

Literature review of

The definition, size and turnover

of

the creative industries and micro-businesses

in Scotland

Preliminary research

by

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Introduction

This research seeks to review, evaluate and clarify the findings of five recent reports in relation to the discussion paper *Creative Industries in Scotland. Micro-businesses, Access to Finance and the Public Purse* by Bob Last for the Cultural Enterprise Office.

The aim of the research is to clarify:

1. Definitions

- a. Explain key terms and definitions of creative industries, both those used in the reports as well as those used by the Cultural Enterprise Office (in the following CEO).
- b. Investigate the evolution and development (or not) of the EU definition of micro-businesses.

2. Scale and turnover

- a. Determine the scale of the creative industries in Scotland in terms of number of companies as well as turnover, and in particular businesses or practices that fall within the EU definition of a micro-business.

3. High growth companies

- a. Determine, if possible, how many high growth businesses there are in Scotland within the creative industries.
- b. Re-evaluate high growth parameters in relation to creative businesses.

Methodology

This report is based on desk research providing a literature review of the findings of recent reports, four about the creative industries and one about high growth businesses, in Scotland.

The reports are:

Creative Financing: feasibility study into financial mechanisms for supporting small-scale creative activity in Scotland. By BOP Consulting for Shetland Arts with support from Mission Models Money, Creative Scotland and Highlands and Islands Enterprise, 2011. (Referred to in the following as BOP).

Creative Growth Regional Mapping. By TBR economic research and business intelligence for the Institute of Creative Industries, Edinburgh Napier University, 2011. (Referred to in the following as

Napier).

Cultural Economy Support Research: Final Report. By the Training and Employment Research Unit (TERU), University of Glasgow for Creative Scotland. (Referred to in the following as TERU).

Economic Contribution Study: An Approach to the Economic Assessment of the Arts & Creative Industries in Scotland Final Report. DC Research for Creative Scotland, 2012. (Referred to in the following as DC Research).

High Growth Firms in Scotland. Scottish Enterprise and Hunter Centre for Enterprise, University of Strathclyde, 2010. (Referred to in the following as following Strathclyde).

Definitions

Classification and definitions of A&CI

CEO currently bases its definition of the Arts and Creative industries (A&CI) on the DCMS' list of thirteen creative subsectors: Advertising; Architecture, Arts and antique markets; Computer and video games (DCMS' 'Interactive leisure software'); Craft; Design; Designer fashion; Film & video; Music; Performing arts; Publishing; Software and computer services; Television and radio.

All five reports largely adhere to the DCMS' tone and overall definition of the creative industries. However, the precise definition of the creative industries varies in each report. Each report modifies and reinterprets the subsectors included in their respective definition of the creative industries, as well as which SIC codes are represented in these subsectors. What exactly constitutes A&CI is a perennial and ongoing debate amongst cultural commentators, academics, policy makers and statisticians. This is acknowledged in most of the reports and is evidenced by Nesta's proposed new definitions of the creative industries as well as the DCMS' current open consultation: 'Classifying and measuring the creative industries: Consultation on proposed changes.'

Also, each report uses different methodology and datasets to determine the scale of A&CI in Scotland. The Napier and TERU reports use 2009 figures while DC Research also draws on data from 2010.

These differences account for the variation in estimates of the size and turnover of the creative industries in the reports.

Variations in classification and definitions of A&CI in the five reports

Napier focuses on A&CI in Edinburgh but also offers estimates for Scotland. Its definition of A&CI is similar to that of DCMS but also includes a heritage category. The data of the Napier report is based on TBR's longitudinal dataset Trends Central Resource (TCR), part of the TBR Observatory, which records nearly 3.5 million live firms in the UK and enables the identification of businesses at the firm level. The TCR Observatory database is weighted with BIS SME statistics to capture non-employed entities.

DC Research sets out to assess the contribution of the A&CI to the Scottish economy. This report expands DCMS' thirteen subsectors to reflect the arts and cultural industries and practices specific to Scotland. DC Research adds heritage and cultural education as subsectors and lists photography as a separate category; taking the subsectors to sixteen. These are: Advertising; Architecture; Visual arts; Crafts; Design; Fashion & Textiles; Performing arts; Music; Photography; Film & video; Computer games; Radio & TV; Writing and publishing; Heritage; Software/Electronic publishing; Cultural education.

DC Research's classification has informed the Scottish Government's definition of A&CI in Scotland. However, the Scottish Government operates with a library and archives category rather than a heritage subsector and adjusted the methodology of the measurement of the games sector in May 2013.

The TERU report seeks to identify the business development support needs of A&CI businesses in relation to Creative Scotland's Cultural Economy Programme. The report bases itself on DCMS' SIC codes but collapses DCMS' thirteen categories into eleven: Advertising; Architecture; Art and Antiques; Crafts; Design; Designer Fashion; Film, Video and Photography; Music, Visual and Performing Arts; Publishing; Software, electronic publishing, digital and entertainment media; and Television and Radio.

BOP explores the need for loans based financing for micro-organisations and practitioners in Shetland and focuses on seven of the DCMS' subsectors: Visual arts; Crafts; Music; Digital arts; Performing arts, Publishing; Design and illustration.

The Strathclyde report centres on high growth firms and not on A&CI *per se*. It therefore does not focus on classifying a particular industrial section. In this report, no micro-businesses in Scotland qualify as high growth businesses according to the EU definition because all businesses mentioned in this report have over 10 employees.

Principal differences

The principal differences between the groupings and categorisations between the four reports that deal specifically with the creative industries (Napier, DC Research, TERU and BOP) are in the following areas:

Music, visual and performing arts

Napier and DC Research split music, visual and performing arts into separate categories, whereas TERU brackets these into one. CEO, in line with DCMS, already differentiates between these arts forms. This is meaningful as the practises and needs differ between musicians, visual and performing artists.

Crafts

TERU, in line with DCMS, does not provide statistics for crafts although 'crafts' does figure as a category. Both Napier and DC Research mention crafts as a particularly relevant and vibrant sector in Scotland. Both reports therefore further define and include statistics for this category.

Heritage and libraries

CEO, BOP and TERU, basing themselves on DCMS categories, do not have a library or heritage category. Napier has a heritage category that includes libraries, archives, historic sites and museums. The DC Research report has a libraries and archives category, but does not include historic sites and museums.

Cultural education

DC Research further includes cultural education as a creative industry category and estimates the number in this category to be 400. Many arts educators work either as sole traders or as part of micro-businesses (for example the social inclusion filmmaking scheme *Diversity Films* (now defunct) or the 18 Media Access Centres in Scotland). Therefore CEO may want to consider including this category in its definition of the creative industries.

DC Research also takes higher and further education staff with creative categories as their subject matter into account. The report lists 950 of the 2390 higher and further education staff under the category software publishing in its statistics. As higher and further education staff are often employed by their respective institutions, and therefore are neither sole traders nor operate as micro-businesses, it makes less sense to include these in a CEO's definition of A&CIs.

Software, games, electronic publishing and digital entertainment

TERU aggregates DCMS' games and software subsectors into one category: Software, electronic publishing, digital and entertainment media.

Napier has a software category (13,030) as well as the subcategory digital publishing under the publishing category (there is no breakdown of numbers).

DC Research differentiates between the computer games (200/600) and software/electronic publishing (19,100) subsectors. The estimate for the games industry has been increased from 200 to 600 following a reassessment of the methodology in this report in a note by the Scottish Government in May 2013.

Note on SIC codes

SIC codes provide an estimate of the activities within industry sectors and statistics to analyse these with. However, as evidenced by the variations above, the classification of subsectors varies, as do the SIC codes included in these subsectors. Also, it should be noted that statistics based on SIC codes only measures the principal activity of a registered company or enterprise and therefore may not adequately reflect the real life practices and work patterns of creative practitioners or enterprises, who will often occupy several roles simultaneously or carry out a variety of services as part of their business. Also SIC codes by themselves do not say anything about whether the company is dormant or active.

The EU Commission's definition of micro-businesses

The EU Commission defines a micro-business or micro-enterprise as: 'an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.'

This definition is based on Commission Recommendation 2003/361/EC of the 6th of May 2003 concerning the definition of micro, small and medium-sized enterprises. The recommendation came into force on the 1st of January 2005, and it replaced the definition laid down in Commission Recommendation 96/280/EC, in order to reflect changes in inflation and productivity since 1996.

There is no internationally recognised definition of micro-businesses and classifications vary nationally. For example, in the US Small Business Administration defines a micro-business as: 'an organization with less than five employees, small enough to require little capital (\$35,000 or less) to get started.' (SBA, 2009)

CEO currently adopts the EU's definition of micro-enterprises.

Size of the creative industries and micro-businesses in Scotland

In the discussion paper *Creative Industries in Scotland. Micro-businesses, Access to Finance and the Public Purse*, Bob Last makes the point that there is a difference between practitioners motivated by cultural acclaim and esteem, and those motivated by financial gain. Last notes that most practitioners within the creative industries place themselves on a spectrum between these two poles. Those motivated solely by cultural esteem are unlikely to have aspirations and/or potential for business development or growth and therefore fall outside the remit of the CEO. Nevertheless, some of these will still operate and be registered as micro-

businesses. It is not possible to ascertain the motivations of practitioners and micro-businesses from the statistics presented in the five reports. Further qualitative research would need to be conducted to estimate the size of this group.

Last also observes that the role of the sole practitioner in the creative industries is substantial and that some within this category are or may grow into micro-businesses. In this context, it should be noted that one-man-bands, where the only employee is the director, as well as companies employing fewer than ten staff, fall within the EU definition of a micro-enterprise. This has informed the following analysis.

The creative industries

Viewing the findings of the reports as a whole, there is some correlation between the estimates of three of the reports, Napier, TERU and DC Research,¹ in their estimations of the creative industries as a whole. These reports base themselves on different datasets, and therefore this correlation may go some way to suggest reliability in the overall measurements of the creative industries in Scotland.

CEO's definition of the creative industries currently does not include the heritage nor cultural education subsectors. Figures from these sectors have therefore been deducted in the following.

The Napier report estimates that there are 81,000 enterprises in the creative industries in Scotland based on figures from 2009 (p 14.) Excluding the heritage subsector (7,330), this figure falls to 73,670. According to the DC Research report, based on figures from 2009 and 2010, direct employment in the A&CI in Scotland in 2010 was 84,400. Excluding heritage (10,700) and cultural education (400) this figure is 73,300. Adding the additional 400 enterprises in the games industry, as recommended by the note on methodology by the Scottish Government in May 2013, the total figure comes to 73,700.

¹ The Strathclyde report does not focus on creative micro-businesses and therefore does not provide statistics for those. BOP estimates the number of creative businesses in Scotland to be 17500 practitioners and micro-organisations (p. 6) or 16000 (p.10). However, the aims and methodology (case study, questionnaire and steering group) of the BOP report differs from that of the other four reports and the sources of its data is unclear. This might account from the disparate numbers both internally within the report itself and in relation to the findings of other reports. The statistics from these two reports have therefore been disregarded in this section.

The majority of these are non-employing enterprises - Napier suggests over 75% in some subsectors - which is a higher proportion than any other growth sector in the UK or Scotland.

Measurements of employment and micro-businesses in the creative industries

There are discrepancies between estimates of the number of businesses in A&CI in Scotland, which is partly due to differences in definitions and datasets and partly due to the fact that the measurements are from different years.

Napier estimates there were 20,675 creative industries firms in Scotland in 2009. In the City of Edinburgh 27% (900 out of 3280) of these were employing (p. 17). Extrapolated nationally, this gives 5582 enterprises. In his discussion paper, Last notes that this proportion is likely to be lower outside the Central Belt. However, this report does not provide data pertaining specifically to micro-businesses and it is not possible to ascertain which proportion of enterprises falls into the micro-enterprise definition.

The Scottish Government's *Economic Strategy Key Sectors for 2010* lists 9005 businesses in the creative industries that were either VAT registered or making PAYE payments, of these 3690 were employing enterprises. However, this measurement is of businesses with between one and 49 employees, and the data does not allow for an estimate of the number of micro-businesses.

Based on the DCMS' definition of the creative industries as well as a survey of 726 A&CI businesses, TERU estimates that there were 4,800 businesses in the creative industries in Scotland in 2011. Of these 4,080 (85%) are either sole traders with one employee, or micro-businesses and in this way these fall within the EU definition of a micro-business. Only 1% of the 4800 companies were non-employing.

Because of the discrepancies in findings, methodology and datasets between the reports, as well as the general lack of data about micro-businesses available, it would be reasonable to conduct further quantitative and qualitative research into the scale and turnover of micro-businesses in the creative industries in Scotland.

Proposed methodology to assess the proportion of the creative industries that falls within the EU micro-business definition

In order to provide a meaningful measure of the scale of micro-businesses in Scotland, the CEO may:

- consider if the CEO's definition of the creative industries should be maintained or adapted in line with the Scottish Government's, Nesta's or the DCMS' revised definition when it becomes available.
- determine which SIC codes should be included in the subsectors of this definition.
- decide whether companies where the director is the only employee, should fall into the CEO's understanding of a micro-business, and therefore would be eligible for investment or support from CEO. If this group is not eligible for support, the CEO will need to make an addendum to its definition of micro-businesses, as this group is currently included in the EU's definition of micro-businesses.
- obtain statistics for the size and turnover of micro-enterprises in Scotland based on these parameters, for example through TCR Observatory database (excluding the BSI SME index).
- conduct further qualitative research to ascertain which proportion of micro-enterprises that has genuine growth aspirations and potential.

Turnover

There is also some discrepancy between the approximate turnover of the A&CI annually. Again, this is due to differences in datasets and definitions. Napier sets the turnover of Scotland's A&CI to £6.84 billion (of this heritage is 3.2%) based on 2009 figures, and total GVA to £3,488 million (of this heritage is 3%). DC Research estimates that the turnover is £6.3 billion (GVA £3.2billion) based on 2010 figures. In these reports there are no data on the turnover of micro-businesses.

In the TERU report 26% of businesses declined to provide their turnover in the last financial year and 29% claimed not to know. This lack of data makes it impossible to achieve a reliable or accurate estimate of the turnover.

It is not possible to determine the turnover of creative micro-businesses on the basis of the statistics available in the five reports.

Creative industries as a growth sector

The report *High Growth Firms in Scotland* mentions some of the difficulties with the definition of high growth businesses and questions the usefulness of high growth parameters as a measurement of a successful industry or business environment. Of the companies listed in this report none are micro-businesses and the finding of the report therefore falls outside of the scope of the CEO.

Recently, there appears to have been a reorientation from a high growth agenda and terminology towards a more general focus on sustaining growth sectors. This is reflected in for example the Scottish Government's growth sector strategies and its focus on 'increasing sustainable economic growth' (2009b).

Also, there are calls for a more industry specific understanding of the creative industries and their specific needs and practices. This is reflected on a regional level by the Napier report (p. 20), on a national level with the Scottish Government identifying the creative industries as one of seven distinct growth sectors, and on a European level as evidenced by, for example, the European Creative Industries alliance.

This is also in recognition of the larger social, artistic and educational value of the creative industries, which is hard to determine in purely economic terms. In addition to the obvious cultural and artistic value of these industries, A&CI provide training and career development opportunities; increase activities in other industries, for example tourism, and create local hubs of increased growth, collaboration and productivity.

Summary

Across the reports, there are variations in the definitions of *what precisely are* the creative industries. CEO's definition of the creative industries currently does not include the heritage nor cultural education subsectors, which figure as categories in, for example, the Scottish Government's definition. Adhering to the CEO's definition, and cross-referencing the findings of the reports, there are around 73,700 enterprises registered with Companies House in the creative industries in Scotland. Of these, and according to TERU, there are 4080 businesses that fall within the EU's definition of a micro-business.

There has been no change to the EU Commission's definition of a micro-enterprise since 2007.

In the five reports there is limited data specifically about the size of micro-businesses in the arts and creative industries in Scotland. There is no reliable statistics on the turnover of micro-businesses. Because of the discrepancies in findings, methodology and datasets between the reports, as well as the inadequate data about micro-businesses available, this research recommends that further quantitative and qualitative research is conducted in order to provide a meaningful estimate of the size and turnover of micro-businesses in the creative industries in Scotland. In doing so the CEO may:

- consider if the CEO's definition of the creative industries should be maintained or adapted in line with the Scottish Government's, Nesta's or the DCMS' revised definition when it becomes available.
- determine which SIC codes should be included in the subsectors of this definition.
- obtain statistics for the size and turnover of micro-enterprises in Scotland based on these parameters, for example through the TCR Observatory database (excluding the BSI SME index). This database of live firms appears to provide data on a more granular level than datasets based on information from Companies House. This dataset is therefore more likely to provide the statistics about micro-businesses in the creative industries in Scotland, that CEO requires.
- conduct further qualitative research to ascertain which proportion of micro-enterprises that has genuine growth aspirations and potential.

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