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**THE NEW ADHOCRACY: STRATEGY, RISK AND THE SMALL  
CREATIVE FIRM**

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## **1. Introduction and background to the research**

This research project grew out of a vocational education development project at the Centre for the Study of Cultural Policy at the University of Warwick, supported by the University of Warwick Strategic Group for Continuing Vocational Education. The aim of the project was to research and develop professional development and vocational training for those working in the cultural sector. Research focused initially on the lack of opportunities for managerial training in the sector. Following consultation with policy makers, managers and practitioners, a pilot programme of four seminars took place in the summer of 1998. The aim of the seminar programme was to provide an opportunity to discuss the concepts and strategies which lie behind and inform everyday operational issues. Seminars were repeated in both London and Birmingham with an overall attendance of just over a hundred delegates.

The seminars highlighted the existence of an unofficial 'new cultural economy' made up of fledgling 'creative businesses', individual entrepreneurs, freelance practitioners and minority communities. This creative sector appeared to operate at the fringes of the commercial creative industries, often exploiting the opportunities provided by new digital technologies to create new and independent systems of cultural production and distribution.

Following the pilot seminar programme, it was decided to direct the professional development programme at independent creative businesses. Many of those working in this sector are self-taught and self-employed (cf. O'Brien and Feist 1995, Knott 1994). Self-employed individuals and small creative firms find it especially difficult to devote time and space to ongoing professional development training. Long-term strategic thinking tends to take second place to more urgent operational priorities. The lack of training opportunities and the absence of a managerial 'culture' among the creative industries have emerged as consistent themes in the minutes of the Creative Industries Task Force during its first year of operation (1997/98). Whereas the last ten years have witnessed a major expansion of postgraduate education opportunities for those seeking to develop administrative careers in the subsidised arts, there exist virtually no comparable opportunities for those working in the creative industries.

It was also decided to consolidate the Centre's vocational training programme within an accredited postgraduate programme. A new MA in Creative and Media Enterprises, due to start in October 1999, has been designed for those wishing to set up or manage their own business in the commercial creative sector. The programme will complement the Centre's existing taught MA programme in European Cultural Policy and Administration and draws on ideas and issues explored during the pilot programme. The MA will treat theoretical concepts as integral to business decision-making and will span different media and creative industries, reflecting the cross-sectoral 'integrated' pattern of the commercial creative sector.

The current research project aims to identify some of the strategic issues confronting small creative businesses. Research outcomes will feed into course development of the new MA and into a continuing short course programme. The CVE Strategic Group has continued to support the vocational training development project for a second year and outcomes from this

research project will also be used to develop vocational training initiatives including a pilot short course programme planned for spring 1999.

In particular, the current research project focuses on the issue of risk management in the creative industries. The starting point for the research is the contention that small creative firms or 'micro-businesses' have been compelled to develop a more flexible approach to managing the unpredictable products, processes and markets of the creative industries than their corporate counterparts. In turn, some larger companies are attempting to imitate or appropriate these tactics, either by reinventing themselves as aggregates of small business units and 'pseudo-independents', or by forming strategic alliances with smaller producers. The research findings suggest that the strategic challenge now facing the small independent firm is the need to adapt to the growing sophistication of the corporate sector. Independent firms can no longer take for granted their traditional strengths of flexibility, opportunism and closeness to the customer, nor can they fall back on their traditional role as niche provider of new products and ideas on the fringes of the corporate power-structure. The majors are learning to act like independents and now the independents must attempt to discover a more coherent, 'corporate' strategic approach. These research findings are discussed in more detail in the concluding section.

The research was conducted between May and November 1998 and included desk research and semi-structured interviews with a sample of creative businesses and with staff of related development agencies. A list of interviewees is included in the bibliography. The research was made possible through a grant from the Research Development Fund of the University of Warwick.

## **2. *Risky business: the value of symbolic goods***

For the purpose of this project, a creative business is defined as a commercial enterprise which deals in 'symbolic goods'. This term is preferred to the more generalised concept of 'intellectual property' which could stretch to any innovative product protected under copyright.<sup>1</sup> Symbolic goods are commercial products which communicate symbolic meanings to consumers. Literature, film, television drama, music, performance, visual arts and crafts all fall into this category of symbolic goods, whereas vacuum cleaners or financial services do not.

Of course this definition is not altogether clear-cut. On the one hand, a political economy critique of the culture industry might argue that many of the products of the Hollywood film industry are pure commodities with no symbolic value whatsoever (Adorno 1990). On the other hand much cultural and sociological analysis is devoted to decoding the symbolic meanings of consumer goods, from fashions in clothing to apparently meaningless activities such as drinking or fighting (Hebdige 1979, Willis 1990). These symbolic values are reinforced by modern advertising techniques which emphasise 'lifestyle' over 'product'; advertising agencies tend to emphasise these symbolic associations especially in order to differentiate generic products, from lager to chocolate. Taken to its extreme by writers like

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<sup>1</sup> The inventor and entrepreneur James Dyson recently pointed out that British manufacturers are no less innovative and 'creative' than their counterparts working in the media and 'creative industries' (IPPR 1998)

Baudrillard, this analysis of consumer goods leads to the contention that we live in a world of pure symbols where 'reality' has shrunk to mere discourse and where different language games collide in an 'ecstasy of communication'. Whether we react to this postmodernist hall of mirrors with celebration or nostalgic despair, few of us would deny that the effect of packaging and consumer advertising has permeated the solid world of 'real' products. In this context, is the phrase 'symbolic goods' useful in distinguishing a film from a vacuum cleaner, and is such a distinction valid?

I would argue that there remains a difference of degree, if not in kind, between material and symbolic goods. Material goods contain a symbolic component, emphasised by advertisers and played out in consumer perceptions of the product. However, this symbolic content is balanced by the product's material function. A car or a computer may be sold to us as a lifestyle accessory, but it is also expected to operate in its own terms. The soft sell of images and associations deployed in the advertisement is underwritten by a hard sell based on performance data, statistics and technical specifications. Finally, if the product fails to perform its material function, the customer will complain and the product will fail.

If we move from manufactured goods to services, the symbolic content of the product becomes more important and the material function recedes into the background. In a service industry such as hospitality and catering, the material function (food and shelter) is more or less taken for granted. Businesses compete in terms of their 'value added', and symbolic distinctions are reinforced through an emphasis on customer care or by anticipating and exceeding customer needs. Qualitative or peripheral elements in the service, such as ambience, decor, or friendliness often appear more important than minimum standards of service provision. Yet again, as with the manufactured goods, businesses neglect the bottom line of functional services at their peril. If a train service is consistently late, or if it neglects safety standards, no amount of customer care training, new uniforms or reupholstering of waiting rooms will compensate the consumer (or the official regulator).

In the creative industries, the balance shifts decisively towards the product's symbolic properties. A book, television programme or film consists of a collection of narratives (or 'discourses') which are interpreted by the consumer. Its material content, the celluloid on which the film is printed, or the plastic of the compact disc is relatively unimportant. In the switch from analogue to digital forms of communication, the material component of the product recedes further; in material terms the product is reduced to a series of electronic pulses or digital code. The code can be transcribed but, without the necessary hardware, it remains a meaningless string of digits. The 'software' produced by the creative industries, the ideas and programmes, images, sounds and stories, need to be supported through a range of expensive hardware, both in consumption and more especially in production. However, the material function of the product itself remains strictly marginal. Of course we can find examples of 'useful' cultural artefacts, which are supposed to produce tangible social, economic or psychological benefits; however, this supposition of usefulness often derives not from the producer or consumer, but from a third party's good intentions (often a politician or bureaucrat). It could further be argued that these secondary suppositions are 'extrinsic' rather than 'intrinsic' since they are not based on the real perceptions of the consumer nor the real intentions of the primary producer (Bille Hansen 1993); furthermore, because the supposed use value is often based on the fictitious suppositions of a third party, the cultural product regularly fails to deliver on the promise of usefulness where it really matters, at the point of consumption.

It might be possible to position different products and different forms of production on a sliding scale based on the relationship between material function and symbolic meaning. Without attempting such a comprehensive analysis, it is still perhaps possible to recognise some general differences between manufacturing, service and creative industries. At one end of the scale, manufacturing produces material goods which may contain a symbolic component which is picked up by advertisers and consumers. In the service industries, the symbolic content of the 'product' becomes increasingly important. In the creative industries, commodities are valued primarily not for their material function but for their symbolic content.

It is this symbolic content which makes questions of value problematic in the creative industries and which makes 'symbolic goods' unpredictable as commodities. It has been argued that symbolic goods are primarily concerned with the transmission of meanings. Yet these meanings are not necessarily fixed, nor are they necessarily controlled by the producer of the message. A comprehensive treatment of this subject is beyond the scope of this paper. Suffice it to say that since the 1970s, researchers in cultural studies and media studies, influenced by a previous generation of anthropologists and semioticians, have increasingly emphasised the shifting, unpredictable meanings of symbolic goods. Whereas the 'mass media' researchers of the 1920s regarded the flow of meanings as a one-way street, with powerful media and cultural organisations manipulating a 'mass' public (e.g. Lippmann 1922), researchers since the late 1970s have devoted themselves to unravelling the semiotic intricacies of popular culture (Hall 1980, 1977; Wren-Lewis 1983; Abercrombie 1990). Consumers and audiences are seen to reinvent meanings and 'play' subversively with the dominant messages transmitted by admittedly powerful organisations. In this way consumers are able to subvert the 'hegemony' of the dominant political and cultural orthodoxy. These subversive reinterpretations flow partly from the anthropological context of particular 'sub-cultures'; they are also an inevitable by-product of semiotic complexity, whereby the encoding / decoding process is no longer transparent but fraught with contingent difficulties. This view of the unpredictable, subversive process of communicating meanings has so permeated research in cultural studies and media studies that it can be seen to represent, if not a consensus, at least the 'dominant paradigm' (Morley 1989, Fejes 1984, Katz 1987)<sup>2</sup>.

Some versions of this dominant paradigm (for example John Fiske's 'audience liberation theory' or Paul Willis' 'symbolic creativity') have been criticised as politically naive or complacent (e.g. McGuigan 1996, Murdock 1978). However, circumstantial evidence seems to support the anti-determinist view. The market for cultural and media products is increasingly saturated, producing a shift from a seller's market to a buyer's market. Technological developments (e.g. VCRs, portable stereos, cable and digital TV, electronic publishing) have contributed to greater variety in the contexts in which cultural goods are consumed and greater consumer control and choice (albeit from a predetermined menu). Audiences have become more sophisticated simply as a result of exposure to a pervasive media and entertainment industry. Markets have become increasingly complex and diverse as a result of demographic changes within the existing audience and the extensive reach of the global communications infrastructure to ever newer markets.

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<sup>2</sup> Of course there are those who resist this dominant paradigm, notably the political economy critics of the mass media (Nicholas Garnham, Graham Murdock) and the neo-determinists of Althusserian structuralism. But every good hegemony must be capable of absorbing a few dissidents.

If we accept this picture of growing complexity and consumer autonomy in the reception of symbolic meanings, the attempt to put a fixed commercial value on 'symbolic goods' becomes problematic. Furthermore, the translation of symbolic meanings into commodities appears more unpredictable, and hence risky, than the selling of ordinary goods. The central paradox of the creative industries, as Adorno recognised in his analysis of 'the culture industry', is the attempt to treat symbolic goods as commodities. In this treatment, the unpredictable and ephemeral values of symbolic goods are assigned a fixed commodity value. This in turn allows creative processes to be streamlined and rationalised to conform to a model of production and industrial organisation imported from manufacturing. The central argument of this research project is that this attempt to assign commodity values to cultural goods is based on a fundamental contradiction. The argument is based not on aesthetic squeamishness, but on a belief that the managerial and organisational systems used in many parts of the creative industries may be inappropriate and ineffective.

An illustration of the practical difficulties in commodification is the attempt by accountants and auditors to assign fixed monetary values to films in production or films in a company's back catalogue. From an accountant's perspective, the initial valuation of film in production is based on the costs incurred to make it. This figure is balanced in the accounts by an assessment of future net revenues. As the revenues start to come in, the current value of the film can be calculated by subtracting the actual revenues from the original production costs. Eventually the 'value' of the film will be written off or 'amortised' over a period of years, as revenues accrue (or not) during the film's initial period of release, so that the film eventually enters the back catalogue with an official value of zero. Of course this method of accounting is highly unsatisfactory since either budgetary excesses and overspends in production, or alternatively a disastrous performance at the box-office, will lead to the film's 'value' as it appears in the accounts being grossly inflated. The method takes no account of market conditions or quality of the product. It allows a high-budget flop to remain on the company's books as an asset, whilst a successful film which has covered its costs is 'written off' in the company's back catalogue.

The problem for the film accountant lies in the concept of 'future value'; this involves an element of informed guesswork, and may bear little or no relation to the estimates of 'present value' based on production costs and units sold to date. Jake Eberts and Terry Ilott describe the problems of assigning 'future value' to films in their account of Goldcrest Films (Eberts and Ilott 1990). Without blaming the company's accountants, they suggest that these problems contributed to managerial miscalculations which eventually broke up the company. Because films have a shelf-life, they differ from more ephemeral cultural products such as a live performance. First of all film production, in common with the music and publishing industries, generally requires a major capital investment in the present, in the uncertain hope of future profits. A successful product will continue to provide revenues even after it has covered its costs and been 'written off' by the accountants. Digital technologies and media convergence have increased the number of potential future outlets for successful products. They have also made it possible to spread the risk of a product across several markets or release 'windows'. In the film industry, the repackaging of products across different media (e.g. theatre release, video retail and rental, pay television, cable and terrestrial television) in overseas and domestic markets has led to the controversial practice of 'cross-collateralisation'. This is effectively a strategy of internal cross-subsidisation, whereby

revenues from one market are used to offset losses in another market, absorbing profits which might otherwise have accrued to the original investors.

The difficulties facing film accountants stem from the fact that there is no predictable correlation between input and output. The real 'value' of the product is determined by the consumer, regardless of how much the film cost to make or the quality of its components. If the market rejects the product, there is very little in the way of residual value to fall back upon. The corporate approach to handling symbolic goods can be seen as an attempt to override these unpredictable attributes, for example by 'forcing' a correlation between production costs and market value and by seeking to recoup the residual value of symbolic goods in secondary markets. Similar strategies are pursued in other branches of the creative industries. The different strategies of large and small companies in dealing with the inherent risk and unpredictability of the creative industries will be considered in more detail in the next two sections.

### **3. *Fictional markets and waste: corporate approaches to risk management***

Whether measured in market share or turnover, the success of the half dozen major companies which dominate the media and entertainment industries is undeniable. Critics of the 'moribund' European film industry suggest that the dominance of the Hollywood majors reflects their superior organisational structure and strategies for managing risk (Dale 1997). Others argue that their success is merely the result of monopolistic control over production and distribution (Bagdikian 1990, Schiller 1989). In this section I will argue that the corporate approach to risk management is based primarily on reducing symbolic goods to material commodities. While this reductive approach overrides many of the problems referred to in the previous section, its effectiveness depends not so much on efficient handling of unpredictable products as on reinforcing a corporate advantage over competitors.

In the previous section it was argued that the value of symbolic goods is determined at the point of consumption. This perception of 'exchange value' at the point of consumption overrides any intrinsic 'use value' based on the inputs of work and raw materials made at the point of production. Since it is difficult for producers to predict the response of consumers and hence the 'real' value of the product, the production of symbolic goods becomes a kind of gamble, investing in the present in order to recoup uncertain future rewards. Ien Ang in her analysis of the television ratings system (Ang 1991) describes this unpredictability in relation to the "social world of actual audiences". Audiences do not behave according to the predictable patterns of audience ratings; within a group different individual tastes compete, and the individual consumer encompasses conflicting interests and needs, even different viewing personalities. Even when they have chosen what to watch, viewers are often not paying attention - they may be talking, eating, working or playing at the same time. Moreover they use technology to break up the programming flow, using the remote control and the video cassette recorder to disrupt the programmer's schedule. The ratings system attempts to provide the programmer with objective measurements of audience viewing for the purpose of delivering audiences to the advertiser. According to Ang, the system is actually based on an illusion, the 'fictive' idea that the audience for a particular programme represents "a unitary, objectified category". While this category conforms to "the institutional point of view" of the audience as "object to be conquered" it cannot cope with the real complexity of audience behaviour. Ang goes on to describe a crisis of control in the 1980s in U.S. commercial



television as the Nielsen ratings system attempted to keep pace with these intricacies of audience behaviour through qualitative research and more sophisticated systems of audience measurement. Ultimately these attempts were an admission of defeat: the ratings system, the bottom line for industry decision-making, could no longer be trusted. People meters and viewer diaries represented a Canute-like attempt to measure the immeasurable, “the industry’s attempt to bring order into the chaos of the social world of actual audiences” (Ang 1990, 95).

Ang argues that the commercial television’s ratings system, the bible for industry decision-making, is essentially a ‘fictive’ exercise. This fiction comforts the programmer with an illusory and reassuring framework of predictability, and allows the programmer to package audiences to the advertiser. The alternative, according to Ang, is a recognition of diversity and autonomy among viewers. Through ‘ethnographic’ research and an increasingly customised approach to television viewing, the market becomes broken down into ever smaller categories. This fragmentation of the audience is captured by the television executive in Ang’s book who keeps a hundred photographs portraying unknown faces on his office wall to remind him of his ‘real’ audience (Ang 1991, 23). For the American networks, niche marketing across a nation-wide audience, under current technological and commercial constraints, is simply not a viable option. Consequently the terrestrial broadcasters cling to the outmoded ratings system as a crude representation of a ‘national television audience’; the sophistication of measurement and scientific certainty of language increase in direct proportion to the unpredictability of audience behaviour. Clearly there is an analogy between the exercise in self-reassurance described by Ang and the use of focus groups, test marketing and sophisticated qualitative research in other areas of the creative industries, for example film previews and book launches.

Björkegren (1996) identifies the two principal strategies used by ‘arts-related businesses’ to cope with the unpredictable market as “the commercial business strategy” and the “cultural business strategy” (Björkegren 1996, 44 - 50). The ‘commercial business strategy’ depends upon “controlling the supply with a limited amount of arts products on the market” and applying “forceful” marketing to this narrow range of products. The strategy is best suited to products with a limited shelf-life and a rapid turnover. Björkegren identifies this strategy with the U.S. publishing industry, with its search for the one-off commercial bestseller and its rapid turnover in book stores; it might also be applied to the emergence of ‘high concept’ blockbuster movies in the 1980s film industry (*ibid.*, 55 - 56, 132 - 33). The ‘cultural business strategy’ depends more on a “long-term view”, developing a range of cultural products in the hope that one of them will eventually be successful; the strategy is based on “cultural values that may ultimately yield economic returns”. This strategy is also known as the ‘portfolio’ approach. Björkegren associates this strategy with some European ‘quality’ publishing houses, which cultivate a stable of authors in the hope either that one of them will produce a ‘hit’, or that a prestigious list will draw in other more marketable authors (*ibid.*, 61 - 63).

What these strategies have in common is an attempt to make unpredictable symbolic goods follow the same patterns of investment and performance as material commodities. In relation to Björkegren’s ‘commercial business strategy’, Hollywood has recognised that it is “less risky to make a \$50 million movie than to make one costing \$10 million” (Björkegren 1996, 133). Working with proven talent lessens the risk, but the proven talent (or their agents) recognise their market value and insist upon higher fees. The star system, as developed by the Hollywood studios in the 1930s, was designed to bring a measure of predictability to the

business of casting. Whereas acting talent is an unpredictable commodity, star status is a form of branding which ensures a degree of consistency across different projects of variable quality. Certain performers, even some directors, have 'marquee' appeal, meaning that their name on a film's credits will virtually guarantee a proportion of box-office income. The continuing appeal of the star 'personality', marketed in the same way as other consumer products and services, provides a more consistent vehicle for the industry than their 'talent'. Other creative industries have applied a similar tactic in marketing writers, visual artists and musicians as collective brands rather than individual talents, using labels like 'Young British Artists', 'Britpop', or 'brat-pack' to package disparate individuals. Again the label is intended to reassure the public and imply a degree of consistency, even though many of the individual artists concerned either dispute the label or are merely using it as a tag of convenience.

Along with the use of genres, formulaic plot devices and expensive special effects, 'stars' have become part of the branding process in the film industry and in other branches of the creative industries. Although these brands are designed to ensure a degree of consistency in box-office performance, there is no real guarantee that they will ensure a consistent aesthetic performance. Consequently, the brand is vulnerable to sudden and unpredictable collapse, as a result of gross miscasting, changes in audience taste or fashion, or simply an unexpectedly poor performance. Goldcrest's decision to cast Al Pacino and Nastassia Kinski in the Hugh Hudson film *Revolution* illustrates how an established 'brand' can unexpectedly implode. The company enjoyed some initial success during pre-production as a result of Pacino's casting, with the star's name helping to raise the project's profile and secure advance sales. Yet in production the casting of Pacino caused problems. Parts of the film had to be rewritten around him and there was a distinct lack of on-screen 'chemistry' between Pacino and Kinski. When the film was released Pacino's accent seemed inappropriate to the film and critics complained that he had been miscast. In retrospect the brand here seemed to work against the project. High concept films, however carefully assembled from proven components, cannot be relied upon to produce predictable results. Notoriously, Michael Cimino, a star director following the success of *The Deer Hunter* was responsible for virtually bankrupting the studio with his subsequent folie de grandeur, *Heaven's Gate*. Of course in a formulaic high concept movie, individual performances may cease to matter at the box office; critically panned movies can still succeed on the back of a successful formula, backed by the right star ingredients. It could be argued that the problem with *Heaven's Gate* was not so much that the star director failed to deliver, as that Cimino broke the rules of the formula by producing an overlong and uncategorisable film.

Perhaps the most important effect of the strategies identified by Björkegren is to drive up production costs. The industry's faith in established talent raises the entry costs for would-be competitors. Similarly the industry's emphasis on 'production values' and technical 'standards' in mainstream cultural products may on the one hand be seen as the imposition of inappropriate generic criteria on the unpredictable and diverse nature of symbolic goods. On the other hand, it might be seen as a deliberate strategy by the established players to raise the entry stakes in order to discourage new players. Minimum technical standards reflect a residual 'use value' based on measurable inputs and outputs. While these criteria are appropriate to the material components of the product, for example paper and binding of a book, print quality of a film, technical quality of a CD, they appear less relevant to the 'software' of ideas and imagination. In the music industry producers have become the new stars, and performers (especially in dance music) are reduced to the role of walk-ons. The

fetishisation of production standards, formulae and brands may on the one hand be seen as a misguided attempt to restrain the product's unpredictability within a standardised template. On the other hand it may be seen as a highly successful attempt to retain control over the industry by discouraging new entrants who either do not understand the rules of the game or cannot afford the entry tariff.

Björkegren's 'cultural business strategy' has a similar effect of raising costs for the industry and pricing smaller actors out of the market. The strategy, often referred to as the 'portfolio approach', requires that the industry as a whole pay for unproductive work. Scriptwriters are placed on the pay roll but the scripts they produce are never made; new bands are given advances in the knowledge that nine times out of ten they will never make a successful record. Advocates of the Hollywood studio system, like Martin Dale, argue that the portfolio approach is an effective strategy for research and development in the film industry; the ratio of films in development to films in production is much higher in Hollywood than in Europe, reflecting the importance Hollywood accords to the development process. This argument assumes that projects follow a linear development process, being honed and refined through successive stages in a filtering process which allows the cream to rise to the top. In fact the development process, as described by scriptwriters like William Boyd, is far more random and sporadic, with first-time scriptwriters, unproven directors, actors and their agents inhabiting a netherworld of frenetic creative activity, with little real prospect of making the leap into production. Given the unpredictability of the market referred to above, the nature of the creative process and the absence of any sure indicators for commercial success, the development process must inevitably be somewhat haphazard. The analogy between the Hollywood studios and research and development in industry is rather tenuous. There is in the end no sure way of 'developing' a product in the creative economy, nor do the development and production processes follow a linear route along a supply chain.

Ultimately the 'portfolio' approach to risk management is not so much a way around the problem of risk as a way of riding out problems of cash-flow and the peaks and troughs of 'hits' and 'misses'. As such it is really a zero sum game based on a small number of successes cross-subsidising a larger proportion of failures. By running a number of different projects concurrently, the effects of success and failure can be absorbed and neutralised. Of course for the strategy to work, the projects must first of all be clearly differentiated across a range of different genres or media in the development phase. Secondly the company must exercise a certain ruthlessness in differentiating the successful and unsuccessful products. Producers must pull the plug on a project once it becomes clear that it will not deliver a return; distributors must concentrate their resources on the successful outcomes, not waste money on salvaging the failures. Goldcrest's attempt to adopt a 'portfolio' strategy to film production in the mid-1980s failed on both counts. For a relatively small company, the combination of spreading resources across a real diversity of products and a ruthless evaluation of the portfolio in the production phase proved to be problematic. Goldcrest's strengths, as Jake Eberts acknowledged, had always lain in the opposite direction: the company had a reputation for investing in a relatively small range of projects with a higher strike rate than Hollywood studios, and for remaining loyal to its producers, even when things became difficult. When Eberts' successor attempted to take up a 'cultural business strategy', the company struggled to make it work.

Goldcrest's attempt to maintain a portfolio of projects is exceptional in the context of the British and European film industries. For the most part, in order to recover the high initial

investment costs of developing projects, smaller producers must enter a strategic alliance with one of the majors. In effect the smaller producers themselves become part of a portfolio of projects held by the larger companies. In turn the major media and entertainment companies are increasingly concentrating their resources on distribution and sales rather than on production. Investment in production remains a risky business, best left to the enthusiasts; the real profits lie in buying up and distributing the completed products. Given the share of the market controlled by the majors, the smaller producers simply cannot afford not to do business with them. The net effect is to reinforce the major distributors' control over the industry.

However effective or ineffective the strategies referred to above may be in terms of risk management, they are undoubtedly expensive. The losses sustained by investing in development and maintaining a portfolio of projects must be set against profits, or covered by a loan or partnership agreement with another company, usually a distributor. The main point of similarity between Björkegren's 'commercial business strategy' and his 'cultural business strategy' is the investment in apparently unproductive work. The effect of this wasted input is above all to increase production costs for the industry as a whole and to discourage new entrants to the industry. Smaller producers simply cannot afford to take on the 'blockbuster' or 'portfolio' approaches to risk management. The blockbuster approach, Björkegren's 'commercial business strategy', inflates the salaries of the proven talent (the major stars and directors) because they represent the 'risk-free' elements in the production package. The sheer waste of the portfolio approach has a similar inflationary effect; salary levels for production crews and 'talent' must take into account long periods of unemployment, while unsuccessful or unproduced projects must be paid for elsewhere. The effect is to reinforce the larger investors' competitive advantage in what is a high risk, capital-intensive industry.

In the strategies described by Ang and Björkegren, risk management depends upon forcing 'symbolic goods' to behave like predictable commodities. Unpredictable symbolic goods are streamlined into generic categories and contained within a 'fictive' framework which gives the illusion that the goods themselves, and the consumers who use them, are following predictable patterns. The reality is often very different. Yet the strategies are successful, not because they are effective methods of managing risk, but because their very inefficiency serves to raise the start-up costs for the industry. This has the effect of discouraging new entrants and reinforcing the monopolistic control over the industry enjoyed by a handful of corporate players. Larger companies in the film and music industries are increasingly concentrating their resources in distribution, leaving the smaller companies to take on the more risky and less profitable job of production. In order to cope with the high level of cost and risk, these smaller companies in turn are dependent upon strategic partnerships with the majors. In the end risk is not so much managed as channelled into a system which escalates costs and favours the larger players.

#### **4. *Fordism and post-Fordism in the creative industries***

In the previous section it was argued that the corporate approach to risk management in the creative industries depends either upon a kind of 'forcing' tactic, or by backing every horse in the race. On the one hand, by investing in the material components of symbolic goods, for example by buying up expensive 'star' talent and production techniques, the major players in

the film and music industries have attempted to develop predictable ‘packages’ or brands which will perform relatively consistently in the marketplace. On the other hand they have invested across a portfolio of products in the hope that at least one of them will be sufficiently successful not only to cover the other failures, but also to produce an overall profit. Björkegren points out that both these methods, which he refers to as the ‘commercial’ and ‘cultural’ business strategies, respectively depend upon controlling the supply of product or the method of distribution. It was further argued that the net effect of both strategies has been to raise production costs, and that this has further strengthened the monopoly control enjoyed by the established industry players. This monopolistic outcome has been the most significant factor of the commercial and cultural business strategies, rather than the discovery of a secret recipe for creating or finding successful products.

The strategies of the major corporate players in the creative industries can also be seen in terms of a relatively traditional model of industrial production based on manufacturing. This ‘fictive’ model of a production line contradicts the associations of spontaneity and escapism to which many of the producers and consumers claim to aspire. It is also at odds with the unpredictable nature of symbolic goods referred to in the opening section. Insistence upon minimum technical standards or ‘production values’ and hierarchical organisational structures mimic a ‘Fordist’ model of industrial production and maintain the fiction that symbolic goods behave like ordinary commodities. The commercial business strategy requires the maintenance of technical standards (production quality, industry standard pay and conditions) and product values (genre, format, ‘name’ talent). These standards are demanded on the consumer’s behalf by distributors, making it harder for small producers to break into the market. The strategy implies that there is a direct correlation between hard material inputs and the soft ‘symbolic’ outputs which will be the key to the product’s appeal to the consumer. It has already been suggested that this correlation is complex and unpredictable; ‘standards’ may be applied to the product’s residual material and technical functions, for example that a book be properly printed and bound, that a CD play without skipping, that a film print be presented in viewable condition. Typically these criteria will cover the physical condition of a cultural product, the ‘hardware’ as opposed to the ‘software’ or content. However, standardisation of ‘software’ is more problematic, implying a degree of predictability in consumer taste which cannot be taken for granted. The industry’s search for successful formulae and the insistence on technical ‘standards’ represent an attempt to control ‘inputs’ in the belief that this will provide control over ‘outputs’. The strategy may enjoy some success, depending on the timing of the launch and the size of the marketing budget; repetition of a plot formula or ‘character’ may also become a successful tactic within a niche market, as with the long-running ‘Freddy’ or ‘Jason’ franchises in the horror genre. However, standardisation, sequels and formulae run counter to the market’s continuing search for novelty. Conventions and markets continue to evolve despite the enormous efforts and expenditure devoted to controlling them and ‘being first’ with a formula is generally more important than imitating one.<sup>3</sup>

The attempt to control inputs in the cultural industries rests on a kind of comforting fiction. Producers in the cultural industries maintain similar roles and structures to those applied to

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<sup>3</sup> ‘Being first’ is not just important with topical material, for example books and TV specials about the O J Simpson case, it has also resulted in some bizarre recent races between studios producing films featuring volcanoes and insects (Volcano vs. Dante’s Peak, Bugs vs. Antz). Sequels have meanwhile become less common following their proliferation in the late 1980s when ‘high concept’ movies first became fashionable.

conventional service or manufacturing industry. Goods are seen to pass down a value chain, beginning in a process of research and development, through production to distribution, sales and marketing. This 'value chain' approach is in marked contrast to the more collaborative and arbitrary nature of cultural production mapped by sociological research into the 'production of culture'; Becker's model of the 'art world' describes a fluid interchange of ideas between different players, subverting the conventional notion of lonely artists and geniuses (Becker 1982). In Ken Negus' study of the music industry, despite an emphasis on the complexity and informality of relationships within popular music, the mapping of the industry nevertheless follows a fairly conventional demarcation of roles according to traditional chains of command and areas of responsibility; this applies especially to the somewhat more old-fashioned 'rock' tradition which still remains the touchstone for 'authenticity' within the industry (Negus 1992). For all their informality, the cultural industries often appear to be rigidly hierarchical, with junior employees struggling to impress their immediate superiors and the majority of key management roles occupied by middle-aged white men. These hierarchies feature especially in the 'how to' popular management books, as noted by Björkegren (1996). Yet these rigid structures do not necessarily correspond to the reality; they appear to be shaped by the corporation's own search for control, rather than the cultural production process.

Hierarchies also provide a linear framework which is in marked contrast to the web-like structures described by Negus and Becker. Hierarchy in the corporation allows individuals to follow a more or less orderly career ladder (with appropriate increments to job titles and salaries), a progression which is mythologised in the trade papers' reportings of executive comings and goings. Yet individual career paths suggest that real career progression is far more unpredictable and arbitrary. Mavericks turned tycoons such as Richard Branson or Bill Gates testify to the importance of luck in reaching the top of the pyramid; this is not just a matter of false modesty, since experience shows how rapidly the tables can be turned. Eberts and Ilott point to the gap between the magisterial authority conveyed by a film studio's corporate headquarters and the fragile adhocery of corporate decision-making, which often rests on the last word of one individual. Even smaller firms play the corporate game; all the creative businesses I spoke to recognised the importance of having a corporate 'front', for example by paying for expensive offices in Soho in order to convey the right impression of corporate seriousness, even if they were one or two person operations.

Corporate structures also mimic received social patterns of authority. Ethnic minorities are underrepresented in cultural occupations<sup>4</sup>, particularly at managerial level. Despite a relatively high proportion of younger women working in the creative industries, female employment falls off rapidly among the over-30s and women are again less likely to progress to senior positions; one possible explanation for this may be a 'macho' working environment which demands long hours and is unsympathetic to women with childcare responsibilities<sup>5</sup>. Interestingly, one of the growth areas in the creative industries between the 1981 and 1991 census data has been in the area of female self-employment (O'Brien and Feist 1995, 105). One possible interpretation of this statistic is that some women may be 'going it alone' in order to discover the autonomy and flexibility they are perhaps being denied by their

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<sup>4</sup> According to the 1991 census figures, 3.4% of individuals with cultural occupations are defined as coming from five ethnic minority groups, as against 5% of the total British economically active population. The imbalance applies especially to Indian, Pakistani and Bangladeshi populations.

<sup>5</sup> From research on women in film conducted by Janet Willis for BFI (forthcoming) - presentation at Culture Works conference, Coventry University 1997.

employers; this interpretation is supported by anecdotal evidence from women interviewed as part of this research project.

Björkegren's 'cultural business strategy', the maintenance of a product portfolio in the hope that one prospect will eventually succeed, allows creative industries to maintain a 'fictive' hierarchy which ignores the spontaneous and unpredictable processes whereby symbolic goods are made. Instead of engaging with the creative process, managers maintain a professional distance reinforced by job titles and organisational culture. A similar hierarchy is reinforced between successful and unsuccessful talent, with the successful artists maintaining conspicuously and self-destructively lavish lifestyles, with the support and encouragement of the industry. Conspicuous consumption by rock stars and film stars is itself part of the branding process, designed to impress not only the consumer, but also the struggling 'wannabes' further down the industry food chain who will continue to work for next to nothing in the hope that they too will eventually 'make it'.

Reviewing the structures and working methods of the film and music industries, there seems to be a mismatch between an unpredictable, arbitrary exchange value which is subject only to the 'hidden hand' of the market, and an emphasis on fixed quantifiable inputs and outputs and linear structures modelled on more conventional businesses. The somewhat hierarchical structure of the creative 'industries' imposes a reassuring yet fictitious sense of order on a chaotic market. By adopting the roles, titles and hierarchies of a conventional business, senior management assign a structure of values and rewards where the market provides only chance and uncertainty. In turn, the 'gatekeepers' of the industry impose a level of control upon the sector as a whole; the methods of assigning values and rewards and of structuring the industry help to insulate the dominant players against market failure and reinforce monopoly controls.

Yet there are some indications that this insistence on measurable inputs, rigid structures and minimum standards may be about to change. A handful of smaller producers have successfully broken the rules of the corporate game and been spectacularly rewarded for doing so. In the past these smaller producers, the so-called 'independent' sector, have actually been heavily dependent on the larger corporate players who have controlled entry points into the market through sales and distribution, allowing them to buy up 'rights' on the products of the independents. With the introduction of new technologies, especially digitalisation and the growth of the Internet, the process of distributing cultural products has become cheaper, easier and less centralised. Much of the current panic over intellectual property and copyright on the Net, while it is usually justified in terms of concern for the 'rights' of artists and the maintenance of appropriate 'standards', may well be driven by a corporate fear of losing control over the traditional market 'gateways'. The sales and distribution 'rights' they have so assiduously acquired may be (literally) on the line.

The rhetoric of 'post-fordism' has been criticised because it implies a total global shift in the world economy from manufacturing to service industries and from hierarchical, formally structured organisations to a regime of 'flexible accumulation'. Certainly the changes associated with post-fordism may have been more piecemeal and less sweeping than has sometimes been implied. However, it seems that within the creative industries there has been a shift towards smaller business units, self-employment, a flexible and semi-autonomous workforce, niche marketing, out-sourcing and a restructuring of monolithic industries around the unpredictable and diverse nature of consumer demand. This has been manifest firstly in

the shift towards self-employment and small businesses within the independent sector, and secondly, from the opposite end of the scale, in the attempt by large corporations seeking to reconfigure themselves as aggregates of small business units.

Research based on the 1991 UK census indicates a growing trend towards self-employment and creative 'micro-businesses' in the British cultural economy (O'Brien and Feist 1995). Self-employment in cultural occupations stood at 34% in 1991, in comparison with 12% for the total economically active population. Approximately half of those working in the film industry were self-employed in 1991 (54% of men and 44% of women). Current figures are probably higher, based on the prevailing trends. Between 1981 and 1991 self-employment among those with cultural occupations increased by 81% (as compared with a 53% increase among the total population). There was an increase of 72% in self-employment in the cultural industries during the same period.<sup>6</sup>

At the same time, many larger organisations have attempted to reinvent themselves as aggregates of smaller business units. The burgeoning of the so-called 'independent' sector in film, television production and the music industry in the 1980s has been accompanied and to some extent superseded by a growth in 'pseudo-independents' - wholly or partly owned subsidiaries of a major corporate player masquerading as genuinely independent small organisations.

Larger corporations have been forced to partially decentralise some of their operations in order to comply with anti-trust or anti-monopoly legislation. Instead of retaining monopoly control of production and distribution within the organisation, control is maintained through an 'arm's length' system of deals and alliances. The network of part-ownership and strategic alliances which make up today's multi-media global corporations has become increasingly complex; whilst these relationships do not constitute a single organisation, they remain an effective means of retaining strategic control at a central corporate hub.

The rise of pseudo-independents has also been market-driven, in an attempt to capitalise on the 'romance' associated with small-scale independent operators or to appeal to niche markets. Major book publishers run separate imprints which aim to project a specific 'niche' brand to the consumer, as with the 'quality' paperback series such as Penguin Classics or Vintage. Pseudo-independent record labels allow the parent company to establish a separate brand, semi-detached from the corporate identity, which will either appeal to purchasers of 'indy' music or will provide access to a specialist market for whom the associations of a 'major' label would be unwelcome (e.g. 'underground' acts, dance music, 'rebel' music). By distancing the product from the parent company, the pseudo-independent allows the product to take on connotations of novelty, authenticity or integrity. As Björkegren notes (Björkegren 1996, 23 - 25), such connotations are especially important in the modern music industry, which is rooted in a tradition of commodified rebellion, beginning with the packaging of

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<sup>6</sup> The researchers distinguish between individuals with cultural occupations and individuals working in the cultural industries. Many of those classified as working in 'the cultural industries' may not be pursuing 'cultural occupations' - this is especially true of the music industry and publishing. Similarly 40% of those identified as having 'cultural occupations' do not work in the officially designated cultural industries. However, for the purposes of my argument here the important factor is the growth in self-employment which applies across both sets of figures for cultural occupations and cultural industries.



'difference' and Bohemian individualism as a consumer product in the 1960s. Pseudo-independent labels also serve to deflect attention from corporate dominance.

From a managerial perspective, pseudo-independents represent another stage in the corporate bureaucracy's attempt to reinvent itself as an informal 'network' of decentralised, semi-autonomous businesses, recognising that these small business units are both more effective in dealing with the unpredictable markets and products of the creative industries and more adaptable to creative individualism. Of course this reinvention is often only skin-deep; the strategic 'core' of the business remains highly centralised, and by shedding some of the peripheral functions of product development and marketing this strategic core can focus even more clearly on long-term strategic objectives. Following the advice of management gurus like Charles Handy and Tom Peters, organisations have sought to maintain a 'loose-tight structure', based around a small strategic core with non-strategic functions and processes radiating outwards into smaller semi-autonomous business units and satellite organisations. However, in order to retain strategic control in the centre, the autonomy afforded to these decentralised sub-groups is strictly limited. They remain strictly controlled through a variety of financial controls and other monitoring checks on their performance. New technology has allowed this intra-organisational surveillance to operate in increasingly unseen yet effective ways; an illusory 'autonomy' is underpinned by a centralised command structure which is kept constantly informed through a flow of unseen digital data.

If large organisations have gone some way towards squaring the circle of 'loose-tight' structures through decentralisation and 'pseudo-independence', smaller creative organisations appear to have found it difficult to move in the opposite direction towards a similar balance. The next section examines the strategies deployed by smaller creative firms to handle the unpredictable qualities of 'symbolic goods'.

## **5. *Creative disorganisation: creative micro-businesses and the new adhocracy***

Major companies in the creative industries are able to thrive partly because they draw upon a pool of minor organisations and individuals who supply them with product. As the major companies become increasingly concerned with distribution, their reliance on an informal or 'independent' producing sector becomes more pronounced. The importance of this informal sector cannot be underestimated. When the British government recently attempted to impose new restrictions on unemployment benefit as part of its New Deal for the young unemployed, leading figures in the music industry warned that the music industry depended upon a pool of unemployed musicians plying their trade for little or no money while still claiming the dole. Similarly, any attempt to 'map' the creative industries whether nationally or locally must take into account the extent to which the industry's success stories remain embedded in an informal network of part-time, semi-unemployed and perennially unsuccessful individuals.

In this context, micro-businesses can be seen as the fermenting agents which keep the processes of creativity active at the industry grassroots while providing points of contact between the corporate sector and the informal cultural economy. Of the individuals I spoke to, most positioned themselves and their 'organisation' (if they recognised themselves in this description) as standing deliberately outside the mainstream corporate sector, yet most recognised the need to make deals with larger players in order to survive. They also

identified the importance of being part of a network of collaborators and allies, many of whom were only loosely connected to them and who would drift in and out of contact with them according to the needs of particular projects. For producers especially, it is obviously necessary to retain contacts both with key players in the industry, and with the informal creative community of freelancers and part-timers. Yet from the outside it is easy to underestimate the importance of this chain of dependency, and to focus only on individual organisations.

When governments have attempted to intervene in the creative industries they tend to see the sector in institutional terms as a set of more or less successful creative organisations with employees, assets and a regular financial turnover, as if these vital statistics could be separated out from the mess of irregularly employed creative individuals who stand behind them. This bureaucratic myopia ignores the various academic attempts to define the creative sector in relation to a broader civic context (cf. Bianchini 1993, Putnam 1993, Whyatt 1997), or the attempts, often at a local level, to develop a more rounded approach to cultural development. For example, the British New Deal programme and the European Social Fund's support for training programmes emphasise the short term 'outputs' of employment figures as an indicator of success or failure. It has been left to a handful of locally based training agencies (e.g. Brighton Media Centre, imag@nation, Trafalgar Square 2000) to look for longer term models of training which prepare the individual to survive as a creative individual in the freelance cultural economy.

Many individuals working in creative micro-businesses do not see themselves as belonging to 'organisations' in any formal sense. This does not mean that they are disorganised. Rather, they see their organisation or company as a pragmatic alliance of individuals with multiple skills playing multiple roles, which is connected in turn with a broader network of allies and collaborators. The 'organisation' is dependent on a particular set of projects and a particular convergence of individual talents. With the departure of one individual or the completion of a particular project, many such organisations may cease to exist, only to reinvent themselves with a new configuration of members around a new project six months later. In this sense, the 'organisations' are not sustainable, but the individuals who make them up continue to survive. Among the small film production companies I spoke to, it was rare to have more than one full-time employee who was wholly dependent on 'the organisation'. Other members were either working part-time with other collaborators, or contracted to other 'organisations' for different areas of work. Yet these same film production companies were also turning over multi-million pound film and television productions. The same applied to musicians, who would switch between projects, from performing as session musicians, composing film music, song-writing or running their own record label.

A key factor for success among those I spoke to who are working in the creative industries is the ability to sustain multiple memberships of different networks and organisations. This multiplicity is often at odds with the more hierarchical and linear structures used in the more mainstream organisations. One musician complained that his agent was unable to accept that he might be capable of working as a session musician when he was not working as a film composer. He also agreed with several of the interviewees on the importance of networks and contacts. Yet in relation to the larger organisations, self-employed individuals and micro-businesses are valued for their specialist skills and knowledge. They are multiple specialists, not all-rounders. At the individual level, the portfolio career fulfils the same function as the portfolio approach to project development; by specialising in different areas, the individual

can even out the peaks and troughs of relative success and failure and avoid being overreliant on any one particular project or area of work.

At one level, the informal structure of smaller organisations is perfectly adapted to the individualistic nature of creative work. Yet as organisations become more established and successful, the original loose structure becomes harder to sustain. Often the burden for ensuring continuity of the organisation falls on one individual while other members maintain a looser relationship with the organisation, while pursuing their separate careers outside the company. Meanwhile the individual core member is placed on a permanent salary or retainer and made responsible for day to day administration.

One of the key problems facing smaller creative businesses is the absence of any forum for strategic decision-making or long-term planning. In theory, everybody has a stake in the company, but in practice most of the members are juggling membership of the company with other external professional commitments. Roos and von Krogh (1996) make a useful distinction in the management of creative organisations between ‘operational’ and ‘strategic’ conversations. Organisations tend to defer the more difficult strategic decisions by engaging in operational discussions which focus on short-term problems and solutions. Moreover, they often lack a common language within which ‘strategic’ conversations can be understood. Many of the smaller creative businesses I spoke to faced a similar set of problems. Many creative partnerships are in fact temporary alliances structured around ‘operational’ priorities rather than ‘strategic’ priorities; when the core group meets, they are most likely to spend time discussing short term problems such as finance for the next project, design for a letterhead, paying the bills, rather than long term strategic goals. Strategic thinking, if it occurs at all, does so at an individual level, with different individuals having different priorities and ambitions which only partially intersect with the priorities and ambitions of ‘the organisation’. The core of the small creative organisation is usually the drive and commitment of one individual; in fact, for all practical purposes, we might question whether ‘the organisation’ really exists.

Consequently small creative firms are prone either to internal fall-out or to external takeover because they have not thought through a shared set of long-term aims. Where they do succeed in thriving and surviving, their success is often due to a particular individual’s vision or the success of a particular project; it may be difficult to carry this vision forward as the company expands, taking on new staff members and new projects. This was one of the problems faced by Goldcrest Films following its original success under Jake Eberts. David Puttnam complained that Eberts had proved unable to ‘raise his game’ to the role of chief executive of a company as the company expanded, while Eberts resented the company’s growing overheads and the loss of independence. Once Eberts left, the internal tensions within the company which Eberts’ charismatic leadership had pushed into the background came to the surface.

It has already been argued that some of the corporate strategies employed by the larger firms represent a ‘fictive’ rational structure superimposed upon a chaotic environment. Perhaps the absence of strategy among small creative firms can itself be seen as a deliberate strategy; flexibility and opportunism are the key to survival, and fixed strategies can get in the way of this pragmatic approach. Strategy and identity are contingent and flexible rather than fixed. Corporate identity for the small organisation can amount to an unwanted stereotype. Creative businesses are continually reinventing themselves in order to pursue new markets, new

products or new alliances; corporate identity is structured around a specific project, rather than working the other way around. This chameleon identity facilitates an opportunistic, flexible approach to business relationships. It is also appropriate to an industry where innovation is at a premium; given the market's obsession with novelty, sudden switches in direction may be seen as representing a consistent strategy of 'anti-branding'.

Strategically, the opportunism and flexibility of creative micro-businesses follows the 'adhocracy' model advocated by Mintzberg (1985a, 1985b). Rejecting the corporate rationalism of 'strategic management', Mintzberg describes strategy as 'emergent' from the environment in which the business operates. This more responsive, less directive approach to business planning is in stark contrast to the corporate sector's 'forcing' tactics in the creative industries referred to previously. A more flexible approach appears better attuned to the unpredictable nature of 'symbolic goods', allowing the business to respond to the vicissitudes of customer taste rather than pursuing a 'fictive' model of stable and predictable consumer demand. Academic research into audience behaviour, exemplified by Ang's study of television audiences, suggests that a more customer-oriented business will need to abandon predictive models of audience behaviour based on clusters of shared interest and appeal instead to an increasingly individualised market, characterised by contradictory, unpredictable and esoteric interests and needs. Such a market would of course favour the creative micro-business, with its informal, project-oriented method of working and its absence of any strategic core, over the more cumbersome corporate juggernauts which currently dominate the creative and media industries.

Yet the absence of strategic thinking among smaller organisations is surely no cause for celebration. Among the creative micro-businesses I interviewed, strategic planning was the exception rather than the rule, even though individuals were often highly ambitious, motivated and far-sighted. Long-term thinking tends to take place at the individual level rather than collectively, and long-term plans centre on creative goals rather than organisational objectives. Undoubtedly one reason for this strategic vacuum is the often rather loose relationship between the individual and the organisation; again this is not to imply a lack of commitment or loyalty, simply to argue that these ties are based on extended social and professional networks not on membership of a single 'firm'. The absence of a strategic core leaves the creative micro-business vulnerable. 'Adhocracy' may be a necessary counterbalance to bureaucratic rationalism, but without some long-term thinking behind it the organisation is likely to degenerate into incoherent opportunism.

The failure to think strategically may be partly a matter of training. Larger corporations may include managers who have undergone formal training and learned their trade elsewhere in the corporate sector, whereas many of those working in the independent sector have never had any formal business training. For example, research among individuals working as self-employed craftspersons indicates that more than half of them claim to be 'mostly self-taught' (Knott 1994, 66); formal training is in any case not guaranteed to include any introduction to business skills and this separation of art and commerce has been regularly criticised by those working in the industry. Only 5% of those categorised as having 'cultural occupations' in the 1991 had a higher qualification in social, administrative and business studies (O'Brien and Feist 1995, 85). There is any case a dearth of opportunities for management training adapted to the creative industries. Students must choose between a 'pure' business qualification (an MBA or equivalent) or a pure arts degree. The proliferation of 'arts management' courses for

those seeking careers in the subsidised arts sector has not been accompanied by equivalent courses for those working in the creative industries.

Pragmatism is also partly born out of necessity. Small organisations can occasionally thrive on the periphery of the larger players; as Björkegren suggests, “small organisations can thrive in an oligopolistic market by adopting a specialised niche strategy” (Björkegren 1996, 98). At the same time they are not in control of that market, and are (despite their vaunted ‘independence’) increasingly dependent on larger partner organisations, especially in areas like distribution; in this respect their position is not so different from the ‘pseudo-independents’.

While flexibility and opportunism may win some local victories, they do not amount to a sustainable strategy. Past experience of independent film companies like Goldcrest or Palace, or of the numerous UK independent record labels of the 1980s suggests that creative micro-businesses can enjoy some success on the periphery of the corporate players, but will always find it difficult to make the step up to compete in the major leagues; in the UK, the creative industries appear to throw up many talented entrepreneurs, but, as David Puttnam bluntly pointed out, not many become chief executives. Of the creative micro-businesses I spoke to, most were less than five years old and few can put forward a long-term vision with any clarity or confidence.

However successful creative micro-businesses may be in the sphere of cultural production, they tend to be dependent on the larger corporate sector for capital investment and for distribution. This relationship has been mutually beneficial, with small businesses effectively taking on the research and development function for the corporate sector, and selling on a percentage of the risk and the profit. There are some indications that this relationship is changing. As the larger corporations learn to reinvent themselves as aggregates of ‘pseudo-independents’ and semi-autonomous units, the genuine independent sector may find itself outflanked. In this context the absence of strategic thinking among creative micro-businesses may prove to be an Achilles Heel.

## **6. *An unequal partnership: changes in the relationship between micro-businesses and corporations***

Creative micro-businesses remain dependent upon larger companies for capital investment and distribution. Many of the businesses I spoke to had regular ‘first look’ deals with larger companies, meaning that these larger companies would have first pick in choosing whether or not to invest in a project in return for a share of distribution rights. In return the larger company would sometimes pay the smaller company a retainer; in some cases they would also require feedback on project development and input into decision-making. While some small businesses complained that such deals were restrictive, bureaucratic interference and the loss of a share in future profits seemed a fair price to pay if it allowed them to pursue their own creative projects. This mutually beneficial relationship between major and minor companies has been described by several commentators, including Negus (1992), Frith (1988) and Björkegren (1996). However, the partnership is decisively loaded in favour of the major stakeholder. It also places strategic control in the hands of the larger company, since they will ultimately decide which developments will go into production and which productions go into distribution. Finally, as the major players begin to take on some of the attributes of smaller

companies, the danger is that creative micro-businesses will find themselves left on the sidelines.

The major companies in the media and entertainment industries have in the past maintained their dominance through strategies of vertical and horizontal integration. Vertical integration refers to the integration of different stages in the production and distribution process of a particular industry, for example film production, distribution and exhibition, allowing companies to manipulate the market in favour of their own products. Horizontal integration refers to the practice of diversifying the company's core business across different sub-sectors. Sometimes this can be seen simply as a variant on the vertical integration strategy; instead of directly controlling supply and demand through vertical integration, the successful corporation buys a stake in smaller competitors allowing it a degree of indirect control without taking on all the risks of operating the subsidiary businesses. Here 'horizontal integration' allows a degree of 'vertical' control. At the same time horizontal integration also represents an attempt to manipulate the market by buying out or surrounding successful competitors, as is being alleged in the current legal action over Microsoft's attempts to gain a competitive advantage over Netscape. Alternatively horizontal integration can mean diversifying into different sectors, allowing a degree of cross-subsidy from one sector to another. The European media groups, such as Hachette, Bertelsmann, Axel-Springer, Pearson, maintain a range of interests across sectors including book and magazine publishing, cable television, film production, distribution and exhibition, telecommunications, satellite and terrestrial broadcasting. The critical factor in the integrated company is the existence of synergies between different areas of business, so that the whole is greater than the sum of its parts.

Beyond a certain point, strategies of vertical and horizontal integration will be challenged by competitors and ultimately by national governments. Restrictions are placed on cross-ownership within and between specific markets, and on 'anti-competitive' trade practices. Companies have responded by adapting the integration strategy to a system of strategic alliances. In Hollywood the major studios maintained a stranglehold over supply and demand through their ownership of the cinema chains, until 1948 anti-trust legislation forced them to surrender their interests in distribution and exhibition. The majors responded by 'diversifying' into television production; while this was arguably a form of horizontal integration, it also effectively amounted to a vertical integration strategy, since it allowed the studio to maintain a presence across different links in the production-distribution chain. Yet the studios no longer needed to own the broadcasters; instead there was a clear synergy between the broadcaster's need for cheap product and the studio's need to find a replacement for the production-line B-movies which had sustained their more ambitious productions. Different 'windows' in cinema distribution, video retail and rental, pay-per-view television, cable and broadcast television allowed the studios to maximise revenues from a successful product over a number of years.

At the same time these partnerships do not signal a concession of strategic control. While U.S. anti-trust legislation and European competition law place limits on vertical and horizontal integration and prevent companies from establishing blatant monopoly control over the entire production-distribution chain, most of the Hollywood majors are able to maintain a strategy of vertical control, through a combination of ownership, business partnerships and controlling 'rights' over key products. When mapping the business interests of the five major global entertainment media corporations, the attempt to maintain a stake in businesses

operating at different points on the supply chain is clear enough. It could further be argued that these formal connections are in any case only part of the story; by acquiring the 'rights' to the most popular products (even if these products originated with a different producer), the major companies have sufficient leverage to secure favourable deals with distributors and to manipulate supply. More routinely, by buying up rights to 'blockbuster' movies, the major studios are able to compel distributors to accept a 'package' which includes a hit movie along with a string of less desirable products; this technique, using a quality 'locomotive' to pull through a train of second-rate products, illustrates the importance of controlling the key points in the supply chain.

Increasingly the major corporations have recognised that the key to strategic control in the creative industries lies in owning the rights to distribute products. Production of symbolic goods is a risky business, for the reasons already noted. By leaving the business of production to smaller partner organisations further down the industry food chain, the major corporations have been able to avoid the pitfalls of unexpected hits and misses. By owning the rights to products they are able to control the market and capitalise on successful products in a range of different markets.

The expansion of 'pseudo-independents' suggests a further twist in the corporate strategy. No longer content with occupying the centre ground, larger corporations are starting to take over the niche markets as well, invading what used to be the province of small organisations. Instead of striking up deals with independent producers, they are setting up their own pseudo-independent producers who feed product back to the distribution centre, the strategic core of the organisation. Some evidence for this can be found in Björkegren's research into the music industry. Björkegren describes an 'innovation cycle' whereby small firms innovate and large firms imitate, until the trend is exhausted and the cycle starts again. But since the 1980s, this trend has changed; concentration of ownership and diversification of product have increased simultaneously (Björkegren 1996, 90 - 91). The implication here is that the 'big six' have learned to develop their own new products instead of relying on the independent sector to do it for them. The trend runs counter to the theory that the majors simply capitalise on ideas developed by a pool of innovative independents (Frith 1988); the majors have built their own pool and the independents are in danger of being left high and dry.

According to the new management orthodoxy, as defined by writers like Charles Handy, large companies have begun to recognise the advantages of smaller independent business units over centralised decision-making in responding to rapidly changing markets. Consequently the fully integrated company is giving way to a more loosely assembled confederation of business interests, held together by strategic alliances between partners. These alliances allow synergies between different businesses without creating overt monopolies. They also allow some limited autonomy to specialist managers and areas of business, allowing them to respond to new opportunities and new products without excessive interference from a remote corporate headquarters.

In this context, creative micro-businesses need to be wary of 'post-strategy'. Smaller creative firms have undoubtedly enjoyed certain advantages over a highly centralised bureaucracy, but we might question whether the stereotype of a vertically integrated, highly centralised and hierarchical super-corporation is still relevant. The majors have learned from their independent counterparts and have incorporated a degree of flexibility and decentralisation through 'out-sourcing' and horizontal integration or strategic alliances. At the same time they

have held onto a strategic core which belies the illusion of ‘hands-off’ management and autonomous business associates. The outwardly mobile corporation is reinventing itself as a strategic core surrounded by satellite units through which many of its original functions are ‘out-sourced’. Small creative firms can no longer assume that their role as niche providers is secure; having made a virtue of flexibility and opportunism, they perhaps now need to develop their own approach to long-term strategic planning in order to avoid being outflanked by the corporate sector.

Centralised control in the creative industries and the dominance of the corporate sector is not a new phenomenon. Given the top heavy, capital-intensive economics of producing ‘symbolic goods’ for a mass market, the distinction between ‘pseudo-independents’ and ‘authentic’ independents was always somewhat romantic. Independents have long been dependent on the majors in financial terms for distribution and finance. However, they have also managed to retain a degree of creative autonomy, an autonomy which benefited not just the small producers themselves and corporate distributors, but also the consumer. Today, with the growing sophistication of the corporate sector, the creative autonomy of ‘independent’ creative micro-businesses faces a renewed threat. In the long term, the trimming back of this unpredictable, loosely organised creative fringe and the installation of a centrally accountable phalanx of ‘pseudo-independents’ may be cutting out the industry’s creative heart to save its corporate face.

## **7. Conclusion: rethinking the independent sector**

This research set out to examine the management techniques adopted by creative micro-businesses to deal with the unpredictable nature of ‘symbolic goods’. In turn this research project is part of an ongoing attempt to identify new strategies for small independent creative businesses. In this final section of the research report, conclusions drawn from the research project will be related to a number of priorities for development.

It has been argued that corporate approaches to risk-management and heavy-handed attempts to second-guess the unpredictable market for symbolic goods are no match for the adhocery of small creative firms. In fact the large corporations have in the past succeeded in managing risk either by superimposing a ‘fictive’ and reductive model of symbolic goods as predictable commodities, or by devolving the risky business of new product development and production to smaller ‘satellite’ organisations.

The first of these strategies, described by Björkegren as ‘the commercial business strategy’ represents a crude ‘forcing’ tactic which invests heavily in assembling an expensive set of ‘star’ components and pushing the product through a coordinated and relentless marketing campaign. Yet the star components are not reliable nor is the formulaic assembly of inputs guaranteed to produce the desired output where it really matters, at the point of consumption or ‘decoding’ by the consumer. Without the corporate stranglehold over distribution such a strategy would stand little chance of success; as it stands, the results can be described as mixed. In its pure form, the commercial business strategy enjoys some limited success in niche markets where a loyal fan base can be relied upon to consume more of the same; examples might include the relatively small teenage audience who buy singles by British girl and boy bands, or the renters of horror videos. However, mainstream audiences are less predictable. Here the main virtue of ‘the commercial business strategy’ has been to drive up



production costs, making it more difficult for new producers to break into the market, and to create an artificial, unitary audience in which independent distributors and niche service providers will struggle to make an impact.

The second strategy, 'the cultural business strategy' means maintaining a portfolio of projects in the hope that one project will be sufficiently successful not only to cover the losses incurred by the remainder of unsuccessful or uncompleted projects but to turn a profit. Again the strategy has an inflationary tendency, paying salaries and development costs for unproductive work and raising the stakes for a handful of spectacularly successful products. In effect the real risk of production and product development is passed on to an underclass of struggling independent producers and free agents, sustained in turn by a network of casual workers and perennial optimists who spend much of their time out of work and out of pocket. Meanwhile the corporate players retreat into a distributive role, buying up 'rights' to completed projects and using their superior buying power to make the producer an offer he / she cannot refuse. Again, the strategy depends on a preexisting position of strength, allowing the dominant industry players to absorb the inevitable failures across their portfolio and to invest heavily across a range of projects and developments which may not repay that investment for several years. Smaller companies, such as Britain's Goldcrest Films in the 1980s, despite being a major company in the context of the UK and European film industry, simply lacked the resources to sustain this strategy once the going got tough. There was also a suspicion that Goldcrest, like many smaller companies, was simply too closely involved with its own projects to weed out the hits and misses and spread its bets with the necessary ruthlessness.

In the course of this research a third strategy was identified at the corporate level with the emergence of a proliferation of 'pseudo-independents' and a growing tendency to outsource corporate functions to partner organisations. This strategy has allowed the corporate strategic core to concentrate on the acquisition of distribution rights, and to retain strategic control across a wide range of business interests without attracting unwelcome attentions from state regulators. It has also allowed the 'pseudo-independent' satellite organisations to capitalise on niche markets and to assume a greater degree of flexibility at the operational level.

The problem with this development from the perspective of the independent producer is that they risk finding themselves increasingly marginalised. Previously, however dominant the corporate players may have been within the industry, it was possible for smaller businesses to operate around the fringes of monopolistic markets, either as niche providers or as specialised producers undertaking product research and development on behalf of corporate partners. The emergence of the pseudo-independents indicates a shift in the balance of power. Behind their newly minted company logos, pseudo-independents remain accountable to the corporate boardroom. Operational autonomy is reciprocated by strategic deference to the corporate core. The distinction between 'independents' and 'pseudo-independents' is in turn becoming blurred as independent producers become increasingly reliant on 'first look' deals with distributors and distributors become increasingly 'proactive' in demanding an input into product development. The prospects for genuinely independent producers breaking into mainstream markets have become increasingly unpromising; access to the key markets, for example the U.S. cinema audience, requires major concessions to corporate received wisdom and major concessions in creative and strategic control.

The critical distinction between ‘independents’ and ‘pseudo-independents’ lies in the relationship between the producer and the distributor. Independent producers create products which they must then sell on to the distributor. For the pseudo-independent producer this open transaction is replaced by a contractual relationship in which the distributor overtly or covertly predetermines the nature of the product. Of course many independent producers are tied into quasi-contractual relationships with distributors. However, they still retain a degree of autonomy which allows them to invent new products and discover new markets; it is precisely this ability to tap into new products and markets which makes them valuable to the distributor. With the shift from ‘independents’ to ‘pseudo-independents’, the balance of power in the relationship between producer and distributor has shifted decisively in the distributor’s favour. The independent producer’s autonomy, specifically the ability to discover new products for new markets, has consequently been severely undermined.

The problem with this development from the perspective of the creative industries as a whole, and ultimately from the perspective of the consumer, is the loss of an element of unpredictability in the industry supply chain. As independents become ‘pseudo-independents’ and smaller organisations find their market position undermined, decision-making on product development becomes increasingly centralised. It has been argued that the corporate sector imposes an imperfectly preconceived idea of ‘what the audience wants’ on a disparate and unpredictable market. With corporate distributors calling the shots in the industry and the erosion of producer independence, producers will find it difficult to challenge this corporate template. The unpredictable quirks of individual consumers risk being airbrushed over as a result of ‘fictive’ marketing plans based on non-existent collective market segments.

For the creative micro-business, ‘adhocracy’ in strategic decision-making and loose organisational structures have allowed a welcome degree of flexibility and opportunism. Consequently I would argue that small creative firms have been better able to cope with the unpredictable processes of product development and more sensitive to shifts in consumer demand than their corporate counterparts. However, they have not been able to capitalise on these strengths because they have only limited access to capital investment and to distribution in the mainstream markets. In both these areas, small creative businesses remain overwhelmingly dependent on their corporate partners. Their bargaining position is weak; a quality product is worthless without access to the market, whereas a distributor who controls all or part of a market can afford to shop around among potential suppliers, and can use a handful of quality products to ‘pull through’ lesser (and less expensive) products if required. Similarly, a brilliant idea is worthless without the resources to produce it; here again, the independent producer must request an advance against sales from the distributor (for example a major film studio, television company, record company or publisher) and sell all or part of the ‘rights’ to the product. Consequently, despite their competitive advantage identified at the point of production, independent producers have failed to challenge the market dominance of ‘the majors’.

In the light of the burgeoning ‘pseudo-independent’ sector referred to in the previous thinking, creative micro-businesses can no longer to think operationally rather than strategically, nor to work as an ‘adhocracy’. Until now there have been few opportunities for cultural entrepreneurs to develop managerial skills, to analyse the structure of organisations or to engage with the changing dynamics of the global cultural economy. Many of those working in the sector as managers (or as self-managers) are self-taught. The pace of the

business allows little time for reflection, or for developing a vocabulary and forum for 'strategic conversations' (Roos and von Krogh, 1996). Independent companies are often dependent on a single project or a single individual; they have a tendency to disintegrate as individuals or projects change, or conversely they find it difficult to 'raise their game' as the organisation grows and becomes more successful.

The two key problems for the small creative firm identified through this research are access to distribution and access to managerial training. The distribution issue is emphasised in the recent strategic review of the British film industry commissioned by the Department of Culture, Media and Sport, which compares the 'distribution-led' film industry of the US with the 'production-led and fragmented' UK industry (DCMS 1998b). The report proposes strategies for increasing the flow of capital into the film industry, for encouraging greater integration of distribution and production, and for setting up a new Film Marketing Agency. Where the British government has in the past devoted its admittedly meagre resources towards film production, France has placed much greater emphasis on distribution and exhibition. Consequently a well established domestic distribution infrastructure provides an outlet for French films. Martin Dale asserts that one of the problems facing the European film industry is over-production, with production subsidies resulting in an excess of uncommercial films for which no market exists, coupled with "negligence in the exhibition business" (Dale 1997, 173); his solution is that distributors should play a greater role in financing films, so that they can shape products to fit the market.

The British government's emphasis on market research and industry-wide marketing indicates a belated recognition of the importance of distribution and marketing in the UK film industry. However, it has already been suggested that technocratic and predictive models of market research are not always appropriate or useful measures of consumer behaviour in the context of the creative industries. The stranglehold on global film distribution exerted by the US majors is in any case unlikely to be disturbed by the actions of one European government. While governments can provide a lead, the key to the problem, as is suggested in the DCMS review, lies in the production-oriented structure of the industry. More particularly the onus is upon film production companies themselves to develop strategies for distribution which integrate production with distribution.

Broadening this argument to include the commercial creative sector as a whole, independent creative producers across the creative industries need to develop a distribution strategy. Solutions might include developing independent distribution networks, negotiating more favourable rights arrangements with external distributors and allowing small producers to retain ownership of rights to their work, developing a coherent marketing strategy and profile, or simply acquiring a better understanding of the dynamics of a particular industry. Independent cultural entrepreneurs have carved out independent distribution networks by concentrating on new art forms or 'minority' audiences. Marc Boothe set up Nubian Films as a distribution network for films for black audiences in London, building up his own film marketing and distribution company and expanding into the digital marketplace with the creation of Digital Diaspora. Significantly Palace Pictures had its origins in a successful video distribution operation concentrating on offbeat 'cult' releases not available through the commercial chains. Digital technology opens up new possibilities for independent distribution of cultural products via the Internet; some of these possibilities were discussed in the 'New Cultural Democracy' seminars in London and Birmingham which formed part of the background to this research project. Major distributors (publishers, broadcasters, the major

record companies and film companies) have recognised the value of rights, and independent producers need to do the same. The independent production sector needs an independent distribution sector. Independent producers also need to avoid the wholesale surrender of intellectual property rights to over-demanding distributors; the television entrepreneur Peter Bazalgette has even suggested that the government should intervene to prevent distributors from taking more than their share of the rights when dealing with independent producers.

This leads on to the second key problem, the problem of education and training. The difficulties creative businesses face in distributing and marketing their products are not simply the result of a conspiracy by faceless corporate distributors and industry ‘gatekeepers’. At least part of the problem stems from the organisational ‘culture’ of the creative sector, which still sees creativity and business as binary opposites. Small creative firms and creative individuals tend to be less interested in distribution and marketing than they are in production. Too often marketing strategy and problems of distribution are equated with a surrender to the bottom line, with the crude templates of ‘mass marketing’ and ‘the lowest common denominator’. Evidence of the culture gap between ‘creators’ and ‘marketers’ repeatedly emerged during this research project. One interviewee recalled the physical, linguistic and cultural barriers at a major ITV company which separated the television drama department from the business development office. Another interviewee, questioned about marketing plans, responded half seriously “you sound like One of Them”.

The new MA programme in Creative and Media Enterprises is designed to tackle some of these problems through a continuing programme of education and research which aims both to identify external threats and to challenge the internal culture of creative businesses. In particular the programme will examine the absence of long term strategic planning in small creative businesses, the failure to develop relevant strategies for distribution and marketing, the lack of awareness of the global cultural economy and the relationship between large and small creative firms. The programme will also attempt to find strategic solutions to some of these problems at both a theoretical and practical level, and to make these available through the postgraduate programme and through related training events.

The intention is not to overlook or undermine the unique strengths of the independent creative sector. Official reports on the creative industries tend to focus narrowly on the above-the-line statistics of employment figures, contribution to gross national product, export earnings, balance of trade and growth projections (e.g. DCMS 1998a, Smith 1998). This focus overlooks the big picture’s dependence on a network of smaller organisations themselves embedded in an informal economy of creative individuals, many of whom are officially unemployed. The strategies which have developed among small creative businesses for managing risk and uncertainty are in many respects superior to ‘corporate’ approaches based primarily on the brute force of monopoly. The challenge for the future will be to retain the flexibility and opportunism of the small creative firm, whilst at the same time building up core competencies in strategic planning, marketing and distribution.

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## List of interviewees

Eileen Quinn	Monogram Films
Amanda Posey	Wildgaze Films
Lucy Kimbell	Soda
Marcos d’Cruze	First British Independent / Martian
Neil Mccoll	Freelance musician / film composer
Peter Ride	imag@nation
Andrew Kelly	Bristol Cultural Development Partnership
Clara Arokiasamy	London Borough of Walthamstow
Trevor Philips	Walthamstow Business Advice Centre
Tim Kendall	Institute of Business Advisers
Greg Clark	Director of Economic Development, Greater London Enterprise
Raj Patel	Head of Regeneration Strategies, Greater London Enterprise
Julia Rowntree	LIFT Business Arts Forum
Anna Whyatt	University of East London
Mandy Berry	Trafalgar Square 2000
David Hancock	Screen Digest

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