

# Executive summary

## Study „Development Cycle of Small and Micro Creative Enterprises“ First Phase Report

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### The focus and goal of the study

This study focuses on creative enterprises, which so far have not undergone a specific in-depth analysis in any earlier study concerning Estonia. Yet the study of creative enterprises is important for a number of reasons. First, creative enterprises are the embodiments of various trends occurring in entrepreneurship and therefore show the way of the development of entrepreneurship. Secondly: creative enterprises have an amplifying effect on other sectors of economy: besides the economic added value spreading via the value chain the creative entrepreneurs have the capability to attract other agents of knowledge economy and to increase attractiveness and quality of a place as a whole. Moreover, entrepreneurship is an important method of solving the employment problem in the creative spheres, where the opportunities of finding specialised employment are often limited.

Two basic questions were posed in the study: (1) which are the characteristics typical of creative enterprises and entrepreneurs differentiating them from each other and other enterprises/entrepreneurs (motivation profile, operating practice, organisational structure, business model, growth expectations) and (2) which are the creative entrepreneurs expectations of a support system and how to develop and improve the efficiency of the existing support architecture. As creative entrepreneurship creates Estonian culture by proceeding from specific market dynamics, an additional goal of the study was to comprehend this dynamics and the related challenges.

- 1** What are the creative entrepreneurs' business practices, organisational structures, business models, growth aspirations?
- 2** What support do the creative entrepreneurs need?

The study of creative enterprises is planned to be carried out in several stages. The first stage focused on the creative enterprises of the Tallinn Creative Incubator and the Tartu Centre for Creative Industries. This is a qualitative study, which includes in-depth interviews with 32 creative entrepreneurs, resulting in 70 hours of recordings and more than 850 pages of transcripts. Interviews covered five main subjects: personal profile of the entrepreneur, motives and factors influencing the turn towards entrepreneurship, organisational profile and business model of the enterprise (incl. competitive advantage, pricing model, share of marketing, significance of location, environmental friendliness, cooperation and learning practices), the development of the enterprise and the creative entrepreneurs' needs regarding a support system.



Co-financed by the European Regional Development Fund and the Norwegian funding through the INTERREG IVC programme

## Characteristic features of creative entrepreneurs

**Education and previous work experience:** most of the interviewed creative entrepreneurs have higher education and two thirds of the interviewees were trained in arts or other creative spheres. Compared to the Estonian entrepreneurs' education profile, creative entrepreneurs possess significantly higher share of college education than the average. The interviews revealed that entrepreneurship is supported by previous experience in the same sphere as the newly created enterprise, which was reported by half of the creative entrepreneurs, and on the other hand, experience in the establishing of an enterprise, non-profit association or other organisation, which one third of the interviewees possessed. Based on earlier entrepreneurship studies, the beginning enterprises as a whole have a greater previous management experience, while creative entrepreneurs have been significantly more active in the same or similar spheres. Previous experience in the sphere is not just an important factor supporting the survival of the enterprise; it is also one of the premises of growth.

It appeared that a supportive factor of entrepreneurship was path dependence based on family ties – a close relative was active in the creative sphere or involved in entrepreneurship – which was observed among half of the interviewees.

**Motives and factors for starting the enterprise:** most of the interviewed creative entrepreneurs are opportunity entrepreneurs – the main motive for starting the enterprise was self-realisation and enabling working in a convenient way and rhythm. The fact that most of the interviewees turned out to be opportunity entrepreneurs is a positive sign. This indicates that they took up entrepreneurship primarily in order to take advantage of (business) opportunities rather than due to the pressure of circumstances or in the absence of other options. Compared to the start-up enterprises in whole, the spectrum of motives of the creative enterprises is similar, with one notable difference: the financial motive for starting business is less important for creative entrepreneurs.

However, significant differences emerge in the spectrum of factors obstructing the start-up creative enterprises. The main difficulties for the creative entrepreneurs were the finding of clients, complications in making contacts and receiving orders, as well as the small size of the Estonian market; at the same time for the Estonian entrepreneurs as a whole the finding of financing opportunities, insufficient knowledge of entrepreneurship and shortage of business ideas are the most daunting obstacles. It should be pointed out as a positive outcome that only half of the interviewed creative entrepreneurs perceived difficulties in starting up enterprises. The non-perception of obstacles was explained by the knowledge of the sphere and possession of professional skills, as well as familiarity with the market and existence of contacts.

**Organisational profile of the enterprise:** half of the interviewed entrepreneurs started their enterprise alone; the second most popular way was starting up with a partner. Two thirds of the creative enterprises under study employ currently two or more people; while one third have continued operating alone. As for the prospects of organisational expansion, the type of creative entrepreneurs dominates (1/3 of the interviewees), which could be considered as aspiring small teams: these are entrepreneurs, who started alone or with one partner, but

believe that they could hire two or three more people within three years. The interviewees also included some, who intended to expand the circle of their employees significantly. Therefore the interviewed creative entrepreneurs could be viewed in some sense as increasing the role of employer in the future. There is also a perceived need for an executive or a manager, but its realisation is mostly seen in more distant future. However, only rare cases would involve a shareholder.

**Value created by the enterprise, competitive advantage, target group and pricing:** the general value provided by the enterprise is seen by the entrepreneurs via the improving of quality and reputation of their sphere, while the development and increased attractiveness of environment are also considered important. The main competitive advantages are seen in the ability to cooperate with various parties and the combining of different competences, while the quality and uniqueness of the product was placed second; price was not viewed as a competitive advantage. While the spectrum of competitive advantages largely coincides with that of the Estonian entrepreneurs in general, two significant differences were observed: unlike the creative enterprises, the competition between Estonia's enterprises in general is largely based on prices and cooperation and combining of competences are not viewed as an advantage.

There is no clear breakdown as to the target group among creative entrepreneurs and it largely depends on the sphere where they operate: half of the interviewed creative entrepreneurs offer their products/services to business as well as private customers and one fourth views itself as a purely *business-to-business* type enterprise; the public sector was also mentioned among the target groups.

A problem among the creative entrepreneurs was posed by the sphere related to sales and marketing. The basic concern is the lack of time for the activity. Only every third creative entrepreneur admitted to active handling of market (finding clients, making contacts, marketing etc.).

The pricing model among the interviewed creative entrepreneurs is predominantly combined and its basis is difficult to define as could be expected –vagueness and subjectivity is specific to the markets related to creative industries. The interviewed creative entrepreneurs are usually combining cost-basis approach with perceived pricing – the price depends on the specific client and his willingness to pay.

**The significance of place:** creative entrepreneurs consider the location of the enterprise highly important. The primary criterion in the choice of location is access (to clients), central location (in the city centre) and the proximity of other creative entrepreneurs – i.e. the desire to be located in creative centres and culture quarters. The pattern of keywords of the interviewed creative entrepreneurs fully coincides with what earlier international studies have shown.

The other important environmental factor is the environmental friendliness of creative entrepreneurs. More than half of the interviewees considered environmentalism more or less a part of their operating strategy; they also admitted to observing the principles of green mentality in their individual behaviour. Earlier international studies have revealed the above average environmental friendliness of creative entrepreneurs and it can be stated

that the interviews carried out in Estonia have confirmed that result.

**Cooperation and learning:** creative entrepreneurs have the closest cooperation with other creative enterprises and individuals and clients/consumers. However, international cooperation is relatively rare and predominantly limited to individual contacts. Creative entrepreneurs cooperate mainly at the individual level and partners are frequently found via personal acquaintances. The study revealed the different cooperation practices as to sphere of activity (which could be expected as certain spheres require a wider cooperation network), while an important result was the dependence of cooperation on the innovativeness of the enterprise's product/service. The suppliers of innovative products had a significantly higher networking level and were also more active in seeking information and contacts. As for the channels of communication it was interesting to note that the Internet and its social networks were of rather secondary significance as compared to real-life communication networks.

When cooperating, the creative entrepreneurs do not hasten to sign contracts – oral (based on mutual trust) agreements predominate. The use of barter trade is also quite widely spread among creative entrepreneurs.

Regarding studying, the Internet is the most important channel of new information for creative entrepreneurs; they also mentioned meetings, workshops, fairs and study trips as significant methods of self-improvement and learning.

The results of the interviews confirm generally that the working of the “social network markets” is part of the creative enterprises' operating practice, which in turn refers to the difference of the creative entrepreneurs' operating practices from those of other entrepreneurs.

**Development factors of the enterprise:** half of the interviewed creative entrepreneurs assessed the success of the enterprise predominantly based on non-financial criteria, i.e. the clients' positive feedback and broader recognition are valued more highly than the figures of turnover and profit. Most of the creative entrepreneurs consider their business lifestyle enterprise.

One third of the interviewees could envisage the growth and expansion of their enterprises. It is important that they primarily expected growth via export and entering foreign markets.

The entrepreneurs mentioned financial uncertainty and vague prospects regarding demand as the main factors obstructing expansion. Earlier entrepreneurship studies in Estonia have shown that the main obstructing factors for Estonian enterprises in general are the high labour taxes, which creative entrepreneurs mentioned only in rare cases (the latter is caused, among others factors, by the fact that as start-up enterprises they have little experience of expansion).

**Attitude towards entrepreneurship and perception of the entrepreneur's role:** the interviewees considered the most unpleasant aspect the roles of “taking and bearing risk” and “setting up the organisation and keeping it in action”. The latter shows that creative entrepreneurs would rather concentrate on their creative activities than making business.

The main difference from other entrepreneurs, in the opinion of the creative entrepreneurs, is that their primary goal is self-realisation and doing what they like rather than making money.

In general, this survey confirmed several peculiarities perceived as characterising creative enterprises and entrepreneurs. The following features referring to the peculiarities were the most pronounced: self-realisation-centred motivation, the importance of location, valuing network membership as competitive advantage, unlike price, and emphasising broader, socially important values, incl. environmental friendliness, in the description of the enterprise's value model. On the other hand there were several significant differences between creative enterprises, which show that creative entrepreneurs do not form a homogeneous group. The interviewed creative enterprises differ the most as to the prospects of organisational development like the increasing of the number of employees, hiring a manager and seeking the concentration of ownership.

**Creative entrepreneurs differ the most as to prospects of organisational development: increasing number of employees, hiring a manager, concentration of ownership.**

### Three types of creative entrepreneurs

The starting issue of the formulation of the creative entrepreneurs' typology was the defining of the factors characterising growth-oriented enterprises (see Figure). Growth orientation is directly referred to by factors like increasing the number of employees, hiring a manager, the presence of export and internationalisation prospects and business model with growth ambition, as well as operating in the growing markets. Growth is also supported by other factors like clear market position, steady product/service development, launching the enterprise with two or more partners, willingness to make loan and/or involve a shareholder and the concentration of ownership. The study also showed that the above factors were characteristic of entrepreneurs, who possessed clear opportunity-based motivation for launching the enterprise, who had earlier entrepreneurial or management experience and at least one partner had college degree in business/economics.

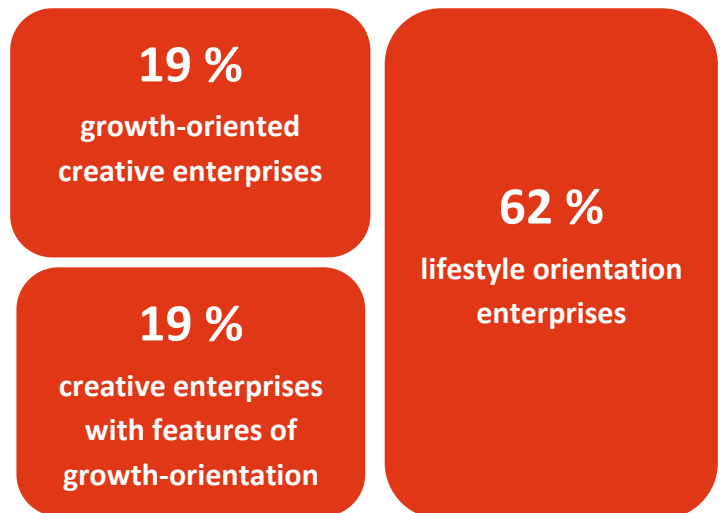


**Figure. Features of growth-oriented creative enterprises**

The study allowed for the differentiation between three types of creative enterprises: growth-oriented creative enterprises, lifestyle enterprises and so-called creative enterprises with features of growth-orientation. The latter group is a rather interesting combination of the former two: on the one hand there are features of lifestyle enterprises like predominant seeking of self-realisation in a specific creative sphere, retaining the independence and freedom necessary for a creator, yet motives related to economic and organisational development were present as well.

Growth-oriented creative enterprises and those with growth orientation features amounted to approximately one third of all interviewees (totalling 12 enterprises). These were deemed to include entrepreneurs intending to increase the number of employees, considering it important to hire a manager (in near future) or having done so, considering their enterprise one with growth strategy (at least partially) and link growth predominantly to export and expansion to foreign markets. Such enterprises can be mainly found in more technological and multi-media-related spheres of creative entrepreneurship like animation, cinema and other audio-visual spheres.

Growth-oriented creative enterprises are also characterised by a constant search for new solutions and viewing the offering of innovative solutions as a competitive advantage, as well as closer networking and more active search for information and contacts. Such creative entrepreneurs are also characterised by starting the enterprise with one partner or a larger team, possession of earlier entrepreneurial or management experience and the possession of degree in business/economics.



## Developing support structures for creative entrepreneurship

The interview results clearly spelled out the dependence of the need for support on the development stage of the enterprise. The enterprises' needs for support are the most similar in the initial stage. The enterprises in the start-up stage need most of all marketing support as well as direct financial assistance for the purchase of tools and equipment. The higher the development stage, the more varied becomes the spectrum of the enterprise's support needs. Generally speaking, as the enterprise develops, it needs increasing support for networking and the development of cooperation.

The interviewed creative entrepreneurs expressed satisfaction with the assistance and support system of the initial stage, drawbacks of the support structure will be noticed after the enterprise has moved on from the start-up phase.

As a result of the study three types of proposals were made for further development of the support system – measures of the Tallinn Creative Incubator and the Tartu Centre for Creative Industries.

**Development of measures according to the types of creative entrepreneurs.** The development of various packets of measures dependent on whether the creative enterprises are lifestyle- or growth-oriented. The keywords in supporting growth-oriented enterprises are the involvement of venture capital and offering internationalisation and sphere-specific support (consultation services). Due to the shortage of competent personnel resources in Estonia it would be necessary to buy the services of foreign training or consultation organisations or to offer the creative entrepreneurs the opportunity to receive consultation abroad. As for lifestyle-type creative entrepreneurs, it is important to provide them with personal mentors besides regular entrepreneurship consultants and to offer financial management support so as to improve the enterprise's sustainability – orientation towards long-term development.

**Development of measures generally supporting the development of creative enterprises.** First: promoting cooperation and networking between incubator residents, especially by supporting informal contacts and self-organising cooperation. Secondly: more varied training and consulting packet of increased flexibility, which would better consider the entrepreneurs' specific needs in the stages following start-up. Thirdly: the development of an incubator exiting programme, which on the one hand would support the common movement of communities of enterprises and on the other hand the linking of the incubator residents to extra-incubator networks during the incubation period. Fourthly: the development of professional creative entrepreneurship consultants – creating a new category of business consultants.

**Developing the incubators' profile.** On the one hand this means further development of the incubator image, paying attention to the variety of the creative spheres, including the balance between new and traditional spheres. On the other hand this means strengthening the incubator's role in institutional cooperation: closer cooperation with professional associations and organisations and incubators in other countries.