurs create organizations, while non-entrepreneurs do not*'. (Gartner, 2007) Entrepreneurs are actively involved in the search for constituents, contracts, projects, location, etc.

Differences

Yet in a number of aspects Creative Entrepreneurs are of a different kind.

Produce

First of all they create a different kind of produce. Creative industries supply content that requires 'artistic creativity' as a quintessential culture-based and labour-intensive input. (dos Santos Duisenberg, 2010) These cultural products show specific economic characteristics. Sometimes they are produced 'on the spot' and cannot be consumed in any other context (theatre performances, dance, live concerts), or – being reproducible - cultural products are an extreme example of product differentiation. Every cultural product holds the connotation of being 'new' and or 'different'. In this way it has not been here before; it is a new theatre production, a new exhibition, a new online interactive game, a unique building, actual fashion trends, etc.

In addition creative inputs and products are abundant. (Caves, 2000) There is continuous overproduction of cultural products. This creates a hypercompetitive environment. And product life cycles for most products tend to be short, while only a small number of products (publications, music, films) turn out to be long-term sellers.

Labour

Because of this hyper-competitive market we find unique characteristics in the labour market. The cultural fabric of the Creative Industry is complex and thrives on numerous small initiatives. In 2001 a first European report was published covering the topic *'Exploitation and development of the job potential in the cultural sector'*. (European Commission; DG Employment and Social Affairs, June 2001) The study points both at the growing attention for the cultural sector, and stresses the fact that *'The cultural sector is characterized by a high share of freelancers and very small companies. A new type of employer is emerging in the form of the 'entrepreneurial individual' or 'entrepreneurial cultural worker', who no longer fits into previously typical patterns of full-time professions.'*

The majority of the Creative Industry consists of very small enterprises. (Reidl, 2006) The large majority, some 70 to 80 %, operate on an individual basis, or share their activities with no more than one other person. (Eichmann H. und Reidl, 2006) As a consequence most enterprises are constructed by one or two entrepreneurs. ¹ Within the sector of Small- and Medium Enterprises (SMEs) these are the tiny ones. We will have to classify them as a separate category; they are smaller than the micro-enterprises; one has to look at them as *'nano-enterprises'*. (Kooyman R. , 2009)

Enterprise category	Headcount: Annual Work Unit (AWU)	Annual turnover	Annual balance sheet total
Medium-sized	< 250	≤ €50 million (in 1996 € 40 million)	≤ €43 million (in 1996 € 27 million)
Small	< 50	≤ €10 million (in 1996 € 7 million)	≤ €10 million (in 1996 € 5 million)
Micro	< 10	≤ €2 million (previously not defined)	≤ €2 million (previously not defined)

Figure 1: The new SME Definition. European Commission 2005

Creators are far more likely to hold non-conventional forms of employment – e.c. part-time work, temporary contracts, self-employment – than the workforce in general. (Benhamou, 2003) In most of the cases full-time workers receiving regular pay are in the minority. With a number of consequences; the simple dichotomous work/leisure choice of standard theory is complicated in the case of artists by the phenomenon of multiple job-holding. Multiple job-holding is a very common formula as the cultural workers need a minimum income for survival and some degree of financial security. Often regular working hours are not applicable. Collective labour regulations often do not apply or are not implemented. The sectors show specific dynamics, frequent job changes, and working on short term contracts is normal. (Towse, 2004)

It leads to a situation in which the distinction between 'employed' or 'unemployed' is obscure, blurred and problematic. (European Commission; DG Employment and Social Affairs, June 2001) The share of independent workers is more than twice as high in the cultural sector as in total employment. Hence, the traditional categories of the 'full-time job society' (*'here the worker, there the employer'*) no longer apply. (KEA, Oct 2006, p. 91)

Careers

The entrepreneur in the Creative Industry faces a higher *degree of uncertainty* in the arts than in most other careers; there is a combined uncertainty with regards to the general expected professional rewards and/or even to regular employment. There is an abundant supply of established practitioners and new entrants, supplemented by the presence of a sea of semi-professionals and amateurs makes the position of the potential 'employer' in the arts (as

compared to other labour markets) especially difficult because of a lack of information and quality criteria. (Towse R., 2003)

Commissioners in the arts place little reliance on certification based on formal schooling and often use their own screening devices (art competitions, referees, etc). Certification by means of a degree or diploma also plays an ambiguous role in artists' labour markets. As a result the Creative Industry in general contains heterogeneity of human resources categories. Entrepreneurs can enter the market as a result of a higher professional training, from a vernacular background, craft industry or any other category. (Wijnberg, 2003)

Cultural Business Modelling

Admitted; the variety within the different sectors is large. Hence, it is difficult to analyze the sector as a homogenous group, due to the fact that inside the Creative Industry – and within the individual sectors - there exists a considerable diversity of product characteristics, organisational structures and occupational status. (Throsby, 2008)

Given the common entrepreneurial characteristics on the one hand, and the specific characteristics of the Creative Industries on the other, we are challenged to combine these two into an appropriate Cultural Business Modelling. As stated in the Introduction finding financial support for the cultural and creative entrepreneurs have come under pressure and confronts us with new challenges. In the subsidized sector governmental spending is diminishing, while the continuing financial crisis lowers the possibilities to compensate lost funding by additional sponsoring. These developments forces the creative community to develop a framework applicable for both the profit and not-for-profit sector. This framework for cultural Business Modelling will have to take into account different sources of income.

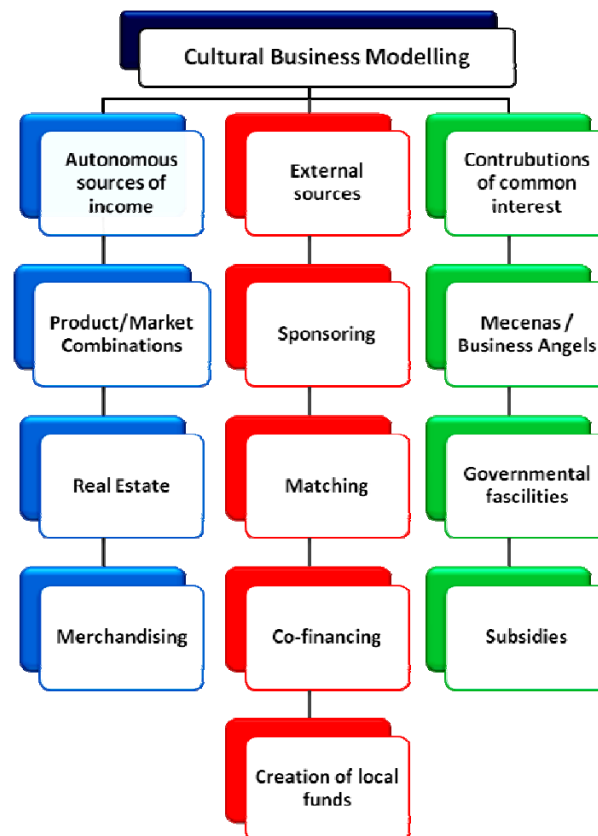


Figure 2: Cultural Business Modelling. HKU 2010

Autonomous sources of income

Autonomous sources of income cover those sources of income that can be realized without interference of other institutions or organisations. We will mention three examples.

- a. **PMSC's.** Product Market Combinations that identify what cultural and creative products services are targeted at what specific audiences. These combinations create an autonomous income; for instance at the counter, at specific targeted assignments or by producing tailor-made products and services. In the subsidized sector these PMC's account for 10 to 40% of the annual income, depending on the specific discipline. Within the cultural profit sector (media, architecture, fashion, etc.) these PMC's account for 70 to 100%. (DCMS, August 2007)

- b. **Real estate facilities.** Organisations possess real estate either as their property, or as a rental construction. These buildings are seldom in permanent use for all the time. This offers opportunities that are often overseen. The building can be utilized as an additional accommodation for catering, conferences and fairs. One can utilize the building in order to generate additional income.
- c. **Merchandising** consists of the sales of promotional materials. In normal circumstances the audience will receive flyers, CD's, brochures and posters for free. The costs are covered by the marketing budget. De fine art of merchandising strives for a situation in which the customer is paying for the promotional materials; t-shirts, booklets, bags, want-to-haves with the company logo, etc. Many examples can be found at museum-stores and festivals where buying a t-shirt with well-known stars is a must; it creates a substantial source of additional income.

External sources of income

When discussing external sources of income we look at external partners in order to generate income. In total we can identify five possible sources.

- d. **Sponsoring.** Sponsoring is defined as the construction of a business transaction with private enterprises or public organisations on the basis of mutual communicative and/or financial interests. This can cover either modes of sponsoring that involves financial arrangements, or it can be a non-financial cooperation with a mutual exchange in-natura. Long-term commitments can evolve into strategic sponsoring, in which long-term communicative targets of the organisations involved take centre stage.
- e. **Matching.** Matching describes the efforts to combine contributions from different funds, in those circumstances where the individual funds would not be capable to support the initiative in question. Matching means for the funds involved that they can reach out to a wider audience that they would never reach individually. The initiating organisation will need the capacity to bring the different funds together.
- f. **Co-financing.** Co-financing occurs when a joined management structure is created and applied, while each individual organisations would not be capable to realize the project. It could involve combined programming, production, marketing, distribution, personnel and housing. Co-financing needs a mutual trust of the organisations involved in order to be successful.
- g. **Individual funds.** A cultural organisation can create its own dedicate fund geared towards specific activities, for instance in the area of education, innovation, real-estate- programming. The expectation is that specific persons or organisations will support the dedicated purpose involved. Normally one would offer a (symbolic) gesture; a special welcome, priority status at the ticket sales, sending special brochures, etc. Sometimes these individual funds can take the form of a '*Friends of ...*' organisation.

Sources of common interest

Financial sources based upon common interest point at financial support on ten basis of publically shared cultural and art activities that serve a social goal. This financial support is not bound to any service- in-return, although specific requirements can be attached to the scheme in question.

We can identify three alternative sources of income.

- h. **Maecenas/Business Angels.** The term points at private financing by (well-to-do) individuals, that offer their support on the basis of the common good and purpose involved. A basic requirement is that the cultural organisation needs a positive general image, so that the Maecenas can be sure that the money is well spent and will serve the proposed goals.
- i. **Governmental facilities.** Several governmental organisations offer clearly defined facilities in order to promote specific goals. This can involve financial support for attracting well-educated personnel, creating possibilities for initial work-experiences for newcomers, internationalisation, promoting multicultural initiatives, etc. Sometimes financial support is paid directly, sometimes the governmental organisation takes care of the financial burden (for instance subsidized labour or accommodations). Also the creation of targeted tax-facilities can be counted under this heading.
- j. **Subsidies.** Subsidising is a system of providing financial support by governmental institutions on the basis of (perceived) contributions towards the quality of the local society. Most government use two different structures. A structural subsidy and financial support in order to guarantee the continuation of basic cultural institutions (museums, theatres, concert halls and orchestras, etc). Or one uses ad-hoc incremental subsidies in order to support the realisation of specific projects within a limited time-frame.

Setting the research agenda

Combining these different types of income may provide for solutions to the problems sketched in the examples given. In order to develop a more sustainable understanding of the concept of cultural entrepreneurship, with its chances,

challenges and tensions between the cultural imagination and financial results, we will have to dig deeper. In general the existing theoretical concepts, derived from the academic management theories, do not cater for the Creative and Cultural Industries. Our research will have to take the specific characteristics of the sectors into account. The theoretical body of knowledge is relatively young. We cannot simply apply international accepted concepts, codes, techniques and methodologies from the regular business strata. In addition reliable, well-defined large-scale data-sources are lacking.

We will have to set a dedicated research agenda, catering for the Cultural and Creative Industries. In that way we will be able to deliver the economical rebound, the creativity and innovation that our society is waiting for.

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¹ The EU Study on Self-employment defines self-employed as 'one-person companies': '*Expectations on self-employment.*' Final Report, Leonardo da Vinci project No. 2204-2242. Poland, June 2007

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