The creative SME: a cautionary tale

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The creative SME: a cautionary tale

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Abstract:

The aim of this paper is to explore the debate about defining a small firm, or a small and medium-sized enterprise (SME), and examining the relevance of this concern to the creative industries and creative businesses. The first part of this paper navigates this formation, and the positioning of the idea of small business within economic and political thought. The second part explores how the concept of small business is operationalized as SMEs, and the challenges of classification and empirical definition. The final part reflects on the implications for the understanding and usage of the term 'creative SME'.

Keywords: small firms, small businesses, creative economy, SME, creative SME

Foreword:

This paper is a work in progress. It is not the final version. It represents a particular articulation of the problematic being engaged with. This means that other articulations are possible and that this should not be viewed as rigid or non-negotiable. It is also Europe, and in particular United Kingdom, centric and must be understood as such.

1.0 Introduction:

The importance of small businesses or firms[1], or small and medium sized enterprises (SME), is often asserted as a universal truth. On one hand is the idea that all things start small and grow; therefore 'small' must be the origin of growth. On the other hand is the romantic notion of the creator, the entrepreneur, which has its popular figure as the small business; and therefore promoting small firms encourages enterprise and innovation. The figure of the creative business overlaps with such views, and is catapulted to even greater significance when it is positioned as the leading edge of the knowledge economy (Caves, 2000). In light of this, a large part of this paper is devoted to definitions in order to examine what entails small business in the creative and cultural industries (CCI). It should be noted that the common concept of an SME includes close to 99% of all firms and about 60% of employment (HM Treasury, 2008). There are 4.8 million businesses in the UK where over 99% of these businesses are small or medium sized businesses, employing less than 250 people. 4.6 million, or 96%, of all businesses are micro-businesses thereby employing 0-9 people (Rhodes 2012); moreover, small and medium-sized enterprises are responsible for 65% of employment and 57% of Gross Domestic Product within the UK (Madsing 1997). Data from other countries are similar. So, there is no question of their import. However, the mirror image shows the strategic efficiency debate is apparent: 1% of firms create 40% of employment. To this can be added the 'survival rate' of new firm formation in the UK, currently running at 17%; in other words, a 73% failure rate (HM Treasury, 2008).

There is some value in both claims to relevance; however, there is also much confusion, misunderstanding, poor conceptualization, and ideology mixed in. The notion of the small firm is politically loaded. Little if any debate mentioned small firms before the 1970s[2], by the mid- 1980s they were center stage as is illustrated by this quotation:

> Small businesses are the very embodiment of a free society - the mechanism by which the individual can turn his leadership and talents to the benefit of both himself and the nation. The freer the society, the more small businesses there will be. And the more small businesses there are the freer and more enterprising that society is bound to be (Conservative Political Centre, 1984, 11).

In keeping with the then nascent neo-liberal ideals, small firm foundation was being held back by the state, and the shackles of red tape simply needed casting off to free the small firm wealth, and job creation programme. Of course, this version of causality overlooks the role of de-industrialisation and globalization in the creation of the unemployment problem and recession. In recent years, the rise of the creative economy has been coupled with enterprise, and the small firm form of many

[1] From this point onward the terms 'business' and 'firm' will be used interchangeably.
[2] Beesley and Wilson (1981, 255) note from a review of Hansard that there was negligible mention of small firms in parliamentary debates prior to the mid-1970s. Likewise, the numbers of measures introduced shows a similar bias. In the whole post-war period up to 1970 there were just 15 measures, between 1971 and 1979, 30 measures (Beesley and Wilson 1981, 305). In the 1983 election manifesto the Conservatives claimed some 108 measures implemented in favour of small firms.

creative businesses (see: Leadbeater and Oakley, 1999). This creates a potent mixture, and hence calls forth the need for careful analysis.

The first part of this paper navigates this formation, and the positioning of the idea of small business within economic and political thought. The second part explores how the concept of small business is operationalised as SMEs, and the challenges of classification and empirical definition. The final part reflects on the implications for the understanding and usage of the term 'creative SME'.

2.0 The 'small firm':

2.1 Conceptual overview

The notion of the firm is axiomatic to neo-classical economic analysis, and all normative economic thought. The firm is the fundamental unit of analysis of the economy; but it is viewed externally, and as a universal concept. Critically, there is no interest in firm size, or indeed firm organisation or social context beyond the market. The firm is a nexus of rational economic action to maximise utility. Accordingly, orthodox approaches have not concerned themselves with small firms. Economic theory only concerns itself with large firms, or more precisely any firm that exerts market distortion usually through the exercise of monopoly. Thus, the logic addresses monopoly, not firm size per se, although monopolists are usually very large firms.

Economic history and political economy more generally has more to say about social and political contexts of economic action; and particularly about the changing historical shifts in economies: from agriculture to manufacture; or the division of labour that gave rise organisationally to the factory system, mass production and flexible specialisation. From this point of view firm size is an independent variable, and the division of labour dependent (giving rise of sector specialisation, trade and the division of labour).

In the post-war period in developed economies of the world economic activity was dominated by larger firms, with a significant degree of state ownership, and corporatism. This is not to suggest that small firms did not exist, but that the 'economic weather' was made by large firms. This is the period of significant growth of the vertically integrated company; that is the organisational internalisation of functions (that may have previously been carried out by 'independent' firms). The major shift at this time (1960s) increasing establishment of branch plants allowing firms to employ cheap labour in the regions, and latterly internationally.

The 1970s oil crisis gave rise to a rupture in state-economy relations, and in particular corporate organisation. International branch plants and relocation lead to developed economies experiencing 'de-industrialisation' of their former manufacturing heartlands (it had moved to the Global East).

A number of economic organisational changes followed for firms with production still located in the Global North. Foremost of these changes was what is generally known as post-Fordism, or flexible specialisation. The organisation change was to reduce stock holding (idle capital) and create a 'just in time' system of supply, based on zero stock holding. This was accompanied by having a range of suppliers to reduce risk and retain maximum flexibility. In order to reduce risk most functions were outsourced to separate (but in effect dependent) companies. These companies, especially in fashion retail, had zero commitment contracts (the buyer was not compelled to buy, and the supplier had to take returns unsold); firms echoed such terms by creating zero-hour contracts for 'employees'. For example Rainnie (1984, 150) stresses in the example of restructuring of the retail giant Marks and Spencer's (M&S) that the apparent 'freedom' and 'enterprise' of small firms within such new organisational networks may not be all it seems. M&S remains formally independent, but in reality utterly dependent upon small suppliers. The individual small firm was not important, but the continued existence of a number of small firms is vital; both for competition between small firms to keep down prices to M&S and to provide M&S with a flexibility of supplies- both of which provide M&S with a potential competitive advantage. That de-industrialisation strategies could be legitimized by rhetorical support of small firms is clearly significant.

The import of the changes sketched above was that these processes have generated more small firms. It was not simply corporate strategy nor small firms per se; it was also deregulation that generated more small firms. In the broadcast sector the regulatory changes introduced under the BBC producer choice system, and the creation of Channel 4 as a programme publisher, not maker, immediately created an independent TV production sector made of small firms, and concomitantly led to the shrinkage of the BBC and ITV. Organisational change in TV industry in the UK gave rise to the appearance and flourishing of a large number of small independent production companies; from a starting point of zero the main broadcasters work mainly with 30 companies out of the 'market' of 300 (Pratt and Gornostaeva, 2009).

Institutional economists have explored the consequences of flexible specialisation in not only valorising the small firm, but also causing the co-location of those firms. This debate has taken place under the rubric of transactions costs analysis. The notion is that the decision to have a separate (small) firm is an economic one where transactions costs are minimised (often a balance of internal and external transactions costs); one of those transaction costs is time and transportation. Beyond this, debates about industrial districts and clusters have pointed to a range of social factors ranging from trust, reputation and learning as un-traded dependencies (see: Pratt, 2011). Critically, these lay outwith the firm, in the interstices of networks.

2.2. Political formations and Policy debates

As has been implied, the 1970s is generally held to be a watershed period in recent economic organisation; in particular it marked a distinctive shift in state-economy relations. The economic changes of post-Fordism were echoed in a redefinition of the role of the state in many economies driven by a popular political adherence to the notion of a 'small state' and 'deregulation'; this develops into a wider adoption of the norms of neo-liberalism. In effect these shifts are a re-brokering of the relations of state, economy and society. Politically, the shift is such that the previous focus on control of the 'commanding heights' of the economy (either state or corporate) is downplayed in favour of promoting an enterprise culture and the promotion of small firms. The ideological response is that state controls are the reason for poor economic performance (not globalisation), and that with free enterprise growth will naturally occur. So, the policy is remove, not create, regulation.

A related concern has been with innovation, a term which in political usage overlaps with enterprise and entrepreneurial activity. Innovation, is usually taken to mean future orientation, and hence in popular terminology a focus on the knowledge or hi-tech economy. Here, regulation is interpreted as the state 'crowding out' the private sector, or small firm. Related to the concerns of knowledge transfer, there has been a renewed focus on universities as knowledge and innovation institutions. By implication, as state funded institutions, universities are suspect and hence the assumption and implication has been to remove the 'barriers' to knowledge transfer. This narrative has a long history beginning with the science park movement. Again, the aim of was to encourage spin out of businesses from universities (i.e. the implication being that they were anti-business and against knowledge transfer). The solution in the science park model was 'co-location' or what we would now call 'clustering' to minimise transfer and transactions costs (Massey, Quintas et al. 1992). The same logic underpins much of the promotion of creative clustering, and agencies that promote technology transfer. The new designated state/university function is thus migrated away from education into the handmaiden of business change, or as a business broker. In a more punitive mode University research budgets have increasingly been linked with the amount of 'impact' (or knowledge transfer) achieved.

Policy making at the local level has taken a different turn. There is a tension within right wing political formations between central and local control; this corresponds to a similar tension in left wing politics about local economic development. So, there is a shared language, although different intentions on local economic development. As noted above, institutional economic theory has had much to contribute about local capacity building, local clusters and the social-economic connection. In fact much of this work addresses the failure of small firms. That is the fragmented and unsustainable nature of much small firm activity, the lack of investment capacity, long term planning, training and strategy; let along competencies in marketing, international trade and legal issues. Importantly this work gives an important insight into the false premises that much political small firm policies operate on. Not surprisingly institutional economists highlight various aspects of networks and institutions as critical issues. Policy makers thus, influenced by this, have focused on interventions here: whether the delivery agency is public, private or third sector (depending on political stripe).

3.0 Definitions

3.1 Resolving definition and concept

The important point to take away from this contextual review of the notion of the small firm and its economic role is that there is considerable scope for confusion over ideological aims and practice; that wider economic change can influence process and the appropriate point of intervention or regulation.

We can see clearly that broader economic change, and in particular state-economy-society formations, have 'changed the game'. The simplistic assertion of 'small firms good, big firms bad' rhetoric is untenable as well as separate from context. What a small firm is, and why it might be favoured is also subject to change; the nature of ownership, or dependence on market access, or regulation are clearly equally relevant.

In this context we can look at definitions, in the light of their politically and economically charged relevance. We can note that size (numbers of employees, less often turn over) is unaccountably used as a definition, only latterly does sector come into consideration, and even later ownership and control. We can note that the core concern emerges as one based on organisation, a topic that economics or neo-liberalism has little to directly contribute. What is needed is a systematic economic, social and cultural analytic lens to develop a focus on this complex issue.

3.2 Quantity matters: From small firms to SMEs

It was the problems identifying small firms and businesses which led to the invention of the term 'SME' by the European Commission (Valsamakis, 2001). In practice, various meanings can be found which apply in different contexts (Tonge, 2001). According to Curran et al (1986, pp.3) trying to decide on a definition of small businesses became very problematic in the 1970s and 80s. One important reason for this is with regards to size and sector-specific activity; using Tonge's (2001, 7) example, a small business in the oil and gas industry will have much higher levels of employment, sales and finance than a small firm in the car repair trades. Therefore, the important conclusion being that sector-specific delineations of size do indeed matter (Storey, 1994; Tonge 2001); this has implications for the creative industries which will be explained later.

One of the first, indeed probably one of the most important, attempts to examine how we define the small firm, was the Bolton Report in 1971. He suggested that small businesses have an 'economic' definition (qualitative) and a 'statistical' definition (quantitative) (Tonge, 2001). The economic definition regarded firms as being small if they: had a relatively small share of their market place; were managed by owners or part-owners in a personalised way and not through the medium of a formalised management structure; and they were independent, in the sense of not forming part of a larger enterprise (Tonge, 2001). According to Storey (1994, pp. 9) Bolton's statistical definition was designed to address three main issues: first, to quantify the current size for the small firm sector and its contribution to economic aggregates such as gross domestic product, employment, exports and innovation; second to compare the extent to which the small firm sector has changed its economic contribution over time; and third, the definition would enable a comparison to be made between the contribution of small firms in one country with that of other nations. Table 1 below - taken from Storey (1994) - illustrates these definitions. Bolton's work highlighted one important point; it allowed for an understanding of small firms based on its sector. Thus, in two groups of sectors – manufacturing and construction, and mining and quarrying – the criterion was employment. In the three service sectors, the criterion was sales turnover, and in one sector – catering – it was based upon ownership. Finally, in road transport, it was based upon the physical assets of the business, in terms of the number of vehicles (Storey, 1994). Of course, it is noteworthy that the creative industries are not referred to in this work; moreover, the huge growth in the broadcast sector from the 1990s onwards has not been registered in general work on the small firms sector.

Table 1. Bolton Committee (1971) Definitions of a Small Firm.

Sector	Definition
Manufacturing	200 employees or less
Construction	25 employees or less
Mining and quarrying	25 employees or less
Retailing	Turnover of £50,000 or less
Miscellaneous	Turnover of £50,000 or less
Services	Turnover of £50,000 or less
Motor trades	Turnover of £100,000 or less
Wholesale trades	Turnover of £200,000 or less
Road transport	Five vehicles or less
Catering	All excluding multiples and brewery-managed houses

Source: Bolton, 1971 in Storey, 1994.

Storey (1994), notes that the report drew criticism of both its 'economic' and 'statistical' definitions (see Tonge 2001 for the specific elements of these critiques). What is important to note about Bolton's work is that he set an agenda for looking at the importance of small firms in a time when historical changes were afoot regarding the restructuring of the economy in the Global North. Loecher (2000) has carried out a series of comparator analyses of small firm typologies in Europe that broadly echo the Bolton report in substance. A taxonomy of 'activity' seems to be at the heart of Bolton's work, what constituted 'activity' depended greatly on both his statistical and economic definitions.

3.3 From SMEs to Micros

As stated earlier, the European Commission coined the term SME in 1997, in so doing it clarified what to qualify what it was to be considered an enterprise. According to the EU definition an enterprise is 'any entity engaged in any economic activity, irrespective of its legal form'. This automatically flags up the question of what constitutes economic activity, especially in relation to the CCI. It does however try to encompass all activity within its spectrum.

For operationalization purposes in the UK an enterprise is defined as long as it is registered (in any form) for tax purposes through HMRC. However there is a problem with HMRC definitions of SMEs: they employ fewer than 250 people, (as we noted above, that means 99% of all firms). HMRC collect data (see Table 2), but do not use for policy the notion of small, medium and micro. The size of a firm has to be understood with respect to its specific sector. It would be inaccurate to call a company 'large' if it employs more than 250 people in the oil and gas industry. Most emerging ‘smaller’ companies (what would be viewed as small firms in this sector) have more than 250 people employed by them. This would mean that by EC classifications, these companies are large when in fact they are not when compared to their specific sector activity.

The 2005 report from the European Commission offers size criteria for defining SMEs of below 250, but also includes a subdivision of ‘medium’ and ‘micro’ enterprise (see Table 5). The UK does not have an equivalent, official definition of an SME; there are contrasting positions according to different organisations (see Table 2).

Table 2: UK SME Definitions according to different government organisations:

Organisation	**Category**	**Headcount**	**Turnover**
British Bankers Association	Medium	Not Defined	Not Defined
	Small	Not Defined	£1M
	Micro	Not Defined	Not Defined
Companies Act 2006	Medium	<250	£25.9M
	Small	<50	£3.26M
	Micro	Not Defined	Not Defined
Financial Services Authority	SME	<250	£43M
	Micro	<10	£2M
Federation of Small Businesses	Medium	<250 >49	Not Defined
	Small	<50 >10	Not Defined
	Micro	<10	Not Defined
HMRC	SME	<500 (after 2008) <250 (prior to 2008)	£86M £43M
	Micro	Not Defined	Not Defined
Department for Business, Innovation and Skills(BIS) (formerly the DTI)	SME	<250	Not Defined
	Micro	Not Defined	Not Defined

The European Commission introduced a finer typology for Small, Medium and Micro firms (the latter having fewer than 10 employees) (see Table 5). This new category is closer to what most people might consider a small firm. In fact the category has its foundation in research on developing countries; however, clearly such firms are far from uncommon in developed economies (Kingombe, et al 2010). Moreover, in EU nomenclature, this micro category includes not having any employees and therefore extends the field to include sole-traders, freelancers. However, different nation states have their own definitions, primarily based upon payment of tax, or registering for VAT. For example for UK tax purposes, an entity engaged in economic activity may have three legal forms: (i) sole proprietor (including the self-employed); (ii) partnership; (iii)company. Each of these forms has to be registered as such with HMRC, and the latter (company) also has to be registered with Companies

House. Each of the three may be ‘for profit’ or ‘not-for-profit’. A ‘not-for-profit’ enterprise may also be registered as a charity or social enterprise, but that will not change its status as an enterprise. As data are available on taxation and VAT these definitions play a significant part in monitoring SMEs.

In the UK VAT registration is a commonly reported measure related to new firm formation. This is often presented as an indicator of economic growth (especially those who want to point to the entrepreneurial nature of small firms); of course survival rate (the difference of birth and deaths) is a relevant measure, not births. Turnover of small firms is significant (and if often cited as a weakness/waste). Of course, an even more balanced picture would be to draw figures for the whole economy, and the proportion of all growth related to the small firm sector. This is seldom done. A significant point here is that on average only 1 in 10 new start-ups survives – this represents a very poor return on investment of human and economic capital, let alone the disruption caused by bankruptcy and non-payment of bills (which is one of the important factors in other SMEs going bankrupt.

Table 3. Business birth, death and net rate, England 2004-11:

Year	Birth rate (rate per 100 active enterprises)	Death rate (rate per 100 active enterprises)	Net rate
2004	13.2	11.5	1.7
2005	12.7	10.6	2.1
2006	11.7	9.5	2.2
2007	12.4	10.0	2.4
2008	11.7	9.7	2.0
2009	10.2	12.1	-1.9
2010	10.1	10.7	-0.6
2011	11.4	9.9	1.5

Source: Office for National Statistics

Table 4. 2011 birth and death rates by broad industry group (as defined by the ONS)

Counts given to the nearest thousand

	Active (000s)	Births (000s)		Deaths (000s)	
	Count	Count	Rate (per cent)	Count	Rate (per cent)
Production	149	12	8.2	13	8.5
Construction	315	30	9.5	35	11.1
Motor trades	75	6	8.4	6	7.6
Wholesale	117	10	8.7	11	9.0
Retail	217	23	10.5	21	9.7
Transport & storage (inc. postal)	78	8	10.4	8	10.6
Accommodation & food services	160	19	12.1	18	11.3
Information & communication	178	26	14.8	18	9.8
Finance & insurance	34	4	10.2	4	11.5
Property	88	8	9.1	8	9.6
Professional; scientific & technical	409	59	14.3	39	9.6
Business administration and support services	207	29	14.1	25	11.9
Education	35	3	9.4	3	8.7
Health	95	8	8.2	6	6.4
Arts; entertainment; recreation and other services	185	16	8.5	16	8.6
Total	2,343	261	11.2	230	9.8

Source: Office for National Statistics

Even such measures are not absolute; often they can be artefacts of tax rules. For example in film making Special production vehicles (SPV) are firms set up from one project only to be 'clean' for tax purposes. Thus a successful film making activity would involve regular and high turn over of firms: precisely a measure that is generally seen as a 'bad' indicator. The existence of tax data is one of the ways in which analyses in the fields of culture and creativity and small business can be skewed by opportunistic availability of data, rather than its meaning or appropriateness. This is why a conceptual foundation is so important. The EU (2005) 'new' SME definition is informative in this sense. Table 5 shows the schema clearly.

Table 5 . European Commission SME Definitions:

Organisation	Category	Headcount	Turnover
European Commission (2005)	Medium	<250	£41M
	Small	<50	£8.2M
	Micro	<10	£1.7M

Source: European Commission, 2005.

As can be noted headcount is supplemented by indicators of turnover (using two alternate measures). Beyond this a very important innovation is the consideration of whether the enterprise is independent, linked or a partner; this also includes an important small firm category the franchise. The EU offers precise cut off points for such relationships. An illustration is provided of a partner enterprise:

> This type of relationship represents the situation of enterprises which establish major financial partnerships with other enterprises, without one exercising effective direct or indirect control over the other. Partners are enterprises which are neither autonomous nor linked to one another.

The guidance suggests that:

> Thus, if you have a 30% stake in another enterprise, you add 30% of its headcount, turnover and balance sheet to your own figures. If there are several partner enterprises, the same type of calculation must be done for each partner enterprise situated immediately upstream or downstream from yours.

So, we can see that the issue of organisation and ownership is a very complex field that has the potential to introduce meaning and process into the small firms debate. The EU definitions are framed in terms of the degree of ownership and control which is a very much higher bar than the term 'independent' that drives much of the political rhetoric of small firms, and constructed for policy purposes and eligibility for funding (not for analytical purposes).

3.4 Qualities of small firms: Organisation and Strategy

The clear focus is on a variety of external empirical measures that may or may not be causally related to firm growth and operation. By contrast, there has been a gradual emergence of research in management research on values and personality. As Storey (1994, 74) notes, 'a small firm is not simply a scaled down version of a large firm'. Many researchers have thus looked at motivations, strategy and behaviour of the firm founders. Beaver and Ross (2000) suggest the key differentiator is on the nature of the manager/owners, their relationship with employees, their personal prejudices, attitudes and preferences. Other researchers have sub-divided firms into various types based on goals and missions. First, the 'mom and pop' type enterprise of extremely small firms with little marketing expertise or resource, and who do not desire to maximize profits; second, the lifestyle business, who have achieved some success, and have some marketing expertise within a limited market; but, they have little desire to grow. Third, growth orientated in newly emerging industries of high risk and growth (Cravens et al 1994). Various commentators point to the important fact that of all small businesses, it is the latter that are in the significant minority (Deakins and Freel, 1999); something that undermines the rather blanket support for SMEs. To this we can add the specific issues associated with cultural work, that of aesthetic judgment, or affective appreciation of cultural goals. This is an issue that looms large in the work on cultural labour, but has seldom been explored in respect to new firm formation (see: McRobbie 1998, 2002).

3.5 The creative and cultural industries

As the Bolton report suggested, the notion of size is not universally applicable, and should be considered by sector. It is therefore interesting to examine if there are different (employment) size differences between the CCI and all industries. Of course, as the EU specification indicates, issues of turnover would offer a more insightful account, and one might expect that the CCI will show significant differences here as the value added is greater (see Table 6).

Table 6. GVA (Gross Value Added[3]) for the CCI in the UK, 2007/08. *Source:* Annual Business Inquiry, Office of National Statistics, 2007. All figures in £/Millions.

Year	Advertising	Architecture	Art and Antiques	Designer Fashion	Video, Film and Photography	Music, Visual and Performing Arts	Publishing	Software, games and Electronic Publishing	Radio and TV	Total
1997	£3,400	£3,100	£260	£280	£1,900	£2,700	£6,500	£9,800	£3,500	£31,500
1998	£3,500	£3,200	£270	£270	£1,800	£2,900	£7,300	£13,200	£3,700	£36,300
1999	£5,500	£3,200	£320	£300	£2,100	£3,100	£8,000	£13,900	£4,600	£41,000
2000	£6,100	£3,500	£350	£360	£2,100	£3,200	£8,400	£14,800	£4,800	£43,700
2001	£5,500	£3,600	£390	£320	£1,800	£3,100	£8,800	£16,300	£4,800	£44,700
2002	£5,400	£3,400	£430	£320	£2,100	£3,300	£8,300	£16,900	£5,000	£45,000
2003	£5,200	£4,000	£470	£330	£2,400	£3,600	£8,600	£19,800	£4,900	£49,200
2004	£5,600	£4,100	£490	£380	£2,700	£3,700	£9,100	£22,600	£4,900	£53,600
2005	£6,500	£4,700	£480	£420	£2,900	£3,300	£9,800	£24,700	£4,900	£57,700
2006	£5,300	£4,700	£490	£450	£3,800	£3,400	£9,500	£24,500	£5,100	£57,300
% change	56%	52%	88%	61%	100%	26%	46%	150%	46%	82%

* Crafts and design are sub-categories of creative industries but are not included in these figures because the GVA figures are not available

3.6 Organisational particularities

It is for the above reasons that normative policy making, and associated policy processes, may be less than effective in the case of small firms generally, and for creative industry firms in particular. We have noted that small firms' activities is not adequately explained by the crowding out thesis, nor by generic notions of economic action. A significant body of research points to the various

[3] GVA is more accurate then turnover in many ways. Officially it is calculated by using this formula GVA = GDP + subsidies - (direct, sales) taxes.

strategic modalities associated with small firm management, in part to do with size (or resource), and in part associated with the proximity of the owner manager to employees or/and firm. What we might refer to as the affective domain of management. Second, we can point to issues that are size and sector specific, such as finance and investment (Fraser, 2011). Third, beyond this, we can point to a set of issues related to the particular form of cultural markets, and to cultural production processes. These too present an affective dimension to activities, one that goes beyond, or even contradicts 'rational' logic and price signals. This is the focus of the following section. Not only are the CCI different from industries in the general economy, they are unusual organisationally and fast changing: not a helpful combination for policy makers, or policy evaluators. It is instructive to review in more detail the parameters of the CCI organisational forms (see: Pratt 2012).

First, we can point to their organisational ecology. Whilst the CCI do vary significantly from one another in this respect; moreover, the CCI, in contradistinction to 'normal' industries, tend to what is an unusual characteristic that is the 'missing middle': organisations are either very large multinationals, or micro-enterprises; organisations that may also act in the not for profit field, or as social enterprises. At the extreme end of the continuum are multi-nationals, at the other companies working on their own account as freelancers. This category of employment, one that is characteristic of the cultural sector is unusual in that the person is not in a standard employment relation (Gill and Pratt 2008): for example a musician or author who 'signs up' to a publisher receives income is on the basis of the share of the intellectual property rights and copyright earnings. Consequentially the CCI are reliant on a shifting network of intermediaries to link the large and small, the nature of the intermediation is dominated by knowledge brokerage (finding buyers and sellers), however, in this case the discriminator is not price but quality: and this knowledge of qualities tends to be socially and spatially embedded (O'Connor 1998, O'Connor, Banks et al. 2000).

Second, is the fact that work in the CCI tends to be organised on the basis of projects. Projects can last as little as a few weeks, or as much as a year or two. Teams are made up to work on projects, either drawn from within an organisation, or more commonly from freelancers (Grabher 2002, Grabher 2002, Pratt 2006). This leads to the apparent fragility of the CCI, that firm births and deaths are regular (see above). However, one may as easily, within the context of the CCI, see this as a positive indicator of a fast changing and agile cultural industries eco-system. It does mean that 'the firm' is less likely to be an anchor for activity or policy, instead a network of skilled labour and resources.

Third, is the diversity of organisational forms and markets within the CCI. In part this is related to the range of product investment required for a product, and what resource is required. A photograph can be taken more easily that a film made, which is different again to writing and publishing a book, or releasing a piece of popular music, or making a TV programme, or a video game. The absolute level investment and the degree of risk involved may be huge (De Vany 2004, Epstein 2005). The result tends to what has been termed 'winner takes all' character to markets and institutions (Frank and Cook 1996, Caves 2000). Most cultural producers are organised one way or another to produce a portfolio of products: all equally expensive and required to be of the highest standard, but success will only be visited upon some. The ratio in the film industry is about 1 in 10; however, which of the 10 is the successful one is unpredictable. It is not simply a 'law of averages', rather excellence is required to ‘enter the race’: the outcome of the race is unpredictable. The desire to shape markets and consumption through information or market domination, or control, is great, but not absolute.

Fourth, is the complex overflowing of activities between the formal and informal, for and not-for profit, and between the state and commercial activities, and between production and consumption. Mutual cross-subsidy takes place not just in time, but also over careers. In fact, it could be argued that the complex web of inter-dependencies is one of the core characteristics of the CCI. Private individuals are often prepared to invest wildly irrationally in activities in the hope of fame and fortune; there is no rational calculus to capture or explain this; however, it is part of the hidden resource of CCI that on the whole workers are prepared to over commit their resources to make things work (McRobbie 1998, McRobbie 2002), not because they are small firms, but that practitioners have no other options: you can’t simply apply for job to be a pop star, or a top fashion model.

Fifth, one of the challenges of the creative industries is that they deal with value, or more precisely value in creation. It is impossible to anticipate the value of products, artefacts or performances before they happen. They are context dependent, and rely on interaction (such as a gig), or a community response (a hot book, or film). Cultural products may be ‘better’ than others, but ‘fail’ to gain an audience or appreciation. This is why such an important part of work in the creative industries is about reputation and appreciation, and how this can be shaped by opinion formers (by rhetoric, or by structural power, e.g. the media). All cultural producers are aware of the need to make and build audiences and markets, an innovative idea will not find an audience if it is not part of an on-going discourse. Arguably, the same processes apply to some extent in all industries (the so-called culturalisation thesis), but they are clearly acute in the cultural sector. When added to the ‘winner takes all’ characteristic (above) and the rate of turnover (rate of fashion change) the challenges are formidable. They ways that the cultural industries seek to minimise these pressures (marketing, creation of ‘seasons’, advertising, charts, monopoly, etc.) shape the necessary strategic and organisational responses of firms. In the end, the creative industries have to navigate a complex and emerging knowledge pool, to stretch the metaphor, a change in the tides can negate all previous knowledge and products.

4.0 Discussion/Conclusion

The aim of this paper is to explore the debate about defining a small firm, or a Small and Medium Sized Enterprise (SME), and examining the relevance of this concern to the creative industries and creative businesses. The term ‘creative SME’ neatly captures some of the inherent issues in attempting to define something that is by extension problematic to define. This paper has: first, investigated the formation of the small business in economic and political thought in the UK; second, explored how SMEs have been categorized thus far and some of the problems associated with this type of definition, especially within the CCI; third, outlined how SMEs that belong to the CCI may fit into the category already defined as ‘SME’; namely, that the CCI has peculiarities associated with its organisational structures. These peculiarities are not easily measurable and therefore prove difficult to incorporate into a fix-all definition of the creative SME.

The empirical issues are important to contrast with ideological or idealist understandings of the CCI, although as Table 7 shows there are significant sector variations especially with respect to Gross Value Added. Thus one conclusion that can be safely brought to the fore is that the CCI encompass a large sector-contribution to the overall GDP of the UK (nothing new here) but that these sectors are highly variable with respect to their sole contribution, even though measuring this maybe suspect when definitions are brought under scrutiny . That being said, their organisational structures overlap and therefore the characteristics of a creative SME is intertwined with not what IS being produced but HOW these 'products' are being produced. Organisational (or a lack thereof) structure therefore allows for the work of the creative SME, but the creative SME differs in measurable outputs. Thus, if we were to scrutinize size (as the European Commission does) in this sector it might be important to look at both turnover and employment within the specific activities and sub-sectors of this sector. For example, instead of saying that a creative SME is defined as being in the CCI and having less than 250 employees (which is currently the case), empirical work looking at one specific sub-sector (say the fashion sub-sector) and outlining its normal organisational structure plus GVA and size might be prudent. Thus in the fashion SME world, having more than 5 employees and a an annual turnover of more than £250,000 may be seen as rather large – as opposed to being defined as a 'micro' by EU standards. Moreover their (the creative SME) organisational structure dictates their level of independence, as the M&S example shows; therefore the notion of independence might be dangerously illusory. Thus relationships between firms within a sub-sector and sector are unique to places and sector and times and activities. Access to sharing is critical which indicates that there is a significant role of a cultural commons, all information is not traded, nor is it contained within firms. Coupled with this the notion of what entails innovation in the CCI. Since this sector is inherently dealing with symbolic goods innovation models in the CCI differ tremendously and vary with regards to such aspects as regional differences. For instance (and using the fashion example again), menswear being designed and manufactured in east London may contain regional accents that may not be prevalent in say Chelsea. Thus the creation and reproduction of symbolic goods specific to a sub-sector may in fact tell two different stories using different production cycles within the same sub-sector.

This amalgam of characteristics makes policy development problematic. First, that solely market based incentives are unlikely to be successful; nor are exclusively public and cultural incentives; a hybrid is required. Second, the institutions that might normally be the locus of policy – firms - are not stable, and not represented by the normative form of the firm. Much of the potential resource lies in-between firms in networks that are latent. Third, the levels of risk are huge. Public bodies find it difficult to 'support failure' (a few winners many require losers; so, this is an insoluble problem which usually means public bodies avoid the issue altogether to avoid being pilloried for 'wasting public money'). The strategic weakness and place where intervention is most likely to have greatest effect is where institutional capacity is absent or very weak; hence the public sector cannot intervene without becoming players themselves. For this, the entry costs for the public sector are very high and are closely associated with highly specific knowledge, trust and experience.

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