

# ECONOMIC APPROACH IN STRUCTURING THE CREATIVE INDUSTRIES

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## Summary

The study explores a new approach to structuring the creative industries by introducing the issue by bringing the intellectual property as a classification criterion of the creative industries' system. Three main types of creative industries have been identified: creative industries in the sector of education and science; innovation industries in the sector of material production and cultural industries in the sector of culture. A comparative analysis between creative industries and the industries in the traditional production has been made. The specifics of the clusters and the local production systems in the creative sector have been examined and their characteristics have been identified as structural formations therein. The study outlines and analyses the main structural units in the creative industries functionally linked via the creation and use of intellectual property objects for business purposes. The focus of the study is the structure of business networks in the creative industries. In the creative industries business primarily involves operations with intellectual property. That is why, in order to position the structural units along the value chain of the creative industries, the following are extracted and analyzed: educational and scientific infrastructure and innovation infrastructure of the country. The study goes deeply into the two core business models applicable to creative industries: academy to business and business to business.

**Key words:** knowledge economy, creative sector, creative industries, innovation industries, intellectual property, market, product, science, education, research and development, technology transfer centers, tech park, business incubator

**JEL:** A20, K0, O3, Z1

## 1. Introduction to the research area

Creative industries comprise an operational network of enterprises of technological development and change of traditional forms of creation, production, distribution and consumption of creative and innovative products (goods and services); mobile and digitally linked technology electronic media; internet-based models of communication and distribution; technological, social, product, process,

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management and organizational innovations; traditional and modern knowledge; innovation economy as a whole with interactive parameters, set primarily by users.

Undoubtedly, the different types of creative activities, including scientific, engineering, and academic ones, generate intellectual property because 'creative is any industry where brain power is predominant and the outcome is intellectual property' (Howkins, J, speech, 2002). 'Intellectual property allows people to own the products of their own creativity as well as to manage their economic and moral rights over the products of their creativity' (Towse, R., 2000-4). These characteristics of intellectual property determine its essential importance for the functioning of creative enterprises, the development of the creative industries, the economic growth of the creative sector and the economy as a whole. There are several studies (WIPO, 2007; UNCTAD, 2006) where the creative industries are considered to be classified only as related to the human cultural creativity and talent (Sawyer, K., 2007). This approach defines the creative economy (Cunningham, St., 2006) as economy of the cultural industries (Throsby, D, 2001), which comprises the sector of entertainment or culture. Nevertheless the assumption that the highest contribution to the GDP comes from the cultural industries (Chalakov, I. and Borisova, Vl., 2007) is an overstatement, given that the creative economy is represented by the cultural industries. There are other industries in the creative economy that are not cultural, but nevertheless pertain to the exploitation of intellectual property rights (copyright) and to the creation of intellectual property objects (music, movies, design, innovations, etc.) (Pratt, A.C., 2004). In this regard the topic of intellectual property in the creative economy (WIPO, 2008) increases its relevance and so does its role for the classification of the creative industries and the evaluation of their economic contribution (Pratt, A.C., 2004).

The aim of the study is to reveal the economic role of intellectual property for the structuring of the creative industries. In this regard, the major thesis in the study is that intellectual property is:

- the link between creativity and industry,
- economic resource for businesses in innovation industries,
- an engine for innovation,
- a way to protect the product of innovation industries and
- a classification criterion.

The study is interdisciplinary and follows the World Intellectual Property Organization (WIPO, 2003) methodology for economic analysis of creative industries in respect of intellectual property by using the so called copyright factor for the culture industries and the range of innovation activities for the rest of the industries in the creative economy. In this paper they have been referred to as innovation industries. As for the so called creative industries in the context of novelty (see [1]), the applied factor is their R&D activity.

The scope of the study is restricted to the Bulgarian focus of the aforementioned research papers.

## 2. Structural differentiation of the creative industries

The reorientation of the economy of industrially developed countries towards a knowledge economy has made intellectual property a leading economic resource. Its economic characteristics are becoming increasingly important for the industrial development. These arguments together with the assumption that intellectual property is created and economically realized in every economic sector also impose it as a classification criterion. As a classification criterion, intellectual property exposes the classification system of the creative industries themselves, which are defined as:

- *creative industries* [1] – those in science, research and development and education;
- *cultural industries* are the industries, functioning in the cultural sector (music industry, film industry, the print media industry, the electronic media industry such as the television, radio industry and the multimedia industry
- *innovation industries* are the industries, functioning in the sector of material production.

Intellectual property is a sub classification criterion for the innovation and cultural industries, whereby the latter are grouped according to the degree to which their activities are connected to the creation and economic realization of the product and its legal protection as follows:

- *main industries* – industries whose business is entirely based on the creation and economic realization of intellectual property objects such as innovations and innovative developments (software industry, media industry, pharmaceutical, chemical and others);
- *dependent industries* – industries whose business is wholly dependent on the activities of the main industries (manufacture of machinery and equipment for the use of the product);
- *partially dependent industries (nonspecific-supporting industries)* – production of products for distribution of the product (architecture, engineering and technical consultancy, etc.).

Given the dualism of creativity and industry, the creative industries differ significantly from traditional ones. It is only these industries that, through intellectual property business, industrialize the results of creativity and generate positive economic effects [2], (Chalakov, I. and Borisova, Vl., 2007).

The economic advantages of using intellectual property determine creative industries' economic growth rate, which is a prerequisite for their structural

differentiation. For example, in 2008, they created 5.54% of the gross value added in the country and accounted for 4.92% of the job openings. In absolute terms means, they created gross value added worth BGN 3, 147 billion and more than 188,000 jobs (Chalakov, I., Kiskinova, D., 2009). This economic activity is the result of the intellectual property created and industrially used in the creative sector.

The creative industry is formed by the number of commercial operations (intellectual property business) pertaining to the creation, industrialization and distribution of creative products for the purposes of innovative industries, as well as by dealing with innovative products themselves. That is why the economic potential of each commercial transaction is considered in two directions: intangible and tangible. The intangible one is shown towards the intellectual property contained in the innovation product and the tangible one is the material reproduction of the product in a particular form.

The product's creation, industrialization and distribution requires that each industry should be established on the basis of functionally linked structural units and a network of inter-industry and cross-sectoral links. A prerequisite for creative industries' structural differentiation is the commercial relations between the functional units in the intellectual property business and the connection of its activities with those of other industries. The structure of each creative industry is different in form, participants and functions, although its construction is subject to common principles. That is why most often the structural differentiation of the creative industries takes the shape of clusters or local production systems.

### ***2.1. Cluster structure***

Typical of clusters is that their economic activities are polygamous, and when there are increased inter-industry links on the territory of a region, its overall competitiveness increases. When building public-private partnerships between public institutions and industries in the cluster, their activities are consolidated, which enhances their economic presence and creates the opportunity for the formation of a local production system. As a result, inter-industrial links are strengthened and expanded with industries from other business sectors.

The cluster is a sustainable grouping of business enterprises that operate on a specific territory and are committed to achieving common strategic goals. Clusters are dynamic and complex structures of the creative industries, and they are essential to the development of industry and its adjacent creative and innovative businesses when there is resource efficiency and competitiveness.

Therefore, sustainable cluster development is crucial. Such clusters are mainly formed by the fashion industry, the music industry, shipbuilding and others (Pratt, A.C., 2004). The cluster, unlike the local production system, is a union

of business organizations, not involving public state and financial institutions or political and social representations. There are over 190 narrowly specialized clusters in Bulgaria. For the existence and functioning of each cluster, the presence of a university is of importance. The activity of enterprises in clusters is focused on technological activities, most often related to the adaptation and use of already-known technological innovations. The reason for this is the low investment activity of the enterprises in R&D as well as the need for additional qualification of the management in the field of intellectual property protection and management [3].

Particularly important for cluster expansion is the building of inter-cluster links with similar clusters abroad, requiring active R&D, technology transfer and a highly skilled cluster management team.

## ***2.2. Local production systems***

Local production systems (LPS) are characterized as a type of cluster structure in which various public institutions, cultural organizations, universities and academies, research institutes, laboratories and centers, banking and financial institutions, technology parks, technology transfer centers, creative laboratories, representatives of small and medium business, representatives of the big business, independent artists, intermediaries and political unions whose professional and business efforts are purposefully directed together to improve the innovative capacity and competitiveness of the local economy (see: <http://www.ie.ufrj.br/redesist/>, 2009).

The boundaries of local production systems are not always geared to the geographical boundaries of countries and often their markets extend across the territory of several countries. This peculiarity raises challenges for the intellectual property management related to the different intellectual property legislations and international trade (Tonkova, St., Borisova, Vl. and coll., 2014). When an enterprise is part of a cluster or local production system, the business within it is related to export, licensing, business concentration, outsourced production, and the application of other intellectual property business models.

Creative industries that form independent local production systems are the pharmaceutical, automotive and chemical industries. In the cultural sector, such industries are mostly telecommunication and film industries [4].

## **3. Structural units of the creative industries**

The structural units of the creative industries are made up of the so-called main participants in the industry who are divided into the following groups:

- independent artists and researchers,

- market keepers and intermediaries,
- small and medium-sized enterprises,
- corporate structures and
- public and cultural institutes.

The main structural units of the creative industries are functionally linked, i.e. the activities of each participant are linked in the value chain and add value to each specific stage on which the participant operates.

Each participant has industrial relationships with other participants along the chain's horizontal and vertical level, respectively, from the same industry or from another one, connected to the types of activities. These specificities also determine the structure of an intellectual property business as a network one rather than a linear one.

### ***3.1. Independent artists***

Independent artists are the group of the most active and independent participants in the creative industries. It is they who apply most active the creativity and the creative process in practice and are a valuable resource for the functioning and development of the creative industries. Artist is any person who invented or created something new even if it does not have the character of invention. Creativity is the ability to create something new or to give a new characteristic to something that already exists. Creativity is a unified process but its results can be different, and this predetermines the diversity of products in the creative industries. The artists in the creative industries typically:

- set up their own companies,
- work in creative enterprises on a project basis,
- are dynamic and highly qualified specialists and
- autonomously manage their intellectual property, primarily through licensing, rarely in terms of employment relationships.

It is fairly common for companies in the creative industries not to sign a contract of employment with independent artists and researchers. For example, in the music industry, a music company such as Sony would not take on the composers or authors of the text of the rights they manage on musical works. Rather, they would sign a copyright contract to use the musical work.

The principle of project form of bargaining in the creative industries, though it is typical for the independent artists in the field of innovation, is less often applicable. That is right, often small and medium-sized enterprises carry out mostly research and development, and large companies prefer to create and market the new product with minimal additional effort. The project principle is once again applicable in business relations between representatives of the small and medium business and corporate business. The corporate business aims to

select and use competitive innovative developments by different researchers to produce an innovation product.

In these business relationships, large companies manage a large number of and diverse intellectual property rights and prefer to work with a number of freelance hired artists and researchers. Moreover, in order to acquire and manage the rights of independent artists, researchers – authors of content, do not need to hire them on a permanent or employment contract. The licensing of content or innovation is done regardless of the type of legal relationship between the parties – artist and creative enterprise (labor, civil or bond).

Despite this general practice in the creative industries, the option of hiring artists and researchers of permanent employment is not ruled out.

### ***3.2. Market intermediaries and market keepers***

The structuring of the creative industries would not be possible without the so-called ‘market keepers’. Market keepers are also called intermediaries, and they are the intermediary units that build up the network of creative enterprises that build the creative industry. The involvement of intermediaries is essential for differentiating the intellectual property business, for building the respective creative industries and their structuring.

Intermediaries for the creative enterprises in innovation industries are: technology parks and technology transfer centers. Intermediaries for the creative enterprises in cultural industries are: creative laboratories or centers, agents, managers, impresarios, gallerists, recording studios, etc.

Intermediaries operate in medium and large enterprises without the involvement of small creative and innovation enterprises. This further complicates the functioning of small creative enterprises in conglomerate environment, but creates the link between the creativity of independent artists and researchers and big business.

Besides the linking unit, the intermediaries are also the unit that takes the risk of accepting or rejecting the innovative product by the consumers. They are therefore referred to as ‘market keepers’. As market keepers, their role is to minimize the risk of failure in creating the innovation product and in its market performance.

In essence, the activity of market keepers as intermediaries is to choose the winning idea and turn it into an innovation product, and their business activity builds the link ‘creativity – market’. They are the structural unit (most common – an enterprise) that allows or does not allow an individual artist or researcher to touch up the big business. In order to link creativity to business, intermediaries or market keepers acquire intellectual property rights of artists and inventors, for which management the last pay a reward.



Being economically strong (from the acquired trade monopoly), in the pursuit of their own business interests, market keepers often become an obstacle to the success of individual artists or researcher.

### ***3.3. Public and non-governmental organizations***

The activity of public cultural institutions is directly related to the formation and raising of the interest of the society towards cultural diversity, which is a prerequisite for creating a potential business environment for the effective functioning of creative enterprises and industrialization of creativity.

Regardless of the organizational structure built to conduct a partner dialogue in the field of innovations and creative industries [5], this structure is not well functioning yet and does not work at full capacity. Innovation enterprises on this country's territory are still small, irrespective of the implemented innovation policy and the provided programs for alternative financing of their innovation activity. A large number of business representatives and public institutions are not familiar with the notion of intellectual property, its economic characteristics and the peculiarities of intellectual property business. The reorientation of the economy towards innovation is proceeding at a slow and unsatisfactory pace. One of the main reasons for this is the extremely unsatisfactory share of the state budget allocations for R&D and education.

### ***3.4. Creative enterprises***

#### ***3.4.1. Small and medium-sized enterprises***

The survival of small and medium-sized enterprises in the creative sector is a serious challenge. In view of the 'project form' of work, the regular financing of small and medium-sized enterprises is not guaranteed and is entirely dependent on the orders of the representatives of the corporate business. This determines the asymmetric competition of the business environment, where representatives of corporate business and small and medium businesses compete for the distribution of economic goods. These circumstances form the economic interest of small and medium-sized enterprises not to be in competitive relations with large enterprises but in contractual relationship with them due to the fact that they generate part of their revenues, mainly as commissions from subcontracting or joint activities.

The characteristics of the business environment of small and medium business in the creative industries put its survival on management solutions for market expansion through outsourcing or engaging in business concentration with international companies. A large number of those who implement these strategies in practice successfully locate themselves as creative business centers.



### *3.4.2. Large enterprises*

Corporate business is typical for the creative industries of technologically advanced economies and those oriented to the service sphere. It is mainly positioned in dominant sectors, such as the entertainment sector or the high IT sector, telecommunication technologies with digital application where the final product is intended for mass consumption.

## **4. Network structure of the intellectual property business**

The network structure of intellectual property business is formed by horizontal and vertical business relationships that span the value chain established between participants in the creative industry and those in other/others industries. It is built by the state-regulated: educational and research infrastructure and innovation infrastructure.

### *4.1. Educational and research infrastructure*

Educational and research infrastructure includes education and research institutions, innovation centers, technology transfer centers, centers for high scientific achievements. The successful operation of its individual units depends on the effective protection and management of the intellectual property created in them.

#### *4.1.1. Academic activity*

Academic activity has a direct impact on the formation of human capital with a certain professional qualification for business purposes. The role of academic activity is to increase the competitiveness and innovation of the economy through training and scientific preparation of highly qualified staff and the representatives themselves. The activity of the education system should be consistent with the national innovation development policy in a way that balances the demand for and supply of highly qualified and highly specialized staff. This is necessary, considering that the specialization of staff does not make specialists easily replaceable across economic sectors.

For example, in the creative industries in the information and communication technology sector, small and medium-sized enterprises can afford to employ highly specialized research staff because they are flexible and can take on a certain business risk (see: [www.academy.telerik.com](http://www.academy.telerik.com), 2015). Such business behavior is not typical for corporate business representatives, for example in the pharmaceutical industry, the food industry, and others.

#### *4.1.2. Research and development activity*

In order for the network of an intellectual property business to be adequately shaped and functional, it is important to carry out research and provide access to its results. These requirements determine the existence of two types of business connections:

- from Academy to Business (A to B) and
- from Business to Business (B to B).

##### *a. Academy to Business*

Any creative industry, especially those based on high-tech production, is dependent on the availability of scientific and technical results. Often, innovations are created in a way that cannot directly serve the interests of the business. For example, drawings, descriptions, mock-ups, or even scientific developments of the technology concerned, this may be a significant obstacle to their industrialization and commercialization. It is here that the 'bond' appears which is needed for the formation and functioning of the network structure of the business on the connection from Academy (state institutions, national educational policy, etc.) to Business (national innovation strategy, strategy for development of small and medium enterprises, etc.).

The bond is the so-called technology parks or technology transfer centers, such as units that predominantly conduct the so-called 'development activity'. This activity provides information to the enterprise in the form of a plan or a project for the necessary raw materials, materials, industrial base and other investment costs related to the production and commercial activity of the specific innovation by producing its market prototype.

##### *b. Business to Business*

The second type of business connection in the network structure is from Business to Business. In case corporate business takes advantage of the scientific and technical solutions offered by small and medium-sized enterprises, then the development activity is most often readily conducted. This is due to the fact that the majority of such agents have entered some business relationship and small and medium business act upon the order of the corporate one. In such situations, technology transfer is called closed and has two types:

- 'feeder transfer' from small and medium-sized enterprises towards conglomerates
- 'support transfer' from corporate business towards small and medium business.

The support transfer is more a technology transfer whereby the business uses the technology without further developing others' intellectual property. In return for this use, the business receives technical cooperation, training, and certain

limitations. The use is rewarded and licensed. In both cases, creative enterprises set aside part of the realized profit for reinvestment in R&D activity.

#### **4.2. Innovation industry**

Innovation infrastructure includes units whose primary purpose is to leverage research developments from the educational and research infrastructure to business representatives as well as to support and stimulate their joint development and industrial implementation activities. It is built by:

a. Entrepreneurship centers

Their goal is to link research to business<sup>1</sup>.

b. Business incubators

The aim is to provide an industrial environment for development activity and creation of an industrial prototype of scientific development<sup>2</sup>.

c. Sofia Tech Park

The objective is for its structural units to identify and support ideas aimed at their successful implementation and market introduction as innovation products, services and processes, to create conditions for the generation of innovation ideas and their development activity. In essence, these activities are the so-called industrial testing in laboratory conditions. In addition, innovation products are also developed and marketed, through the creation and protection of a trademark, industrial design, geographical indication and consultations related to the management of intellectual property.

### **Conclusion**

The structure of the creative industries is networked, complex in nature and creates a specific business environment. The dynamics in research and creative activities poses a number of challenges of productive and market nature to the structural units of the creative industries and requires the application of different business models involving intellectual property. It is the variety of these challenges that shapes the business environment of the creative industries based on the three major pillars, called the "triad of the three T":

- technologies (internet and mobile devices),
- taste (of the new generation) and
- talent (the creativity of young people finding new technological means of expression) (Cunningham, St., 2013)

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<sup>1</sup> They are located in the territory of the University of Forestry, the Technical University of Gabrovo, the Technical University of Varna and the Technical University of Sofia – Plovdiv Branch

<sup>2</sup> Three business incubators are set up, respectively in Varna, Burgas and Gotse Delchev

The three pillars are the basis of intellectual property business, and the business itself is the basis of the business activity of the structural units of the creative industries – the innovation and the cultural ones.

## Notes

[1] Creative in the sense of more than creative, namely unique in the likeness of the human intellect, creating something new, different from innovation (not industrial)

[2] In 2005, the creative industries in Bulgaria created 2.81% of GDP and 3.42% of the value added. Compared to the contribution of, for example, the mining sector – 10% of GDP; the sector of the processing industry – 24% and the service sector, which realizes – 63% of the GDP of the country

[3] Developed national clusters related to the creative industries are:

- ‘Bulgarian Yoghurt’ for the export of technologies, equipment and services for the production of yoghurt
- ‘Bulgarian Rose Oil’ for the development of the cosmetic and perfumery industry based on the effective production of rose oil
- ‘Production of electricity from biomass’ development of technologies and production of equipment for electricity from biomass
- ‘Cluster and institute of clothing and textiles’ for the development of fashion industry
- ‘Bulgarian furniture cluster’ for the development of design industry
- ‘Information communication technologies cluster Plovdiv’ for the development of media industry
- ‘Bulgarian telecommunications cluster’ for the development of telecommunication industry and others.

[4] The structural differentiation of the creative industries regionally positions them as follows: The Asian countries and those from the pacific region are leading in the field of revenue generated by the creative industries in the amount of \$ 743 billion and in the number of employed by 12.7 million people, which forms the world’s largest creative industries market. Local production systems form the publishing industry and the software industry of video games. Europe is the second largest creative industries market with \$ 709 billion in annual revenue and 7.7 million people in employment, with leading advertising industry, publishing industry and visual arts business in the local production systems. In North America the creative industries make \$ 620 billion, representing 3.3% of the region’s GDP and providing employment to 4.7 million people. Leading industries in the region are television and radio industry. Latin America is the region with a weaker market for creative industries, but they nevertheless make \$ 124 billion of economic revenue and provide employment to 1.9 million people.

Africa and the Middle East regions make \$ 58 billion of creativity industries with employment to 2.4 million.

[5] Ministry of Economy and Bulgarian Academy of Sciences, 'Implementation of the Action Plan on the Innovation Strategy for Intelligent Specialization 2014-2020', 10th June 2015.

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