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**Higher Education and the UK Creative Economy: a Business
Perspective**

Dr Martin Smith¹

Introduction

Chairman and colleagues: thank you, Paul, for that introduction, and for inviting Patrick to address this distinguished audience. We have worked very closely together on this speech - which is small consolation, I realise, for Patrick's being called away on urgent business this morning. He apologises profusely. I'll do my best to mitigate understandable audience disappointment!

We at Ingenious are investors in the creative economy to the tune of about £5 billion since 1998. We work with creative businesses partnering with, and encouraging, the development of great musicians, film producers, theatre directors and creative entrepreneurs. From our perspective the Higher Education system has not always been as engaged with creative businesses as it might have been, so I am delighted to have this opportunity to contribute a few thoughts on future directions.

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I am especially glad to have this opportunity to welcome the publication of “the Crossick Report”, if we may call it that, about which more later.

But first I want to take a few minutes to set the scene as it appears from a business and an investor perspective.

Context

We have the immense good fortune to live in a country which is defined – now perhaps more than ever – by the strength of its creative assets, both tangible and intangible, and its talent base.

We are blessed with magnificent collections of fine art and ancient artefacts. We are the beneficiaries of many distinguished traditions – of literary genius, curatorial scholarship and exceptional musicianship, amongst others. Our civic institutions, including our universities, are the envy of the world.

But we also live in a time of great turmoil and turbulence. This is nowhere more apparent than in the media sector.

The economist Joseph Schumpeter developed his famous theory of “creative destruction” more than sixty years ago. Believe me, he hadn’t seen anything!

Exceptional market disruption continues to affect creative content businesses right across the spectrum of the creative economy - notably in the music, film, television, games and publishing industries.

However, as we have seen very clearly in recent weeks, a combination of structural and cyclical disruption is also now having a fundamental impact on the *public* infrastructure that underpins the creative economy - including the arts

and culture sector, the BBC, and of course the universities.

Creativity, Entrepreneurship and Business

Against that very challenging background, it is helpful briefly to highlight our main competitive strengths and weaknesses.

British culture is sustained by two exceptionally rich traditions, one *creative* and the other *entrepreneurial*.

The UK is a great feeding ground for creativity. In using the problematic “c” word I am not here talking about “smartness”, or what happens when a white board is set up in a room full of sales executives. I am talking about a genuine capacity to be *original* – the capacity to see something different, literally or metaphorically, *and bring that something into being*.

In the UK, as anyone who has ever spent time in Hollywood will tell you, we are rather good at “creativity” in this sense. That’s why there are so many thousands of Brits working out there. Creative talent, we should note, is highly mobile.

However, lest we become too smug about our comparative strengths, we should immediately acknowledge our greatest weakness - we are *not* good at building *creative business capacity*. This could hardly be more serious because it is the key to international competitiveness in the global creative economy.

The reasons for this weakness are complex and take us beyond the scope of today’s subject, but let me mention just three points.

First, by contrast with the USA, creative industry business is not generally regarded as “serious” business in the UK. This is a significant cultural handicap.

Second, there is a general lack of trust between our financial communities on the one hand, and our creative communities on the other. This was greatly exacerbated by the bursting of the “dot com bubble” some ten years ago.

Third, the creative industries are sometimes poorly understood in government. I hope the Shadow Secretary of State, who was in government, will not take offence, because they are also poorly understood in the financial and investment community, including the City.

How good are we really?

So, in short, there is some good news and some not such good news.

Let’s look a little more closely at the economic evidence. On the positive side of the balance sheet our creative industries generate a higher proportion of aggregate GDP than in any other developed market, combining a strong performance in both domestic and export markets. In terms of share of global GDP the music, TV, publishing and computer games industries perform especially strongly. Other industries, including the advertising, film and fashion industries, as well as the performing arts, also perform strongly against a range of indicators.

On the less positive side, while the UK certainly punches above its weight on a number of measures, UK-owned companies hardly ever emerge as global leaders in any part of this universe. The consequence is that most of the commercial benefits that derive from control of the value chain do not revert to the UK. That in turn means that the Treasury misses out on significant tax revenues.

The film industry is a case in point. According to the European Audiovisual Observatory in Strasbourg, of the leading fourteen film companies in the UK

and Europe measured by aggregate operating revenues, in 2008 well over half were American. There is only one UK theatrical distributor on the list, one UK film finance company (this is Ingenious), and no stand-alone UK film production company.

So we do have to be a little careful how we tell this story. The recent £100 million decision by Warner Brothers to buy and refurbish Leavesden Studios near Watford, famously home of the eight Harry Potter films, is of course hugely welcome on many counts. It is above all a tribute to our craft skills in film-making.

However the Leavesden deal is also symbolic. Whilst the film activities carried out there, at Pinewood and elsewhere do stimulate significant economic activity, and profits, for a number of UK players, the *super-profits* flow back to rights-holders in the USA, where they are taxed for the benefit of the US Treasury.

Are we satisfied with this? Surely, as Ed Vaizey himself seemed to acknowledge in his speech last week on the future of the UK film industry, we should set our policy sights higher than this by more systematically pursuing the elusive goal of sustainability.

This is not to strike a pessimistic note. On the contrary, there is a huge opportunity out there, and grounds for much optimism, provided we play our hand right.

That hand is a strong one. In a global market for cultural goods and services which is expanding rapidly - it grew by some 8.7% from 2000 to 2005 - “Brand UK”, from Robin Hood to the Sex Pistols and *Top Gear*, via Sherlock Holmes and countless costume dramas, holds an undiminished fascination for global audiences.

More than 375 million people speak English as their first language. Between 470 million and a billion people speak some English as a second language. This is an enormous potential market for our creative goods and services.

However in order to grasp the prize we *do* have to play our hand right. I want to focus now on how the Higher Education system might help us to do that.

How can the Higher Education System contribute to UK success in the global creative economy?

I have often heard it said that the problem with the creative sector is that creative people do not understand business, and are hostile to commerce. I have to tell you that this is largely rubbish.

I want to argue that the reverse proposition is closer to the truth: the bigger problem by far is that *very few people in the worlds of business and finance understand the creative process*. This is, not least, a challenge for the Higher Education system.

In order to compete successfully in the global creative economy of the future I believe we need to pursue four, related policy goals. Education lies at the heart of each of them.

First, we need to reinvigorate the entrepreneurial tradition. We can argue about whether entrepreneurs are born or made, but there is no doubt in my mind that we can do much more to inculcate an understanding of the precepts of entrepreneurship, and to inspire budding entrepreneurs. What the Crossick Report has to say on entrepreneurship education is therefore extremely welcome.

Second, more of our business schools need to acquire an understanding of the creative universe. I deliberately put the proposition this way round. Of course it is helpful, and necessary, for creative folk to understand the basics of P&L accounting, but the objective should be to support them in doing what they do best, *being creative*, not to try to turn them into businessmen and women.

Third, more business studies graduates, and especially postgraduates, must be helped towards a deeper understanding of the fundamental dynamics of creative business development. This means, if I may be permitted to compress what is a complex topic in its own right, all of the following amongst other things:

- understanding the crucial importance of intellectual property and rights management;
- understanding the unique risk and scale profiles of the creative sector;
- understanding the necessity to move away from the “silo mentality” that still bedevils our creative industries; and, finally,
- understanding that success in creative business is not, as is often represented, a completely random process.

This final point is crucial. Managers must be educated (in the broadest sense) to understand that business success is achieved by managing risk strategically and rationally, and that this means understanding the creative process, understanding creative people and being able to speak their language.

For much the same reasons we also need to train more of our lawyers and accountants to understand creativity. Creativity is not, as some prejudiced minds would have it, a black art that serious professionals should be encouraged to steer clear of!

Now in order to achieve these goals I suspect that we will need to proceed on a number of fronts simultaneously. Options should certainly include the development of more interdisciplinary courses; and, possibly also, the creation of specialist business schools.

As regards the curriculum we also need to give a much higher priority to the economics of culture and entertainment. Ten years ago Professor Richard Caves at Harvard wrote a ground-breaking book called *Creative Industries: Contracts between Art and Commerce*. There is nothing like it in the UK literature as far as I am aware. Why? We need to interrogate these questions in our own markets if we are to compete successfully on the world stage.

The Crossick Report

This brings me to the Crossick report. I congratulate everyone associated with it. It is a tremendously welcome piece of analysis and should be heeded by anyone who cares for the future of our economy.

Geoff's report was completed as we know against the background of gathering storm clouds. I refer, of course, to the publication of the Browne Review of Higher Education Funding, closely followed by the Comprehensive Spending Review. My understanding is that the combined effect of these provisions, were they to be carried through as announced, would be to withdraw direct public funding for teaching in universities, at least in England, from most of the subjects which currently support the creative industries.

Given the acknowledged importance of the creative industries to the economy, and the importance of the Higher Education sector in underpinning the strength of the creative industries, one can only be seriously concerned about recent pronouncements. As the Report notes, creative industries policy and higher

education policy have never been especially well aligned. However, if the Browne Review were to be implemented as written it would surely have the effect of turning mere misalignment into complete contradiction.

The idea that we should give absolute priority to STEM subjects over the arts and humanities is fundamentally misconceived. Ask anyone in the burgeoning global games industry – an industry which almost perfectly embodies the fusion of STEM-based learning and culture-based creativity.

The requirements of the creative economy should be leading us to think in terms of the breaking down of old and simplistic binary divides, not of entrenching them. What we need, as the Report clearly recognises, is for the arts and sciences to combine in more inventive reconfigurations of multidisciplinary excellence – propelled by the demands of new and emerging, consumer-driven markets – markets which are changing so quickly that none of us can see more than a year ahead.

One can hardly overstate the importance of this point. It is creative content that drives forward what we still call “the digital economy”, a phrase which, incidentally, is already past its sell-by date given that the technology is already completely normal! As Geoff Crossick noted in an earlier report for Universities UK, “*it is the quality of content that drives profits.*” It is indeed, but it seems that this penny has still not dropped.

Some of you may have come across the work of the graphic designer and computer scientist John Maeda, who argues that scientists need art and artists in their professional lives in order to innovate successfully. Following Maeda, perhaps we should begin a campaign to transform the binary concept of STEM into the expanded concept of **STEAM**, (though not I hope hot air!) with the arts

taking their rightful place at the heart of the creative economy equation.

To conclude

A survey conducted three years ago found that some 30% of young people wanted to make a career in the creative sector. Only a third of them are succeeding, on current numbers.

If we are to transform that ratio, and in the process build an economy based on knowledge and creativity rather than on property bubbles and credit default swaps, the Higher Education system will have to up its game, to be blunt.

And so shall we all. I referred earlier to a lack of trust between the several communities engaged, or not engaged, with the creative industries. We in the business world should certainly shoulder some of the responsibility for this absence of mutual understanding.

The fact is that we all need to collaborate – to build better understanding, expertise and creative business sustainability so that we can win in a highly competitive global economy. The Crossick Report clearly recognises this.

But, and finally, above all we need investment – public *and* private. Without investment, including investment in higher education, we are, as the Report also observes, “*in danger of seriously damaging one of the few economic areas in which this country is an established world leader.*” That, Mr Chairman, would surely be foolish.

Thank you for listening.

[2500 words]