

THE CREATIVE ECONOMY

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ABSTRACT

More and more of us believe that "the world evolves through innovation". According to the Nomura Institute the main eras of human civilization are: agricultural, industrial, informational and creative. Michael Porter has suggested that "as nations develop, they progress through a number of stages in terms of their characteristic competitive advantages and modes of competing"¹. Porter considers innovation-driven stage as a distinct stage.

1. THE AGE OF CREATIVITY AND THE CREATIVE ECONOMY

Motto: "Change and innovation are the only constant features of work organizations in today's society. Successful organizations in the modern economy work under the imperative of the need constantly to be creative in what they do. Creative organizations are those which seek to be open to the world around them"

(Bob Garvey, Bill Williamson, Beyond Knowledge Management. Dialogue, creativity and the corporate curriculum, p. 109)

Creative economy is the ideas business; it asks to turn ideas into products. According to John Howkins –author of the famous work "*The Creative Economy: How people make money from ideas*" published in June 2001- worldwide the creative economy was worth about 2, 2 trillion \$ in January 2000 and is growing at 5% a year. If we project this figure to 2020 at the current growth rate of 5% it can be forecast a total of \$ 6, 1 trillion. In some countries, creative economy is growing faster. In United States of America the average growth rate was 14% and in UK the average growth rate was 12%. In the OECD countries the annual growth rate of creative economy through the '90s was twice that of the service sector and four times that of manufacturing. According to *the World Bank* the world's Gross National Product (GNP) in 1999 was \$ 30,2 trillion, the creative economy represents 7,3% of the global economy¹.

Creative economy is about the relationship between creativity and economics. Creativity is not new and neither is economics, but what is new is the nature and extent of the relationship between them and how they can be combined to create value and wealth.

¹ Michael Porter, *The Competitive Advantage of Nations*, Macmillan Press, 1990, Chapter 10, p. 545

In the *Global Competitiveness Report 2000* Andrew M. Warner of *Harvard University* has introduced *the Economic Creativity Index*. Nations can link themselves to the global technology engine: by being centers of innovation themselves (innovative countries) or by facilitating technology transfer and rapid diffusion of innovation (technology-transfer countries). *The Economic Creativity Index* is an attempt to bring together under one measure: technology sub-index and start up sub-index. In the 2000 *Economic Creativity Index*, the United States ranks first, as an innovator. Finland is second, followed by Singapore (3), Luxembourg (4), Sweden (5), Israel (6), Ireland (7), the Netherlands (8), the United Kingdom (9) and Iceland (10).

In new economies there are some industries-called *creative industries*-where creativity is considered to be the most important raw resource and the most valuable economic product. Such industries include software, publishing, design, music, video and electronic games. More than 50% of the consumer spending is now on outputs from creative industries in G-7 countries (Ryan, 2003¹). This trend will be true for the middle and higher income economies of East Asia. These creative industries are called by some authors as core creative industries. *The International Intellectual Property Alliance (I I P A)* defines the country's core copyright industries as those that create copyright products; its categories are: film and video production, book publishing, newspaper publishing, computer software, theatre, advertising, TV, radio etc. It is estimated that these industries contributed with 3,65% of American Gross National Product (GNP) in 1997 and that during 1977-1997 they grew at 6.3% a year compared to the country's overall growth of 2,7% a year-overall they contributed more to the American economy than almost any other industry. In table 1 there are presented the estimated size of the creative economy.

Table 1. The Creative Economy-Market Size, in \$ billions

| Sector | Global | US | UK |
|--------------|--------|-----|-----|
| Advertising | 45 | 29 | 8 |
| Design | 140 | 50 | 27 |
| Film | 57 | 17 | 3 |
| Music | 70 | 25 | 6 |
| Publishing | 506 | 137 | 16 |
| R&D | 545 | 243 | 21 |
| Software | 489 | 325 | 56 |
| TV and radio | 195 | 82 | 8 |
| TOTAL | 2,240 | 960 | 157 |

Source: John Howkins, *The Creative Economy. How people make money from ideas*, The Penguin Press, 2001, p. 116

¹ **Ryan, P.**, *The Creative Economy: Creative Clusters Key to Knowledge-based Economy*, in *"Marubeni Economic Report Tokio"*, Marubeni Corporation Economic Research Institute, 2003

The size of the creative economy depends also on managing creativity debated in paragraph 3.

Creative industries are among the most skill intensive and IT intensive². High skilled workers have become increasingly mobile: the workforce of the high-tech and creative industries is also looking for an urban milieu well endowed with recreational amenities and with world class education and health services. For cities & communities aspiring to become *creative cities & creative communities* it is clear that urban development needs creativity. *Glocalization* and *city's diplomacy* are becoming relevant today for the regional development.

As some brief conclusions we consider that:

- creative economy has an increasing role in the world economy. Its dynamics is high and more accelerated than in other sectors.
- creative industries are the most skill intensive and IT intensive.

2. CREATIVE CLASS & NEW ECONOMIC GEOGRAPHY OF CREATIVITY

The key to understanding the new economic geography of creativity and its effects on economic outcomes lies in *the 3T's of economic development theory: technology, talent, and tolerance*. Each is a necessary but by itself insufficient condition; they have to act in synergy.

*Creative Intelligence*¹ provides new data on issues of high importance to the future of regions. This is a joint publication between *the Richard Florida Creativity Group*² and *Catalytix, Inc.*³ and will provide the regional indicators developed by Richard Florida and his team. It provides new data on wages and salaries for the three main sectors of the economy: the creative, manufacturing,

² Shahid Yusuf, Kaoru Nabeshima, *Urban Development needs Creativity. How creative industries can affect urban areas*, in "Development Outreach. Putting knowledge to work for development", November 2003, World Bank Institute, p. 12-15

¹ *Creative Intelligence Newsletter*-a joint publication between *the Richard Florida Creativity Group* and *Catalytix, Inc*, Volume 1, Issue 1 December 2002; newsletter@creativeclass.org.

² *The Richard Florida Creativity Group* provides forward-thinking strategies for the development of *creative communities*. For more information, go to www.creativeclass.org.

³ Catalytix provides analysis, strategic planning, and implementation support for regional, civic, and business partners. For more information on Catalytix, go to www.catalytix.biz; www.catalytix.biz/reg.htm

and service sectors. While the creative class makes up 30% of the workforce, it accounts for almost half of all wages and salaries (table 2).

Table 2. Wage share and percentage of workers for three main sectors of the economy: the creative, manufacturing, and service sectors -%.

| | Percentage of Workers: | Wage Share: |
|-------------------------------|------------------------|-------------|
| Creative Class | 30% | 47% |
| Working / manufacturing Class | 26% | 23% |
| Service Class | 44% | 30% |

Source: *The Creative Intelligence Newsletter*, a joint publication between the Richard Florida Creativity Group and Catalytix, Inc, Volume 1, Issue 1 December 2002, p. 2

Creative people, who prefer diverse places, tolerant and open to new ideas, power regional economic growth. Diversity will attract different types of creative people with different skill sets and ideas. Measures of diversity and creativity in connection to regional development ask for index used to analyze regions using this innovative approach to economic development (Creative Class & Super Creative Class that ranks data to the regional level). *State Creativity Index* is ranking for the 50 states on the basis of *the Creativity Index*. Creative capital is important to regional growth because in order to succeed and prosper economically, a region needs to offer all 3T's of economic development.⁴ The best seller "*Rise of The Creative Class*" written by Richard Florida⁵ suggests that the key to economic growth lies not just in the ability to attract the creative class, but to translate that underlying advantage into creative economic outcomes in the form of new ideas, new high-tech businesses and regional growth.

There has been developed a new measure called *the Creativity Index*-a composite indicator that is considered to be a better measure of a region's underlying creative capabilities than the simple measure of the creative class. *The Creativity Index* is a barometer of a region's longer run economic potential. In E U it have been introduced the *Euro Creativity index*. The creative economy differs from the traditional economics in the central role of the individual. From the days of Adam Smith, traditional economics has been centered on the firm belief that firms are more efficient than individuals in identifying and using resources.

But creative people are not dependent upon organizations to the same extent. They often have low transaction costs and do not need large resources of capital and equipment. And the creative people seem also to be irrational despite traditional economics assumed for decades that individuals acted in a rational manner. Perhaps a better word than irrational is imaginative.

⁴ More on the 3T's of economic development can be found in articles from the "*Harvard Business Review*" and "*New York Times*", "*Fast Company*" or "*The Austin American Statesman*" which are available at www.creativeclass.org/5mc2.htm.

⁵ Florida, Richard, *The Rise of the Creative Class*, New York, Basic Books, 2002. It has been translated into Chinese, Japanese, Korean, Italian, French, and Spanish. There have been sold over 30,000 copies.

TEN RULES FOR SUCCESS IN A CREATIVE ECONOMY

“Technical skill is mastery of complexity while creativity is mastery of simplicity.” Christopher Zeeman, “Geophysics”, vol. 64, no. 5, 1999, p.1347–1348

Even I do not believe in simple receipts I present the rules recommended by Howkins¹:

- Invent yourself-own your image and manage it. Be clear about your own assets and talents; they are unique and they are all you have. Break the rules, but never stop learning.
- Put the priority on ideas, not on data-create and grow your own creative imagination. Entrepreneurs in the creative economy seem to be more worried if they lose their ability to think than if their company loses money.
- Be nomadic-nomads felt at home in every country. Nomads appreciate both the desert and the oasis; likewise creative needs both solitude and the crowd, thinking alone and working together.
- Define yourself by your own thinking activities-in the creative economy we each can think and exchange creative solutions with each other.
- Learn continuously-innovate and remember that *“a new idea is often two old ideas meeting for the first time”*.
- Exploit fame and celebrity-being well known for being creative is important in the creative economy of the twenty-first century.
- Treat the virtual as real and vice versa-cyberspace is another dimension to everybody life. Do not judge reality by whether it is based on technology but by more important and eternal matters such as humanity and truth. As Sydney J. Harris once said *“The real danger is not that computers will begin to think like men, but that men will begin to think like computers.”* (Sydney J. Harris, “Geophysics”, vol. 64, no. 5, 1999, p. 1347–1348).
- Be kind-kindness is a mark of success. It seems that a kind person will be more invited to more networks, receive more knowledge and have better opportunities to create more.
- Admire success openly creative people try to judge both their successes and failures because they want to learn from them. You will never win if you cannot lose.
- Be very ambitious but have fun and a good sense of humor-people who enjoy themselves and what they are doing seem to be happier and to achieve performance faster.

I believe that such simplistic formulas are not mostly recommended. Applying Howkins’ first rule a creative person has to invent her/his self and has *“to break the rules”*. Don’t worry! Be happy if you end up with eleven rules and if the eleventh one represents only you! ☺

In order to build a truly *creative community*-one that can survive and prosper in this emerging creative age, the key are creative people and a successful people climate. This entails remaining open to diversity and to a creative lifestyle. In the creative age young people matter. Furthermore, a climate oriented to young people is also attractive to the creative class more broadly. Creative-class people

¹ John Howkins, *The Creative Economy. How people make money from ideas*, The Penguin Press, 2001, p. 155-158

do not lose their lifestyle preferences, as they grow old. They don't stop bicycling or running, for instance, just because they have children. They continue to value diversity and tolerance. They enjoy stimulating and dynamic places that are a challenge for a creative lifestyle.

As brief conclusions from this paragraph we focus on the ideas that:

- Creative classes are an essential ingredient for the regional development and in the new urban economy for shaping a new economic geography of creativity.
- Creativity Index is determined at the regional level as a composite complex index.
- Creative people have an important role in creative economy.

3. CREATIVE AND INNOVATIVE MANAGEMENT

Managing creativity starts with understanding the economics of creativity. It has to deal with two value systems. One is based on the tangible capital; the other one focus on the intangible capital and on the intellectual property. The traditional economics has focused on the tangible capital and on the conventional manufactured goods and services. New economics focus on the intangible capital.

Managing creativity involves knowing first when to exploit the “*non-rivalrous*” nature of ideas and second when to assert intellectual property rights and make one’s own ideas-as-products rivalrous. These two kinds of decision are crucial for the creative management process.

Organizational and corporate creativity

Leonard and Swap defined organizational creativity as a “*process of developing and expressing novel ideas that are likely to be useful*”. Organizations have to remain open to change in response to new ideas coming from the people who work within them. Creatogenic features of an organization are: values, beliefs, commitments, habits that enhance the creativity of both individual employees and groups. According to Robinson and Stern (*Corporate Creativity: How Innovation and Improvement Actually Happens*, San Francisco, CA: Berrett-Koehler Publishers, Inc. 1998) corporate creativity manifest itself in the form of: improvements-incremental creativity; innovations-radical creativity.

To ensure positive economic growth, creative and innovative managers in both the public and private sectors need to collaborate to develop and implement a competitive strategy for managing growth and diversification through technology and commerce. Creative and innovative managers can develop a link among key institutions to build a viable *public/private* infrastructure, a strong financial environment, an entrepreneurial spirit, and a commitment and dedication to risk-taking and risk sharing. Within this strategy, private sector goals must recognize the need for developing both innovation centers and manufacturing centers. In the past, U.S. management has emphasized the development of innovation centers while the Pacific Rim nations’ firms have emphasized the development of manufacturing centers. Managers in tomorrow’s global

environment of competition and cooperation will focus on strategies that can link effectively these two types of centers.

A new framework is needed. This new framework must provide insight on those areas requiring creative management, those requiring innovative management, and those requiring creative and innovative management.

■ *Creative management* consists of new concepts, new ideas, new methods, new directions, and new modes of operation. The operative word is “new.”

■ *Innovative management* consists of the ability to implement creative ideas and/or move successfully in such new directions. The operative words are “to implement” and “to move successfully.”

■ *Creative and innovative management* focuses on coupling, that is, linking creative and innovative management. The operative notion here is an “act of management” rather than the act of an individual.

Creative and innovative management implies new managerial practices on the one hand and leadership to implement on the other. Traditional management decision-making centered on efficiency and effectiveness. Creative and innovative management focuses on flexibility and adaptability to deal with the process of managing change.

Technopolises are bringing together in dynamic and interactive ways, state government, local government, private corporations, universities, non-profit foundations, and other organizations. *Incubators* are another promising tool funded by both public and private sources. Risk capital networks are structured to organize the capital pools held by individual investors. These individuals are generally known as “*business angels*”. Economic development as a creative and innovative managerial activity is based on linking four critical factors:

- talent - people;
- technology - ideas;
- capital - resources;
- know-how - knowledge.

Entrepreneurial talent results from the tenacity, dedication, and hard works of special types of individuals-people who make things happen. Entrepreneurs are individuals who recognize opportunities and desire to push an innovative idea. But talent without ideas is like sea without water. The second critical component in the entrepreneurial process concerns the ability to generate ideas that have real potential within a reasonable time. Every dynamic process needs to be fueled. The fuel for the entrepreneurial process is capital. Given talent, technology and capital, one other element is Know-how defined as the ability to find and apply expertise in a variety of areas that can make the difference between success and failure.

Creator and entrepreneur

Rimler summarized the main characteristics of the successful creator and entrepreneur. Rimler pointed out that the traits characterizing creative persons and entrepreneurs are more or less the same. Differences can be found in the special needs required for successful businesses.

Success in business today is a creative activity

If we are to thrive in business we must be creative. Business is a creative activity. Success in business today demands constant innovation. Generating fresh solutions to problems, and the ability to invent new products or services for a changing market, are part of the intellectual capital that gives an organization its long-run sustainable competitive advantage.

While brain power is our most valuable resource, great ideas are in short supply. *Fortune 500* companies now place a premium on attracting and keeping talent because wealth flows directly from innovation. Creativity is the root of innovation. It is a process and a skill which can be developed and managed throughout the entire organization. Nowadays competition among these networks can be observed, while their growth has also become more and more significant. There is a connection between business networks and innovation. The network itself can be a form of innovation. In this respect, it means organizational innovation. Business networks can also produce innovations.

There is a need for a change in methods in the field of economics. Besides being capable of illustrating the states of the event (*static approach*), this new method should be able to reflect the events in process (*past-present-future-dynamic approach*). It was mentioned that game theory provides a new methodological approach the analysis of inter-relations. Besides the methodological questions, the question of ethics and moral responsibility also arises in the analysis of economic processes, which requires a new approach as well. It seems that all these problems cannot be solved within the framework of traditional methodology.

The creative entrepreneur

Entrepreneurs in the creative economy are often called *creative entrepreneurs* (John Howkins, 2001, p. 128-131). In traditional economics workers may have better ideas about how to run their factory than the existing managers, but the workers can not put their ideas into practice. But creative workers can start their own business and the creative economy encourages it. These kind of entrepreneurs have the following characteristics:

- vision (the entrepreneur has an idea and wants to bring it to life);
- focus (they are determined not only on what to do but also on what has not to be done). World chess champion *Gary Kasparov* says the difference between a good chess player and a master chess player is not really that the great chess player knows which moves *to look at* but that he/she knows which *not to look at*;
- financial capabilities (financial skills assist one to avoid pitfalls, move faster and sleep at night);
- pride (entrepreneurs believe not only that their idea will work but they are the only one who can make it work);
- they have pride in themselves and their idea and they are very reluctant to give up); urgency (the entrepreneur always wants to “*do it now*” partly for competitive reasons and partly because they cannot think of anything else);
- many start-ups in the creative economy are “*momentum*“ business, gathering attention and assets like a snowball).

Decision making styles in the creative economy. The conceptual manager

There are four decision making styles based on the two dimensions that define a style: the way of thinking (which can be either rational or intuitive) and the tolerance for ambiguity (which can be low or high). Based on these two dimensions, a manager can be directive, analytical, behavioural or conceptual².

- ◆ *The directive manager* is highly rational and does not tolerate ambiguity. He makes decisions fast and thinks on short-term. Even though he can be efficient, he makes decisions with minimal information and just a few alternatives. The directive style should be reserved for emergency situations in which a quick remedy is the only solution to an unexpected event.
- ◆ *The analytical manager* is also highly rational, but tolerates high levels of ambiguity. He is a careful decisions maker who can adapt to or cope with new, even unexpected, situations.
- ◆ *The behavioural manager* is intuitive and does not tolerate ambiguity. His main characteristics are that he works well with others and is open to his subordinates' suggestions and ideas. He practices a participative leadership style and since communication processes are vital for a behavioural manager, he needs regular meetings and contact to his subordinates.
- ◆ *The conceptual manager* is highly intuitive and highly tolerant of ambiguity. His main characteristic is his creativity. He has a broad, holistic and integrative approach to things and considers many alternatives.

Styles of decision making according to the way of thinking and the tolerance for ambiguity:

| | Low tolerance for ambiguity | High tolerance for ambiguity |
|---------------------------|-----------------------------|------------------------------|
| Rational way of thinking | Directive manager | Analytical manager |
| Intuitive way of thinking | Behavioural manager | Conceptual manager |

In recent years, economic psychology has witnessed a shift from the rational to the intuitive and from ambiguity intolerance to tolerance. While the traditional manager was directive in his style, the modern manager is moving towards the conceptual style, sometimes by going into training and by developing creativity-relevant thinking skills (such as brainstorming or metaphors or analogies) and lateral thinking (as opposed to vertical thinking that is rational and sequentially logical and integrates only relevant information); this style does not have to be logical and may integrate also irrelevant information in the process of decision making).

² Cristiana Pudroski, *Decisions Making Processes in Organizations: The Rational versus the Practical*, in "Ziarul Financiar", April 2003. Cristiana Pudroski is a Romanian economic psychologist who lives in Vienna.

| <i>Traditional economics</i> | <i>Economic psychology</i> |
|---|--|
| Directive style manager | Conceptual style developing creativity-relevant thinking skills |
| <i>Vertical thinking</i> that: is rational and sequential logical; integrates only relevant information | <i>Lateral thinking</i> that: does not have to be logical; may integrate irrelevant information in the process of decision making |

In the learning process learning goes together with the employees' extended independence; as a result, creativity gains can be large. *A creative person* should be a successful businessman. Some authors suggest even the need to substitute a model of "*creative man*" for homo economics and they suggest even a creative way to live.

As conclusions we mention just a few issues that regard mainly the fact that:

- Creative and innovative management is a modern concept that continues previous approaches;
- The creative entrepreneur meets the qualities for both entrepreneur and creative person;
- Conceptual manager is the management style considered to be mostly appropriate in the creative economy (economic psychology approach).

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