

**MANAGING CREATIVITY AND INNOVATION :
THE CHALLENGE FOR CULTURAL ENTREPRENEURS**

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ABSTRACT

Purpose

To distinguish managing *creativity* from managing *innovation* and highlight the importance for cultural entrepreneurs of recognising the differences between the two.

Design / methodology / approach

Based on Government-sponsored research project looking at access to finance in the UK music industry. Interviews were carried out with cultural entrepreneurs, finance providers and industry experts. A conceptual model of work and creative production put forward by Leadbeater and Oakley (1999) is used as a foundation for analysis.

Findings

Highlight the importance of recognising the differences between managing creativity and innovation, and call for effective management of them both, through developing business communication skills, external focus and promotional strategies. The different nature and role of collective activities associated with promoting creativity and innovation are highlighted.

Research limitations / implications

The findings are generalised across other 'creative industry' businesses, but the empirical research is based only on the music industry.

Practical implications

Practical steps can be taken to increase the success of small creative businesses in managing both the generation of new ideas (creativity) and the successful exploitation of those new ideas (innovation). Formal education courses have an important role in encouraging creativity and flair alongside the acquisition of core business skills necessary for innovation.

Originality / value

This paper makes an important contribution in separating creativity and innovation – concepts that are too often used interchangeably. It is argued that this analytical separation will help practitioners and researchers gain a better understanding of the management behaviours required to foster both successfully.

KEY WORDS

creativity; innovation; entrepreneurship; finance; networking; music

INTRODUCTION

This paper explores the premise that cultural entrepreneurs experience a strong dissonance in the management of their businesses. This dissonance arises because of key differences in managing creativity and managing innovation. *Creativity* (the generation of new ideas) is essentially an individual act, but one that relies principally on interaction with others operating from within the same ‘organizational field’ (Powell & DiMaggio, 1991). *Innovation* (the successful exploitation of new ideas) is a ‘fundamentally social process built on collective knowledge and cooperative effort’ (Sayer and Walker, 1992, p.115). For the entrepreneur to innovate, he or she must collaborate with others, such as venture capitalists, lawyers, and industry professionals, in order to leverage resources. In essence, managing creativity and managing innovation require different levels of collective activity carried out between different agents. Where creativity is the key driver of many cultural entrepreneurs (driven by intrinsic motivation as opposed to extrinsic motivation) this can lead to a dissonance in management behaviour that may diminish the level of innovation experienced.

For an artist’s work to be distinctive it must stand out from the crowd. As Richard Florida has observed (2002) in his discussion of the ‘rise of the creative class’, individuality is a core criterion of success. In describing small record labels as ‘independents’ the music industry is recognizing rather more than a particular ownership structure. Indeed, many would argue that independence is a prerequisite for truly creative activity. On the other hand, innovation is seen to flourish where “information is readily exchanged and practical interaction is frequent; where users readily benefit from advances made by suppliers and suppliers gain from the feedback from users; and where

pluralistic patterns of collaboration are the rule” (Håkåsson in Sayer and Walker, 1992, p.115). In short, innovation requires many actors, open communications, and social networking (Freeman, 1991). It would appear, therefore, that managing creativity and managing innovation may involve some conflicting management behaviours for the cultural entrepreneur. This premise is explored through an empirical study of a particular facet of entrepreneurial management - the leveraging of financial resources for innovation (viz. the successful exploitation of new ideas). This study looked at the problems encountered by owner-managers of small and medium-sized enterprises in the music industry in accessing finance (for start-up and growth).

In this paper, we follow Ellmeier’s (2003) definition of ‘cultural entrepreneurialism’ - encompassing all-round artistic and commercial/business qualifications, long working-hours and fierce competition from bigger companies. Interestingly, it is in the apparent disappearance of any separation between the artist/creator and non-creators/artists that this concept has begun to be used relatively widely. This focuses attention squarely on the particular ability of the cultural entrepreneur to coordinate and leverage artistic *and* managerial resources.

The ability to mobilize resources is seen as a key determinant of entrepreneurial behaviour (see Shane and Venkataraman, 2000; Casson, 2000). Stevenson (2000) classifies business owners according to their attitudes towards opportunities and the resources available: at one extreme, the ‘promoter’ has sufficient confidence to pursue any opportunity regardless of the resources under their control; at the opposite extreme, the ‘trustee’ only considers the efficient use of existing resources. SMEs in the creative

industries are particularly subject to constraints on resources, especially finance (see DCMS, 1999), so that entrepreneurs operating in this environment will need to adopt specific ‘promoter’ strategies to overcome this problem (see Kretschmer, Klimis and Choi, 1999). We argue that they also have specific issues in relation to independence and collaboration that may impact on their ability to access the resources required. These issues will be explored using Leadbeater and Oakley’s (1999) conceptual model of work and creative production.

The empirical data for this paper is research funded by the Department for Culture, Media and Sport that identified patterns of finance used by small music businesses and the problems associated with accessing that finance.

THE UK MUSIC INDUSTRY

The music industry generates over 130,000 jobs, contributing £3.2bn to the value of the UK economy, and earning around £1.3bn through exports, making it the country’s fourth largest export industry (DCMS, 2001) ^[1]. In common with other creative industries, the music industry is made up of predominantly small businesses, with a high level of self-employment. Around 5,100 businesses are listed in published directories, although there are certainly many thousands more operating in this sector.

The music industry displays an ‘hour-glass’ structure: at one end, there are concentrations of people employed in a small number of large enterprises (e.g. the ‘Majors’) ^[2]; at the other end, there are a large number of very small businesses (Hackett & Ramsden, 2000), known as ‘independents’. Owner-managers of small music

businesses are very often practicing musicians themselves. They may well have had former careers as musicians, and in some cases they continue to perform alongside their management activities.

A representative music industry value chain is presented in Figure 1. All stages of the chain are necessary for producing a music product that the end-user is willing to pay for. This research is based on music businesses that classify their activities under record production, music publishing, artist management, concert promotion and/or recording services. It should be noted, however, that cultural entrepreneurs in this sector are usually involved with more than one of these activities, and so sub-sectoral boundaries must be treated with some caution.

Take in Figure 1

INDEPENDENCE AND THE CREATIVE INDUSTRIES

Independence is a key theme in the study of entrepreneurship and small business, and a particular issue in the creative industries. A desire for independence has been shown to be a key characteristic of entrepreneurial behaviour (see for example the SBS's *Household Survey of Entrepreneurship 2001*, p.41). The concept of independence of small firms has been examined in terms of their relationships with other business owners, organisations and outside agencies (Curran and Blackburn, 1994), as well as in relation to the propensity to become a small business owner (Stanworth, Stanworth, Granger and Blyth, 1989). Personality and trait theory has highlighted a desire for independence as a

key aspect of entrepreneurial orientation (see Kets de Vries, 1985; Chell, Haworth and Brealey, 1991). This independence or freedom has been seen as integral to the fostering of entrepreneurial innovation. However, more recently, scholars have begun to move away from what has been described as the ‘Myth of the Lonely Only Entrepreneur’ (Schoonhoven and Romanelli, 2001). A growing body of research emphasises the role of teams of individuals “who work collectively, whether formally or informally, to found new organizations and to create legitimate new market spaces” (ibid, p.385). In the specific case of leveraging financial resources, for example, Schoonhoven and Eisenhardt (1992) bring attention to the role of venture capitalists, not only as sources of funds for organisations, but also as critical players in the strategies and governance structures employed.

Independence remains particularly significant in the *creative industries*, however. This is a collection of 13 industries, as grouped by the Government (DCMS, 1998) which include design, fashion, music, multimedia and digital services. The ‘creative industries’ are defined as ‘those industries which have their origin in *individual creativity, skill and talent* and which have a potential for wealth and job creation through the generation and exploitation of intellectual property’ (DCMS, 1998). Individual creativity is valued at a premium in these industries, partly because of the fast-moving nature of such ‘chart’ businesses (see Jeffcutt & Pratt, 2002), but partly for more profound reasons. In a thought provoking book on ‘Why are artists poor?’ Hans Abbing states ‘Artists were and are the only people who can give verifiable proof of their uniqueness, of their authenticity” (p.26). He goes on to note, however, that “Art tends to be part of a chain of inventions” (p.32). This strikes a chord with Csikszentmihalyi’s (1999) systems view of

creativity, which sees creativity as a social process involving relationships between individual, domain and field (of experts). It is important to note here that the relationships discussed are generally with other creative individuals, teachers, critics, or other ‘experts’ within the organisational field itself. This is discussed in more detail below.

MANAGING CREATIVITY AND INNOVATION

Where creativity is at the heart of business activity, it has also given rise to a ‘new’ model of work (Leadbeater and Oakley, 1999)^[3]. This model suggests that four key ingredients can be seen in most forms of creative work. While leaving aside the issue of just how *new* this form of work actually is, these ingredients will form the basis for discussion of the boundaries between independence and collaboration in the research that follows:

i) The combination of individualistic values with collaborative working

While cultural producers often have core skills that are central to the creative process (e.g. a song-writer or performing musician), ‘they recognise their particular skill is next to useless unless it can be combined with the skills of others...They expect to work in teams’. Lash and Urry (1994:114) assert that owner-managed enterprises in culture, arts, and media are ‘a transaction rich network of individuals who also happen to be in firms’. This allusion to a rather unstructured kind of work organisation leads on to a consideration of one of this paper’s key questions – who is or isn’t part of the ‘team’? Does collective activity with the bank-manager, for example, fit into this recognition of collaborative working?

ii) A blurring of the demarcation line between consumption and production

Leadbeater and Oakley (1999) describe creativity as usually an incremental development that ‘modifies and adapts what has gone before’. In this regard, ‘to be a creative producer it helps to be an avid consumer’. This necessarily involves creative individuals engaging with other creative producers. Paradoxically, however, one might suggest that a *creative* strength of cultural entrepreneurs (namely their belief in the music and musicians for whom they work) is also a potential *innovation* weakness, when collaboration is necessary in order to leverage resources from ‘outside’ of the music industry itself. This is because the cultural entrepreneur’s prevalent ‘product focus’ (Kotler and Scheff, 1997) may make it difficult to focus on what consumers (or stakeholders such as bank managers) need and want, and try to satisfy those needs and wants.

iii) Being members of a wider creative community

Leadbeater and Oakley (1999) state that independents ‘induce a process of intense rivalry and competition as well as promoting cooperation and collaboration’. Anecdotal evidence suggests such apparently paradoxical behaviour does take place in the music industry. The flow of investment between rival music businesses (and most particularly from the dominant majors to the much smaller independents) appears to be an important source of finance for the industry as a whole. The extent to which this is symptomatic of a dependence on larger businesses through necessity or through choice, is considered in more detail in the primary research.

iv) A blurring of the demarcation line between work and non-work

Many cultural entrepreneurs say that their best ideas come to them when they are not at work. The boundary between 'work' and 'non-work' focuses attention on a less-positive aspect of music businesses, however: the perception of the music industry as merely a 'lifestyle' industry, or a collection of quasi-businesses, where image, ego and self-promotion are perceived to be more important than profits and professionalism.. In many respects, these characteristics emphasise the individual over the collective - tapping into a zeitgeist that can elevate the 'common man' into 'pop idol'. To some extent, there is therefore a question of legitimisation in order for music businesses to be taken seriously as businesses. This is also examined in the research that follows.

METHODOLOGY

This paper draws on a Government-sponsored research project that was undertaken by the authors. It aimed to uncover the main problems being experienced by music businesses in accessing finance. This included 28 in-depth face-to-face interviews with industry practitioners and experts, and telephone interviews with 310 owner-managers of small music businesses. Holding in-depth interviews with 'experts' represented the first stage in determining which industry perceptions were foremost in stakeholders' minds, and helped to articulate the thematic relationships (Smircich, 1983). A telephone survey was developed in line with the initial findings, to provide substantive evidence of the problems experienced by small music businesses in accessing finance.

The 'expert' interviews were carried out with representatives of the main music industry trade associations as well as cultural entrepreneurs from each of the five sectors under

review (record production, music publishing, artist management, concert promotion and recording services). Representatives of high street banks, specialist banks, venture capitalists, and other professional service providers (music industry accountants and lawyers) were included to provide the ‘other’ side of the story. Without a definitive directory of music businesses in the UK, the telephone survey sample was drawn from a new database assembled from a variety of directories (Music Week 2000, Showcase), and trade organisation membership lists (including British Phonographic Industry, Association of Independent Musicians, International Artist Managers’ Association, Music Publishers Association). Whilst every effort was made to construct a ‘representative’ sample, it is recognised that the survey of existing music businesses excludes an unknowable number of enterprises that were unable to survive as a result of failing to access appropriate financing.

The research issue of this paper is the premise that managing creativity and managing innovation require different levels and aspects of collective activity, resulting in the presence of a particular management dissonance for cultural entrepreneurs in the music industry. Where such a dissonance exists, this can have a negative impact on opportunities for growth, particularly by restricting access to finance. To investigate this issue, the data from the DCMS research was analysed thematically, using Leadbeater and Oakley’s (1999) model as a framework for discussion.

FINDINGS

Each of the four ingredients of the independent's new model of work is now re-visited in light of the opinions and views expressed by the industry experts, cultural entrepreneurs and finance providers interviewed.

i) The combination of individualistic values with collaborative working

While the literature maintained that an expectation to work in teams is an integral characteristic of cultural entrepreneurs, there is some doubt over the ease with which owner-managers of small music businesses manage their relations with external business stakeholders, such as bank managers. The research highlighted a problem of communication:

It is a dialogue problem – the music industry and banks don't speak the same language

Industry expert

It's a cultural problem...there is no obvious link between people creating business and financiers

Cultural entrepreneur - record company

The situation for music businesses appears to be exacerbated by the focus on the differences between the two groups, as opposed to the areas of mutual agreement. Many observers expressed the view that banks and other finance providers don't 'understand' the music industry:

I think much of the problem is a misunderstanding of who it is you are dealing with, and the value chain they are in, and how they make money

Industry expert

It is worth emphasizing that the music industry has been around in a relatively mature state for some thirty years. What is at stake, then, is more than simply the ‘liability of newness’ (Stinchcombe, 1965) and related issues of legitimacy (Aldrich, 1999). There appears to be something more prevailing underlying this lack of understanding.

Interestingly, music businesses which operated predominantly online, whose management often consisted of ‘dot.com experts’ as opposed to ‘music industry people’, appeared to have less difficulty in influencing behaviour and accessing finance. One such cultural entrepreneur, for example, explained how easy it had been for him to access required finance:

Raising finance was extremely easy for us because we caught a wave, it is an exciting sector, and more than anything, the management team spoke the language of the investors. Very often in the music industry the management team doesn’t have the language at all!

Cultural entrepreneur - online music business

These findings highlight the importance of developing effective and proactive *business communication skills*. Clearly, to convince others of what Mason and Harrison (2000) have referred to as ‘investment readiness’, cultural entrepreneurs need to have a knowledge of the vocabulary and grammar of financial management. However, it is not

just down to the demand-side. Finance providers themselves need to be able to engage with creative ideas and creative people.

ii) A blurring of the demarcation line between consumption and production

To summarise the argument presented earlier in this paper, creativity focuses attention within the dimension of production, whereas innovation focuses attention on consumption. Clearly, without a market for a creative product there will be no innovative output (though there might be creative output). The challenge is then to manage both the production and consumption of the creative product successfully. One aspect of this is to be able to leverage appropriate financial resources when required. Readiness to engage in collective activity with external finance providers must be seen alongside the ability to communicate effectively with them. The importance of this is born out by the quantitative analysis undertaken in this study. A comparison of the music businesses in this research and SMEs generally in the UK indicates some interesting differences as shown in Table I.

Take in Table I

Music businesses used bank loans and overdrafts at much lower rates than small businesses in general (overall less than half as frequently). However a key factor is that they seem to be choosing not to apply for bank finance. Refusal rates for music businesses totaled 10.4 percent, which compares to 9 percent refusal rates found on average in general SME research. Rather than music businesses being unable to access

bank loans and overdrafts, they are opting for alternative sources of finance, often from within the industry itself.

The ability of the cultural entrepreneur to look beyond the creative field or domain itself (see Csikszentmihalyi, 1999) and retain an external focus is highlighted here. While this may be problematic for some creative individuals, who eschew external relations almost as a matter of principle, there is evidence that ever greater numbers of cultural entrepreneurs are equipped with the tools to communicate effectively with external finance providers (see point iv below).

iii) Being members of a wider creative community

The extent to which ‘intense rivalry and competition’ can operate freely in the UK music industry was held in question by many of the interviewees from the Independent sector. Often they talked of the dominant Majors in a language that was indicative of an ‘us and them’ culture. The Majors’ dominance of the market was felt to express itself in many ways, including the structure of the charts, the ability to gain airtime on radio, or to receive ‘shop-window’ marketing in the major stores.

Interestingly, despite the ‘us and them’ culture, there remains a strong bond (emotionally and financially) between smaller and larger music businesses. One owner-manager, who was offered bank finance but instead turned to funding from another music business, explained:

I went to a larger record company because I knew they would be more understanding of the dilemmas of my business and the uncertainty of the business plan. I also knew they could give me access to foreign markets, because they had established foreign territories.

Cultural entrepreneur - record company

The quote is indicative of a strong flow of investment that circulates within the music industry itself. Rather than looking externally towards a bank or venture capital business, many music businesses seek funding from other music businesses (often the Majors themselves). This investment from the wider creative community manifests itself at a variety of levels, from offering studio space in exchange for a share of profits from an album, through to a larger record company or distributor taking a major equity stake in a smaller label.

Underpinning these findings are issues relating to the high level of risk and uncertainty experienced in the music industry (as in other creative industries too). Under these conditions exchanges between individuals or firms are seen to be governed by a particular governance form – informal network governance (see Jones, Hesterly and Borgatti, 1997). This emphasizes the role of trust between parties, allowing transactions to be ‘structurally embedded’, thus giving those involved some means of safeguarding exchange. With trust playing such an important role under these circumstances it is perhaps all the more difficult to think of engaging in (let alone sustaining) formal contractual relationships with external players. Equally, where informal network governance predominates there is the potential for greater prejudice (perhaps based on

knowledge of extreme cases) to be encountered at the level of formal contractual relations. This is discussed in the next section.

iv) A blurring of the demarcation line between work and non-work

The research suggests that there remains a strong association in peoples' minds between music and youthful inexperience or excess. The exploits of some high-profile artists have done little to shake off the 'sex, drugs, and rock 'n roll' tag. They may also have helped to perpetuate a view of generally poor management within music businesses. One bank manager described the music industry in the following way:

It is very much viewed as a 'cottage industry', with esoteric rights being marketed by people who have no clearly demonstrable financial skills.

Bank manager

Despite this, the research provided evidence of an increasing professionalism in the way in which music businesses are managed. 41% of owner-managers of businesses established since 1998 have some kind of business related qualification or training. Also, 65% of the owner-managers of young businesses surveyed had had previous experience of starting up a business. Overall, at least two-thirds of the cultural entrepreneurs questioned rated their financial skills as 'skilled' or 'very skilled'.

In terms of how the music industry is perceived by outsiders, the importance of striking the right balance between enthusiastic promotion and over-eager selling was an issue raised:

There is also a perception of people in the music industry that because they are always seen to be selling, promoting, pushing their bands, they are automatically selling, pushing and promoting their business...and that all the information you get in terms of prospects is going to be inflated...because everyone's got the next 'great artist'!

Industry expert

The industry as a whole was seen as in need of examining where its priorities lay:

If they were half as good at promulgating their own financial infrastructure mechanisms as they are at patting themselves on the back at awards shows, then they would stand a better chance in terms of this perception of not being 'understood'

Bank manager

Such views highlight the need for cultural entrepreneurs to adopt appropriate and balanced promotional strategies. Once again, the tension between creative independence and the need for collaboration outside of the immediate organizational field is brought sharply into focus.

DISCUSSION

There are qualities of cultural entrepreneurs' independent approach to work that promote both creativity and some aspects of innovation and offer lessons to other less enterprising businesses. However, this paper highlights the fact that such qualities may also carry with them inherent difficulties. Research in the music industry indicated a number of dichotomous issues.

1. There is acknowledgement that creativity thrives on collaborative work, yet this collaboration seems to be restricted to fellow creatives within the industry, and is, in the final analysis, an individual act. Banks and other financiers are assumed to neither understand the music business, nor to be sympathetic to its particular needs.
2. Entrepreneurs in the music industry are increasingly qualified with business and management training. Yet the perception persists amongst external stakeholders and financiers that independents in the music sector are unprofessional organisations dominated by eccentric individuals.
3. The take up of bank loans and overdrafts in the music industry is low compared to other SMEs. Yet the refusal rates of bank finance are similar, indicating that entrepreneurs in the music industry turn to banks less readily than in other sectors. Music entrepreneurs seem reluctant to be in any way dependent on banks yet they accept dependence on major corporations within the industry as almost inevitable.

These issues indicate that the virtues of creative independence can be dissipated by demand-side and supply-side attitudes and motivations that act as barriers to business development opportunities in the music industry. Such negative forces can be countered by cultural entrepreneurs with enhanced business communication skills, an external focus, and appropriate promotional strategies. In effect, successful cultural entrepreneurship demands managing creativity *and* managing innovation. This involves cultivating different relationships for different purposes.

Beyond the implications of these findings for those seeking to access finance in the music industry, the wider question of how to help young creative individuals manage the tension between creative independence and the need to collaborate with business stakeholders remains poorly understood and under-researched. An interesting exception is in Baines and Robson's (2001) work on the 'enterprising' behaviour of a subgroup of the cultural sector (print and broadcast media) which looked at how the self-employed form and manage working relationships. Their research revealed a related tension in the distrust of forming working relationships between self-employed in the creative sector, despite the strong desire to form new links. In the context of the Government's emphasis on 'enterprise for all' and belief in talent as 'the 21st century wealth' (Blair, 1999) the need for insight and understanding in this area is perhaps more pressing than ever.

Of course, the thrust of this paper has been to consider the difficulties facing creative individuals and firms in successfully exploiting new ideas and leveraging resources for growth (innovation and entrepreneurship). Evidence has been put forward that such creative individuals are improving their business and financial skills, with many attending courses. However, this is only one side of the argument. Working relationships depend on input from both sides. Individual creativity and flair should also be encouraged alongside the acquisition of a range of transferable skills (including financial management, marketing, negotiation and presentation skills). The FE and HE sectors clearly have an important role to play in this respect. Emphasis has been placed in recent years to develop small business and entrepreneurship modules within science degrees, so that technological knowledge is underpinned by business training. A similar emphasis is beginning to be placed on developing entrepreneurship skills within art,

music and design courses. After all, the majority of graduates in creative disciplines become self-employed. However, it is equally important to encourage and support opportunities for creativity and flair in business and management education. This could be provided in the form of design and creativity modules that explicitly give the business manager the opportunity of experiencing creativity rather than just learning about the theory as an observer of others.

This research highlighted the lack of understanding and miscommunication between those developing creative products and those providing resources for creative businesses. Providing the conditions for trust and mutually beneficial exchange between business students and students of music, design and art (e.g. collaboration on projects, case-studies and business plans) may be a big step in overcoming these misunderstandings. It would also provide entrepreneurs outside of the creative industries with insights into innovation that will be of help in developing their own opportunities successfully. This would clearly require a leap of faith on both sides. However, it is exactly such a leap of faith that distinguishes the successful cultural entrepreneur from the aspiring creative individual.

Notes

- [1] The National Music Council produced a comprehensive report on the economic value of music to the United Kingdom - 'A Sound Performance' (1999) - which the authors would recommend reviewing for more detailed information in this area.

- [2] There has been a clear polarisation into the five large, global corporates (EMI, the only British owned company; Universal Music Group; Sony; Warner Music Group, and BMG) who together account for over three quarters of industry turnover, and the smaller, but far more numerous Independents.
- [3] The original order of the four ingredients has been changed in this paper

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