

# **Innovation and “Creative Economy”**

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## **Introduction**

This article studies the theoretical and applied development of the creative economy. There exists many definitions of creative industries, creative economy and experience economy, all dealing with the same core problematic. It is why it is chosen in this article to talk about the creative economy complex. The ideas to the different elements in the complex have been developed over the last 20 years. A conclusion on experience economy and creative industries is presented on page 7. It is followed by a presentation of how the creative economy complex has been applied in the Baltic Sea Countries and by a section on the development of the creative economy complex after the financial crisis in 2008.

It is found that the complex and its development has been closely related to the business cycle development, implying that the complex from being a general theory in times with positive business cycle development has changed to become more specific and integrated into marketing, regional economy and innovation theory when the business cycle changes to recession and when state debt becomes a main economic problem.

## **Background for development of the creative economy complex**

From the end of the 1990's and the beginning of 2000 new theoretical developments have been presented, here called the creative economy complex. It includes R. Caves (2000): Creative Industries, Richard Florida (2002): the Rise of the Creative Class, Pine and Gilmore (1999): The Experience Economy, Kevin Robins (2006): Transcultural Diversities: Cultural Policy and Cultural Diversity and J. Howkins (2001): The Creative Economy.

The development of the new creative economy complex cannot be understood without studying it in context.

The main context is the globalisation regime with new economic-political conditions after the end of the Soviet Union and the rise of a new Russia and with new sovereign Baltic states in the late 1980's. The development included liberalisation of foreign trade and investments and new technological development of communication as the Internet, mobile phones etc.

The globalisation regime made it possible to include most of the world in relation to both input and output decision making with a widespread labour division as one of the consequences. Today, all products consist of many different elements from different countries. The consequences have been an increase in production of a higher quality and at lower costs due to increased competition and labour division worldwide.

Globalisation implies a need for *visibility*, *accessibility* and for *innovation* for economies to be competitive. It is an important challenge for all governments to create an appropriate structure for their corporations, institutions and populations to be able to have the competitive strength to function under globalisation, and this has been recognised by many politicians since the 1990's.

## **Creative industries and cultural mapping**

One of the first countries to understand the impact of globalization and to act, has been Australia. The former Prime Minister, Paul Keating, launched the Creative Nation cultural policy in Australia in 1994.

The visibility question was taken extremely seriously with a heavy focus on films. Films should demonstrate Australian uniqueness but at the same time have a strong appeal to big and influential markets. Therefore, the Australian films with an Australian cowboy Crocodile Dundee (1986-2001) visiting the US were real scoops, creating an enormous interest in the US and with the US as a hub, also an interest in the rest of the world.

This development was the start in focussing on creative industries, and it was further stressed in the years after 1997 in the UK policy with establishment of an interdepartmental Creative Industries Task Force including, among others, Paul Smith (fashion) and Richard Branson (Virgin).

The result was a beginning of cultural mapping. Colin Mercer was one of the first to engage in cultural mapping. The report from UK published in 2008 by Nesta applied the Creative Trident methodology developed in Australia. It requires the selection of total occupation and industry classifications and is data demanding. For UK there it started with data from

1981, 1991 and 2001 and an estimate for 2006. The creative industries include 11 industries:

- Advertising
- Architecture
- Arts and antique markets
- Crafts
- Design (see also communication design)
- Designer Fashion
- Film, video and photography
- Software, computer games and electronic publishing
- Music and the visual and performing arts
- Publishing
- Television

In 2006 radio was also included. Other definitions include more industries and in some cases also tourism is included.

In 2007 some researchers started to speculate about the character of financial industries, arguing that the financial industries were also creative. Among other things it resulted in Nesta making an analysis of the financial industry that was published in Spring 2008. It concluded that the financial industries were creative and innovated many new products and services. It was less than a half year before the bankruptcy of Lehman Brothers in the Autumn 2008, that really became a main starting point for the most severe economic crisis since 1929.

The main findings for UK concerning experience economy (report page 55 ff) were the following:

1. The creative economy accounts for over 7 percent of UK employment.
2. Creative employment has grown strongly over the long run, but has slowed down significantly in recent years.
3. Average creative incomes are higher than in the economy as a whole, but have recently been growing more slowly.
4. There is more creative employment outside the creative industry than inside it.
5. Creative workers are as embedded in the wider economy as financial services professionals.
6. Improvements in the availability of employment data are required to increase the robustness of the creative evidence base.

The cultural mapping approach is costly. Its main advantage is to give culture a more visible position in the economy a given year and over time. Cultural mapping has given rise to programs to find and develop creative talents in order to promote innovation.

Cultural mapping has been criticised for being too supply-oriented and for not taking the cohesion to the rest of the economy in relation to value added creation into consideration. It has also been criticised for excluding demand and for being mapping for its own sake.

### **Richard Florida: Creative class and investment decisions**

Richard Florida started to speculate in the end of the 1990's on why Boston, US, had such a successful economic development while Pittsburgh, US, with the many engineers, had a less satisfying economic development. He developed a theory stating that successful economic development requires that you are able to attract the creative class, the creative class being defined as well-educated decision makers with higher education, creative and open minded persons and artists etc.

The creative class wants to live where they find interesting culture, nice and green surroundings, good schools and universities, and a well functioning society. He developed indices for *Talent (a highly talented/educated/skilled population)*, *Tolerance (a diverse community, which has a 'live and let live' ethos)*, and *Technology (the technological infrastructure necessary to fuel an entrepreneurial culture) (the 3 T's)*. If these indices had a high value, the creative class would be attracted, and capital as well as corporations would follow to employ the creative class in their productions as they create more added value than others.

The consequence of Richard Florida's ideas is that government and states shall not give subsidies to corporations with traditional production, but instead they shall create an infrastructure with a high content of culture and good welfare and living conditions for the creative class.

Joseph Stiglitz (2006) has investigated the same approach, but from the municipality level, studying governance approaches to globalisation. He investigates territorial competition. It gives rise to and include Tiebout's theories on "stemming with the feet" and to different forms for taxation to finance the cultural infrastructural development. It results in cost-benefit analysis to decide the level and direction of taxation and of experience economy to strengthen the 3T's.

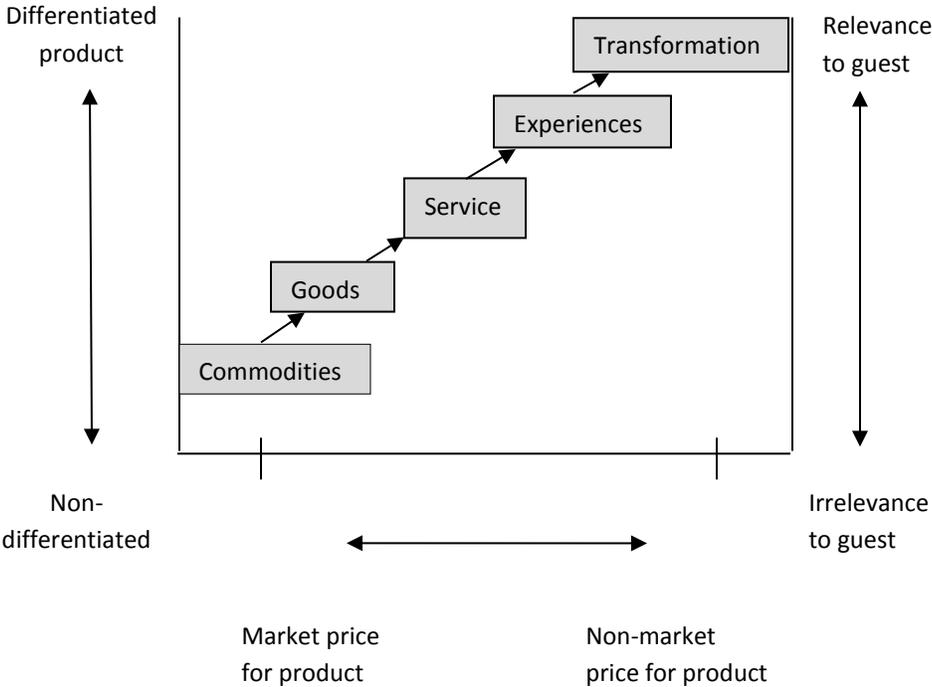
Richard Florida’s and Stiglitz’ ideas have been applied in a series of studies worldwide as well as in practice. The results are in some cases in contrary to the theories. Richard Florida has been criticised for paying too little attention to the cohesion of the rest of the economy and for not showing relevance to capital in relation to economic development.

Joseph Stiglitz has himself pointed at the risk for imitation among municipalities and thereby for inefficient use of economic resources, i.e. for territorial competition to pay too little respect to social cohesion and sustainability in the long run.

**Pine and Gilmore: Experience economy**

Pine and Gilmore consider experience economy as something totally different from service economics, in contrary to, for instance, Fitzsimmons and Fitzsimmons. It is presented in figure 1 (here copied from Lise Lyck (2008), p. 189).

Figure 1: *Product differentiation and relevance.*



The focus is on differentiated products (unique/tailor-made) that can create a premium price (not market price) and thereby create extra value added.

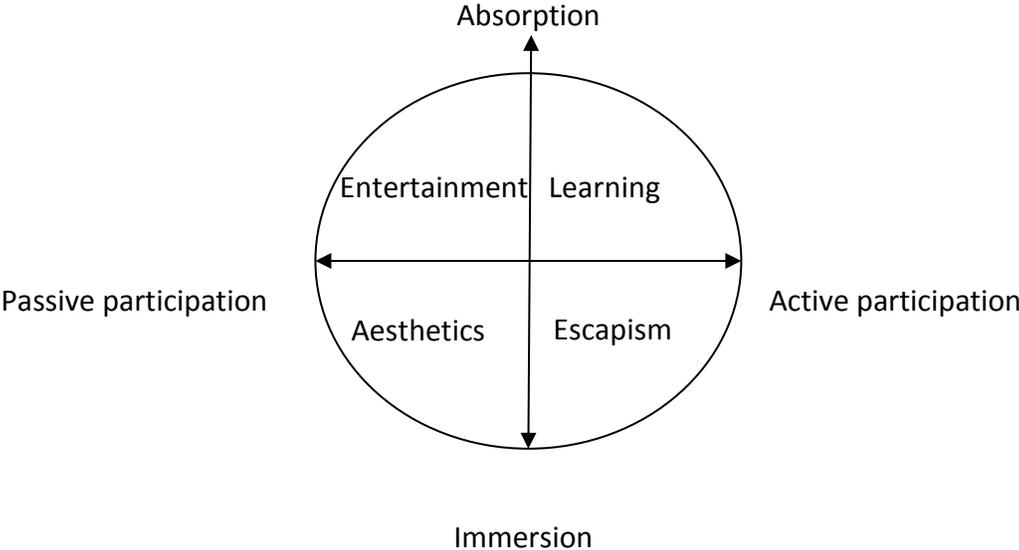
The ultimate state of the experience economy is to achieve a transformation of the buyer. Therefore, some researchers are now starting to talk about transformation economy instead of experience economy.

Pine and Gilmore’s fundamental idea is that experiences can be created and give extra value added to corporations and at the same time a higher utility for buyers. The consumer’s willingness to pay is transferred into products that meet the consumer’s preferences, why it is crucial to have information on consumer trends and consumer dreams and to have a production plant and employees, who are able to adjust quickly and add extra elements of interest to the products.

To answer the question what is meant by an experience Pine developed a model, see figure 2. The basic idea is that experiences can be created, i.e. the model is an instrument to create and increase experiences and creative elements that can stand alone or be added to other parts of the economy as for instance innovations, regional development and marketing.

Each experience includes elements of entertainment, learning, aesthetics and escapism, and a participation dimension as well as an absorption/immersion dimension, see figure 2 (Copied from Lise Lyck (2008), p. 197).

Figure 2: *A model for constituting an experience (Pine)*



## **European Council: Social cohesion**

The basic ideas are developed by Diana Crane and rooted in culture theories. In short, the culture theories can be *dominating* (like for instance the US culture) or they can be based on *diversity*.

As noticed by the European Council there is always a risk for cultural clashes and controversies when different cultures shall live together, i.e. normally cost will rise – both economically and politically. However, if intercultural management can be applied successfully there is an opportunity to create extra value by giving space to new ideas and learning that can be achieved by diversity. It implies that successful intercultural management can create synergies, extra value added and innovations.

It can be done by labour division in two different forms. The one implies that different cultures have different functions in the production as found, for instance, when immigrants have jobs that locals do not want to have due to low status and low salaries. The other form implies equal opportunities for all, independent of culture (same kind of positions for different cultures). The last mentioned form is more difficult to manage.

Intercultural management makes use of experience economy both in relation to output (new products) and input (new ways of working together). On intercultural management, see for instance *Intercultural Leadership in the Øresunds Region*, edited by Lise Lyck (2008).

## **Howkins: Creative Economy**

Howkins uses the concept creative economy. It is a rather broad concept of experience economy, adding creative economy to production in the primary, secondary as well as to the tertiary sector.

In practice, this way of looking at experience economy and creative industries become still more widespread as seen in cultural mapping and planning studies.

## **Conclusion on the creative economy complex**

The overview presented of the roots of the origins of experience economy and creative industries and the latest developments demonstrates, that there is a strong component of strategy involved, that it can be risky business and that analyses of the economy and investments of experience economy and creative industries are important, if the investments shall be successful. Furthermore, it is clear that it is needed to talk about an experience and

creative economy complex as the theoretical ideas are of different character, and as the concept develops to a still broader coverage of the economy. Finally, it is evident that all the included theoretical ideas are seen as elements of economic policy, i.e. as tools for achieving economic goals.

## **The creative economy complex applied in the Baltic Sea Countries**

Both researchers and governments in the Baltic Sea Countries have been interested in the creative economy complex from an early phase. It started in Denmark with experience economy and was mostly connected to Pine's approach. The government found it interesting that experiences could be created and be instruments that governments could apply in their economic policy. Relatively short time after the British Council approach with mapping of creative industries that started to be applied in Sweden became the dominating approach in Denmark, Norway and Sweden and soon after also in Finland. Estonia, Latvia and Lithuania were introduced to the concept by the Nordic Countries and followed the approach with cultural mapping and planning from 2005. Poland established a national strategy for development of culture 2004-2013 based on the principles developed by the British Council and with a priority to film production. Germany followed later with the research reports on culture and creative industries in Germany from 2009. Deutsche Bank produced an analysis of culture and creative industries in April 2011 and concluded that it could be risky business and that thorough investigations were needed to achieve a positive outcome. If investments were based on this, Deutsche Bank estimated that the investments in the right segments could create an average surplus of 2.5 pct. up to 2020, i.e. EUR 175 billion.

The figures for the size of the creative industries in relation to gross domestic product (GDP) is in all the Baltic Sea Countries estimated by cultural mapping to be from 2.5-7 pct. of GDP. It is important to notice that the calculations are not based totally on the same definition and methodology, although the toolkit from the British Council on the methodology and the UNCTAD reports from 2009 and 2010 have been decisive inspiration for the mapping and calculations.

Although the creative industries and the creative economic complex to a certain degree has been rather resilient to the consequences of the economic crisis that has hit the economies from October 2008 it is clear that the crisis has implied a higher dependency on prices and costs and that willingness to pay high prices without receiving full value for money have changed the role of experience economy and of the creative industries. It has been a fact that the theories have been easier to apply when the business cycle is on the way up than in a situation, where there is a downturn in the business cycle.

## **The development of the creative economic complex after the economic crisis in 2008**

In general less interest has been devoted to the creative economic complex both theoretically and in praxis in recent years. It has meant that the creative economic complex as a *general* theory has been less popular as an element of economic policy. However, there has been a development making the creative economic complex more integrated and related to different areas of the economic discipline. Most interest has been related to combining the creative economic complex to marketing, regional economy and to innovations.

In relation to marketing the complex has mainly been related to creating visibility and interest in relation to global marketing, i.e. to help to separate and distinguish products and services from others in a global world.

In regional economy the complex has mainly been used in order to contribute to creation of industrial clusters by making use of large scale economic advantages and by prolonging the value chain for products and services. It is still relevant use of the complex as a policy for Baltic Sea Countries development.

Finally, the creative economy complex is used for innovations. It has been combined especially to ICT development. The main advantage has been to create a higher value added to the supply side of production and services.

### **Conclusion**

As seen in this article the creative economy has become a topical issue in the international economic and development agenda for almost 20 years. It was found to be a key ingredient for job creation, innovation and trade and to contribute to social inclusion based on cultural diversity.

The economic crisis has shown that there are limits for consumers' willingness to pay for experiences but also, that the market as such does not have the capacity to address social-economic imbalances. This has made room for continued use of the creative economic complex.

However, the severe debt crisis again changes the view on the creative economic complex and on experience economy making general use of the complex less attractive. Instead, focus on the complex as an integrated part of marketing issues, regional cluster alignment and as an integrated element in innovation processes adding extra value added to innovations have become part of the economic policy in many countries.

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