

Risky Business

Creative SMEs, microenterprises and independents trading globally
in a time of transition

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ABSTRACT

The UK government's 2018 *Industrial Strategy: Creative Industries Sector Deal* policy aimed to increase firm size in the sector. Policymakers identified small company size as a particular obstacle to creative industries exports, arguing that very small firms lack the "absorptive capacity" to undertake extra export duties (BEIS, 2018). Yet, there is a critical gap in knowledge about the global trading patterns of the UK's creative industries, particularly amongst the microenterprises and independents that make up the bulk of the sector. This research endeavours to answer the question, is small firm size indeed a barrier to international trade in the creative industries?

Employing anonymous online surveys and in-depth interviews, this study investigates whether small firm size acted a deterrent to trade engagement amongst small-to-medium sized enterprises (SMEs), microenterprises and independents based in creative hubs in England's North West. The primary research was conducted during the inter-Brexit era, i.e. after the Brexit referendum of June 2016 and prior to the UK's formal secession from the EU on 31 January 2020.

The results challenge the assumption that small firm size was a barrier to international trade in the creative industries at the time of the study. Sampled SMEs, microenterprises and sole proprietors were found to be deeply involved in international markets, with 66 percent of respondents exporting. Furthermore, exporters often relied heavily on their overseas income with almost one-third earning over 50 per cent of their annual income overseas.

Digital innovations and barrier-free access to the EU trade block appear to have supported the trade capabilities of independents and microenterprises at the time of the research. These findings imply that, in the absence of new trade deals, creative

industries policy makers may need to shift focus away from firm size to other measures, such as supporting creative hubs or clusters to facilitate network-building and information sharing.

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AUTHOR'S DECLARATION

The author declares that the thesis is her own work and has not been for the award of a higher degree elsewhere. The author declares that the word length of the thesis is 71,205 words. This does not exceed the permitted maximum of 80,000 words.

DISCLAIMER: COVID-19

The data for this research was collected before the COVID-19 pandemic. This study intended to create a baseline for future research into the creative industries' international trade capabilities after the UK's secession from the European Union, also known as Brexit. The impact of COVID-19, however, will have had an additional impact on the short- and long-term international trade of the creative industries.

1.INTRODUCTION

The creative industries play a key role in the United Kingdom (UK), accounting for over 5 per cent of the economy and contributing more to Gross Domestic Product (GDP) than the automotive, aerospace, life sciences, and oil and gas industries combined (Creative Industries Federation, 2019; House of Commons Committee on Exiting the European Union, 2017). The creative industries are growing nearly twice as fast as the rest of the economy (DCMS, 28 November 2018).

The creative industries are also central to the UK's international trade. For most of the past four decades, the UK has posted an annual trade deficit, meaning that it spends more money buying imports than it earns by selling exports (Douch et al., 2018a; Ward, 2019; Ward, 2020). The creative industries, however, consistently have maintained a trade surplus (DCMS, July 26, 2017). Despite these achievements, policymakers have identified small company size as a particular obstacle to creative industry exports (BEIS, 2018).

This research is concerned with the distinctive behaviours of the creative sector and its relationship to global markets. The research indicates that parts of the creative industries—namely, small-to-medium-enterprises (SMEs), microenterprises employing fewer than 10 people, and sole proprietors based in creative hubs—exhibit behaviours that diverge from government and policy expectations.

This study suggests that policy uncertainty and extensive changes to the UK's international trading environment may have broader and deeper ramifications for the creative industries than might have been assumed. It identifies factors that remain hidden from existing measurement mechanisms, which could explain the gap between policy and practice in this sector.

1.1 Research Question

This research endeavours to answer the question, is small firm size a barrier to international trade in the creative industries?

In 2018, the UK's Department for Digital, Culture, Media & Sport (DCMS) reported that in 2016 only 18 per cent of creative industries businesses engaged in international trade (DCMS, 14 February 2018). UK policymakers saw potential to increase the creative industries trade participation. In 2018, the government's Department for Business, Energy & Industrial Strategy (BEIS) released its policy *Industrial Strategy: Creative Industries Sector Deal* (CISD), which aimed to increase UK creative industry exports by 50 per cent within 5 years (BEIS, 2018).

One of the CISD's key strategies for achieving this policy goal was increasing firm size in the sector, which is dominated by independents and microenterprises employing fewer than 10 people. This research queries this policy endeavour. Is small firm size a barrier to international trade in the creative industries?

The primary research for this study was conducted during 2018 and 2019, an atypical and significant period in the UK's international trade trajectory. As such, it is important to elucidate the context of the primary research.

1.2 Context

1.2.1 Historical Context

The UK voters' decision in June 2016 to exit the European Union (EU), the so-called Brexit referendum, caught British policymakers off-guard. Unlike the 2014 Scottish referendum to secede from the UK, which was preceded by a detailed and public 670-page strategy plan, senior Downing Street officials confirmed that Prime Minister David Cameron's government had prepared no formal plan for a "leave" vote (BBC,

2016; Scottish Government, 2013). Yet trade with the EU was central to the UK economy at the time. With 44 per cent of the UK's exports going to the EU and 53 per cent of imports coming from EU countries, the EU was the UK's largest trading partner (Ward, 2019). Furthermore, the UK's economy was highly integrated into the global economic system with 59 per cent of the UK's Gross Domestic Product (GDP) generated by international trade at the time of the Brexit referendum (BEIS, 2017c; Ward, 2020).

After Cameron's departure, incumbent Prime Minister Theresa May's government presented its plans for the UK's post-Brexit economic strategy known as the "industrial strategy." Published in January 2017, *Building our Industrial Strategy: Green Paper*, outlined the government's plans for the UK's future outside of the EU and launched a nationwide consultation, inviting responses from industry, academia, the charity and health sectors, and civil society (BEIS, 2017a).

With the UK preparing to leave its hitherto largest trading partner, international trade was high on the agenda. British policymakers were concerned that not enough British firms were taking advantage of international opportunities because fewer than 11 per cent of UK businesses were exporting (BEIS, 2017a). While small in number, these same exporting companies contributed to 60 per cent of the UK's productivity growth (BEIS, 2017a). As such, growing the number of exporting firms became a central tenet of the *Industrial Strategy* and the government's ambitions to grow the UK economy. The UK's exports as a share of GDP have doubled since 1970, but this is still much lower than other comparable countries, such as France and the US where exports as a share of GDP have trebled, and Germany where exports have quadrupled in the same period (BEIS, 2017a).

At the time of the primary research for this thesis, the EU was a political and economic merger of 28 individual European countries, including the UK (europa.eu, 2021). The EU's single market allowed all goods, services, money, and member citizens to flow freely within the block (europa.eu, 2021). Today, the EU is still the world's largest

trading block, exporting more than any other single country in the world and acting as the biggest, single import market for over 100 countries (europa.eu, 2021). The UK joined the EU's predecessor in 1973 and it left the EU on 31 January 2020 (BBC, 30 December 2020).

1.2.2 The 2018 Creative Industries Sector Deal (CISD)

The *Industrial Strategy* was designed to promote "industries of the future" announcing "Sector Deals" between the government and selected high-impact, high-potential industries (BEIS, 2017c). The aim of the Sector Deals was to boost productivity through government investment to consolidate the UK's global leadership in the selected industries (BEIS, 2017c). In 2018, the government introduced the *Creative Industries Sector Deal* (CISD).

The creative industries were central to the government's export endeavours because in 2015, services exports from the sector were responsible for 9.4 per cent of all UK services exports, despite accounting for only 6 per cent of UK jobs (DCMS, July 26, 2017). In the same year, 45 per cent of the UK creative industries' exports went to the European Union (DCMS, July 26, 2017).

Despite their strong trade performance, policymakers believed the creative industries could do better. The CISD aimed to increase exports by 50 per cent before 2023 arguing that the sector still offered a "great deal of untapped potential" with many firms not yet exporting (BEIS, 2018). The CISD explained that the sector faced industry-specific barriers to international trade, in particular small company size with nine-in-ten enterprises employing fewer than ten people (BEIS, 2018). The CISD stated that very small firms lack the "absorptive capacity" to undertake extra export duties (BEIS, 2018).

1.2.3 Research Context: The Transformation North West doctoral training programme

This research was made possible with funding from the National Productivity Investment Fund (NPIF), funnelled via Transformation North West (TNW), the North West Consortium Doctoral Training Partnership (NWDTP) and the Arts and Humanities Research Council (AHRC). The funding criteria required PhD researchers to engage with the government's 2017 and 2018 industrial strategy policy by collaborating on a series of projects with businesses and organisations in England's North West. The aim of this "applied research" was not only to produce new knowledge, but to also use this knowledge to deliver new product and service opportunities for businesses in the North West, thereby enhancing growth and prosperity in the region (Transformation North West, 2018).

A key objective was bridging the "triple helix" of university, industry, and government such that academic knowledge could provide the context for new industry or policy applications (Etzkowitz and Leydesdorff, 1998). This tasked the twelve selected doctoral candidates with entering into research partnerships with industry as the lead investigator, but the matter under investigation would need to be of interest and use for industry partners. The ontological foundation was that of pragmatism, or the position that research should be contextually situated so that it serves a practical purpose (Moon and Blackman, 2014).

The role of the TNW doctoral candidate, thus, extended beyond that of the traditional academic. It encompassed the equally important role of "creative industries practitioner." The Managing Director of the author's first industry partner, Baltic Creative in Liverpool, stated that he had little time or resources to invest into academic partnerships, accepting only "boots on the ground" researchers who would assume a professional and valuable role. Balancing the need for research independence with the practical needs of industry partners, the TNW scholar assumed a dual role: that of the autonomous scholar and that of the immersed project manager. Participation *with*, not only research *into*, the creative industries formed the

core of the TNW doctoral training programme, and so also of this PhD research.

This philosophy is not foreign to design research, where scholarship and action are intrinsically linked. Design as a discipline is underpinned by 'designerly ways of knowing,' that require both cognition and praxis (Cross, 1982). Design as a discipline finds its origins in the epistemology of design, which fundamentally includes the co-evolution of problem and solution (Cross, 2018). Developing and using "tools" for engagement and application are intrinsic to the field of design research (Cooper, 2019). Furthermore, design researchers inherently work beyond their own disciplinary boundaries, focusing on the application of design research to real-world challenges, which innately require inter-disciplinary collaboration (Cooper, 2019).

ImaginationLancaster, the design research lab conducting applied and theoretical research and affiliated with TNW's leadership, is built on an "anti-disciplinary" philosophy in which design thinkers work collaboratively with researchers in other branches of learning (Cooper et al., 2018). Design research methods are intentionally devised to "bind disciplines...pulling together deep histories of knowledge in multiple domains to inform the future," (Cooper, 2019).

The TNW project of narrowing the divide between fundamental research and practical, actionable knowledge for industry partners provided both unique opportunities and limitations. TNW doctoral candidates gained exceptional insights into the creative industries by working with firms and organisations rather than studying them from arms-length distance. This allowed them to face real-world situations and, in some cases, to propose methodologies for tackling the challenges. Furthermore, working with industry partners gave doctoral candidates privileged access to industry data, sample populations, industry events, etc. Industry partners, on the other hand, were given the unique opportunity to co-design a research project that would be actionable and of value to them, not only the researcher. This knowledge exchange could be used to further promote and grow the creative industries in the North West. As such, the TNW programme was related to "applied

research,” which contributes to theory production, but its key intention is to generate insights to further the understanding of real-world challenges (Guest et al., 2013).

This approach, however, is not without limitation. Co-designing projects with industry partners is time-consuming and intensive yet the doctoral candidate cannot be certain that a theory or useable data will emerge, making it a risky project for inexperienced researchers (Barry and Roux, 2013; Hull, 2013). Furthermore, maintaining objectivity in research while enabling, mediating, coordinating, and planning for the industry partner requires delicacy and rigour on the part of the researcher (Villari, 2014). Rigour in research entails convincing one’s peers that the purpose of the investigation, the material gathered and the theory produced is of sufficient quality to merit contribution to the field of study (Matthews and Brereton, 2014). Finding interested and invested industry partners can pose challenges for some researchers. While the researchers can bring value in the long run, industry partners needed to invest initial time and resources to initiate the project. As such, only industry partners with available resources can participate.

Nevertheless, some design scholars argue that re-imagining research and applying it to real-world challenges is necessary step for university education (Jonas, 2014). They call on researchers to relinquish their position as strict observers, instead uniting research, teaching, and practice to become co-designers in society (Jonas, 2014). Drawing on this perspective, this thesis stems from projects undertaken with creative hubs providing office space to SMEs, microenterprises and independents working in the creative industries.

Inauguration of the TNW programme coincided with the government’s nationwide industrial strategy consultation so the doctoral cohort was asked to submit a response document to the *Industrial Strategy Green Paper*. Several workshops and events with academics, industry leaders and TNW researchers were held in 2017 and 2018 at the five partner institutions of Lancaster University, Manchester Metropolitan University, University of Manchester, University of Liverpool and University of Salford. TNW

scholars examined the Industrial Strategy and its pillars for growth, exploring the various challenges, concerns and advantages of the creative industries in the North West of England. The TNW scholars' assessment resulted in the response document *Driving Industrial Strategy for North West Growth – The Role of the Creative Industries*. The response document served a two-fold purpose: first, it compelled TNW researchers to interrogate the Industrial Strategy with its associated creative industries policies. Second, it opened the door for TNW scholars to examine and engage with the creative industries in the North West. The aim of the response document was, "to stimulate discussion and dialogue regarding the region's position, the vital contributions it makes to the UK's economy, and the importance of the Creative Industries (sic) as 'engines for growth'," (Transformation North West, 2018).

1.2.4 Empirical Context: The creative industries in England's North West during the inter-Brexit years of 2018 and 2019

During the course of investigation into the creative industries' international trade for the TNW response document, the researcher studied the annual report of Baltic Creative, a Community Interest Company (CIC) in Liverpool that lets office space to creative industries firms and independents at commercial rates. Baltic Creative's 2016 *Annual Report* stated that 57 per cent of its tenants traded internationally (Baltic Creative, 2017). This number was unexpectedly high in comparison government figures, which estimated that only 11 per cent of UK businesses export (Baltic Creative, 2017; BEIS, 2017a). This raised numerous questions such as, "Do the UK's creative industries firms export more than the UK average business?" or "Are the tenants at Baltic Creative outliers, exporting far more than the average UK creative company?" Several explanations were under consideration by the researcher: government figures underestimated the amount of international trade conducted by UK businesses (particularly those in the creative industries), Baltic Creative's annual reports were overestimating export figures amongst their tenants, or Baltic Creative's tenants were unusually successful exporters. Other unexplored hypotheses were also

possible.

In December 2017, the researcher approached Mark Lawler, Managing Director of Baltic Creative. Without any specific theory or method in mind, as per grounded theory methodology (to be discussed in Section 1.4 Methodology and Research Design), the researcher asked Lawler if he might be interested in becoming a TNW industry research partner on the topic of international trade in the creative industries. Lawler revealed his intention to create a programme of export support for his tenants, indicating that further research into the number of tenants trading internationally, at what scale and in which countries, would be valuable knowledge.

This project would have implications not only for Baltic Creative, but also for a wider audience and “real-world” application beyond Baltic Creative. Were Baltic Creative’s export statistics correct, and further study corroborated the results, findings could be of interest to the Office for National Statistics (ONS) and to creative industries policymakers. Uncovering which data set appeared to be closer to the actual export output of the creative industries—that of Baltic Creative or that of the ONS—was the springboard for the research. The researcher, however, simultaneously accepted that uncertainties are inherent in all economic data (Coyle, 2021).

The primary research faced one significant challenge in that was contextualised in highly dynamic, evolving and unpredictable era. The researcher’s original concept was to track a sample of creative industries SMEs, microenterprises and sole proprietors as the UK transitioned from membership in the EU to its departure and the effects on the sample’s international trade thereafter. The TNW doctoral training programme (DTP) had commenced in October 2017. This was six months after Prime Minister Teresa May had invoked Article 50 of the Treaty on European Union, which triggered the UK’s withdrawal from the EU. As such, the UK was due to leave the EU, within the Treaty’s 2-year timeframe, by March 2019. The Brexit negotiations in 2018 and 2019, however, repeatedly extended the 2-year deadline for leaving the EU and it became evident that the UK would not leave the EU during the research project’s timeframe.

This dynamic policy environment required an agile response by the researcher. Applying grounded theory methodology, the primary research pivoted to interrogating a potentially much richer field – that of policy uncertainty and its impact on the international trade of small creative industries firms and independents based in various locations throughout the North West rather than at a single creative hub. Brexit delays offered an exceptional set of circumstances that allowed for what scientists call a “natural field experiment,” a rarity for those studying international trade (Douch and Edwards, 2021; List, 2007).

While the UK’s leaders repeatedly signalled their intention to leave the EU, it was not at all clear what this would mean. Businesses had no indication whether the UK would stay in the EU customs union (which would have implied very few changes), if it would exit with “no deal” (meaning a severing of all hitherto agreed EU treaties), or something else entirely. Would leaving the EU result in higher costs to creative industries employing EU citizens (Todnem et al., 2017)? Could UK businesses still sell goods and services into the EU’s single market without tariffs and other trade barriers? As late as two years after the referendum, economists were considering what Brexit might mean for business: “Owing to its highly politicized, contested and indeterminate nature...Brexit has the potential to dramatically rewrite the rules governing how UK firms conduct business both domestically and internationally,” (Brown et al., 2018).

The “unique field experience” of studying the creative industries’ overseas business during a period of exceptionally high international trade policy uncertainty became a central feature of this study (Baker et al., 2016b; Baker et al., 2021b; Bloom et al., 2019; Bloom et al., 2020). No trade policies had changed, and it was unclear whether or not they would change, but was policy uncertainty itself affecting the international trade of creative industries SMEs? This unusual set of circumstances during the post-referendum, pre-EU-secession years of 2018 to January 2020—which this study refers to as the “inter-Brexit” era—provided a rare and valuable research opportunity to

gather insight into the international trade practices of the UK's creative industries SMEs amidst high policy uncertainty.

1.3 Research Aims and Objectives

The CISD outlined the UK government's understanding of the creative sector. These perceptions resulted in the setting of policy measures:

"The priority for the sector is scale: helping the SMEs and entrepreneurs that overwhelmingly make up the sector to grow, in order to raise productivity..."

(BEIS, 2018)

The *raison d'être* for the government's course of action was the concern that small firm size was holding the creative industries back from achieving their full export potential. The CISD argued that,

Size in particular is... a challenge to creative industries businesses seeking to export. The creative industries currently account for 9.4 per cent of UK service exports, almost twice their share of the economy. However, many businesses [are] not yet exporting at all...The first [challenge to increasing exports] is size...95 per cent of creative businesses employ fewer than ten people. This means creative businesses often lack 'absorptive capacity', defined by Frontier Economics as 'the ability of a firm to identify and acquire relevant external knowledge, assimilate it, transform existing knowledge and practices, and exploit these new capabilities for commercial ends'.

(BEIS, 2018)

This premise and resulting policy measures endeavoured to achieve a particular goal:

“...to achieve a targeted increase of 50 per cent in reported creative industries exports by 2023 from its 2018 baseline, and a significant increase in the number of creative businesses exporting.”

(BEIS, 2018)

Prompted by the discrepancy between government statistics and the figures published in industry reports, this study’s primary research question probes the premise on which policy targets were set: *is small firm size a barrier to international trade in the creative industries?*

When research findings from industry partners indicated that SMEs, microenterprises, and self-employed independents were more involved and more fully integrated into the global economy than the official figures suggest, secondary lines of inquiry emerged:

1. Is scaling-up a valuable or necessary ingredient to increasing creative industry exports?
2. Given that the sample was found to be trading internationally at rates significantly different to those reported by the Office for National Statistics (ONS) and DCMS, what factors might underpin potential discrepancies?
3. Which traits were most often identified amongst exporters in the sample?
4. Given that the entire research sample was based at creative hubs in England’s North West, might location have played a role in the research results?

The primary research was conducted when international trade was not “business as usual”—when the UK’s Economic Policy Uncertainty Index was higher than the previous twenty-year average (Baker et al., 2022; Baker et al., 2021a). As such, the study needed to consider a potential “interaction of history effect” (Bracht and Glass, 1968), asking a final secondary question:

5. Had the Brexit referendum—held eighteen months prior to the start of primary

research—impacted the international trade of the study sample, i.e. before new trade policy changes were implemented or even decided upon?

The goal of this research, then, is to investigate a sample of the creative industries to provide insights into the international trade practices of firms that escape current measurements. This study will consider whether or not scaling up is necessary for the creative industries to export more. By focussing on SMEs, microenterprises and independents, this research is significant in uncovering the potential impact of international trade agreements, currency volatility and Brexit on a sizeable, but overlooked chunk of the creative industries. As such, major policy shifts in the UK's international trading environment, such as Brexit, may have broad and deeper ramifications on the creative industries than expected.

This thesis will look specifically at the international trade patterns of creative industry SMEs and independents, for three reasons. First, SMEs are the leading contributors to long-term productivity growth (Brown et al., 2018). Second, SMEs and sole proprietors make up the vast majority of the creative industries (BEIS, 2018; Frontier Economics, 2016) so the impact of major trading policy changes, such as Brexit, on this segment will have large repercussions for the creative sector as a whole. Third, the trading patterns of microenterprises and independents are both different to larger firms and were, by and large, underrepresented in statistical data at the time of the study (Bean, 2016; DCMS, January 2016; ONS, 2019a; ONS, 2019b). As such, research into this segment is critical to understanding the creative sector as a whole.

1.3.1 Definition of key terms

The term “creative industries” is not without contention, as will be discussed in the literature review. This study, however, is a response to the UK government's 2017 *Industrial Strategy*, the 2018 *Creative Industries Sector Deal*, and related agendas. As such, this study will apply the definition of creative industries as assigned by the

DCMS: “Those industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property” (DCMS, 2016a; DCMS, 2019). This definition includes for-profit firms, not-for-profit organisations such as charities, and those who work for themselves, or “independents.”

The literature is replete with terms to describe those who work, but are not employed by organisations: freelancers, contractors, sole-entities, sole proprietors, the self-employed, etc. Although there are legal and financial implications for each of the terms, they will globally be referred to as “independents” or “sole proprietors” in this study.

Similarly, organisations have numerous categories. While creative for-profit businesses and non-commercial entities have different codes of practice as well as legal and tax implications, both fall under the scope of the DCMS. Several creative charities were included in the research, but most of the sample comprised of for-profit enterprises. The international activities of both were affected by policy trade uncertainty during the inter-Brexit era so, for the purpose of this study, non-commercial and commercial entities will be referred to interchangeably as “firms,” “organisations,” “companies,” and “businesses.”

In UK legislation, small-to-medium-sized-enterprises (SMEs) are organisations employing fewer than 250 people: those with 50-250 employees are designated as “medium-sized,” those hiring between 10-50 people are “small”, while those with under 10 staff members are “microenterprises” (Companies Act, 2006a; Companies Act, 2006b). As such, the vast majority of firms in the creative industries are “smaller” than SMEs: they are microenterprises. Unless otherwise stipulated, the use of the term “SMEs” throughout this paper also will also imply microenterprises.

International trade is defined as the cross-border exchange of goods and services (Hassan et al.). Inbound purchases from abroad are defined as “imports” and

outbound sales as “exports” (Rodrigue, 2020). While international and global trade are not identical—the latter implying multi-location, multi-party supply chains rather than trade between countries—the two terms will be used synonymously for the purpose of this study as is custom in policy documents (Coyle, 2015b; Rodrigue, 2020; World Trade Organization, 2010).

Both scholarly literature and policy documents frequently interchange the terms “hub” and “cluster.” In the context of this research, a distinction will be made. Specifically, “creative hub” will denote a grouping of individual entities situated at a distinct site, typically a room, building or collection of buildings (e.g., The Sharp Project or Baltic Creative), while “creative cluster” will be reserved for references to the broader regional or metropolitan scale (Arts and Humanities Research Council, 2022; Porter, 1990; Virani et al., 2016)

1.3.2 Literature synopsis

There is a critical gap in knowledge about the global trading practices of creative industries SMEs—particularly those of microenterprises and independents. The findings of this study indicate that official statistics may underestimate the extent of importing and exporting undertaken by the UK’s creative industries. Traditional trade theory predicts that only the most productive firms will enter the export market while less productive firms will continue to exist, but will produce only for the domestic market (Melitz, 2003). These theories, discussed in greater depth in section 2.1.2 Defining Global Trade, perceive international trade as the *expansion* of capacities once an entity has established itself within its national borders (Hassan et al., 2014; van Marrewijk, 2017; Zohari, 2008).

Sir Peter Bazalgette’s *Review of the Creative Industries* is based on the same premise: “Many would-be creative clusters...lack...acumen to realise their growth potential so that they can take on more lucrative ventures, including exports.” (Bazalgette,

September 2017). The average creative company size is 3.3 full-time employees with 90 per cent of businesses having no more than five employees; 34 per cent of creative sector workers self-employed, which is more than double the UK average (Bazalgette, September 2017; Frontier Economics, 2016). In fact, firms in the sector were 15% larger in 2007 than in 2014 (Bazalgette, September 2017). If microenterprises and sole proprietors struggle with exports, the creative industries certainly are headed for trouble.

More recent branches of trade theory, however, are challenging this accepted wisdom. The “born global” model, for example, suggests that some firms are trading internationally by finding a global niche before gaining a national or regional foothold (Gabrielsson et al., 2008; Tanev, 2012). Furthermore, the complexity of economic transactions in the globalised world, which is also increasingly based on services and digital trade, is both facilitating international trade, but also leading to statistical discrepancies thereof (Coyle, 6 June, 2019; Coyle, 2015a; Coyle, 2015b; World Trade Organization, 2010).

This difficulty in measuring international trade in digital and services is particularly relevant to our study because the creative industries export far more intangible services than physical goods (59% vs. 41% in 2015) (DCMS, July 26, 2017). This is further compounded by the fact that microenterprises and independents are, by and large, not included in the UK’s official international trade statistics (Bean, 2016; DCMS, 2016; DCMS, January 2016).

As such, the statistics and trade theories upon which policies are founded, including the CISD may only partially be applicable given the composition of the creative industries and the global economy in which the sector was operating at the time of this research.

The literature review will also consider the concepts “absorptive capacity” and “creative clusters” from the field of business administration and upon which the *CISD*

is built. Absorptive capacity is defined as an organization's capability to discern the value of novel information, integrate it, and effectively apply it for business purposes (Cohen and Levinthal, 1990). In the CISD, this business purpose is specifically export capabilities (BEIS, 2017; Frontier Economics, 2016). Creative clusters stem from Michael Porter's influential Diamond Model of Competitive Advantage, also known as cluster theory (Porter, 1990). The literature review will consider these theories in relation to the actual findings of this study.

This study identifies a critical gap in the literature. Extensive literature exists on the economy of the creative industries (Campbell, 2019; Chung et al., 2018; Komorowski and Lewis, 2020; Turner, 2015; Wright et al., 2019; Young and Cauldwell-French, 2018). A second collection of literature is dedicated to the international trade of the UK's SMEs (Brown et al., 2019; Brown et al., 2018; Komorowski and Lewis, 2020). A third and growing body of literature is dedicated to the effect of policy uncertainty on international trade (Bloom et al., 2019; Bloom et al., 2020; Born et al., 2019b; Crowley et al., 2019b; Douch et al., 2020a; Graziano et al., 2018). No literature, however, at the time of this research combined these three topics to study the international trade of the creative sector's SMEs during a period of high policy uncertainty. By do so, this study can make a significant contribution into the academic literature while offering practicable evidence for industry and policymakers alike.

1.3.3 Research contribution

This study is an original piece of research that eschews academic silos and links three distinct areas of inquiry—design studies, economics and public policy—at a time of great political uncertainty. It is set in the temporal context of the inter-Brexit years from 2018 to January 2020 and in the physical context of the creative hubs in the North West of England. While numerous studies have examined aspects of this research, no study has covered this particular ground.

The research attempts to answer an important question upon which much creative industry policy hinges. With the *Creative Industries Sector Deal* prioritising the scaling-up of firms to increase exports, this research asks, *is small firm size indeed a barrier to international trade in the creative industries?*

The study's findings propose that official statistics may underestimate the extent of importing and exporting amongst the creative industries. Accurate figures are more than just a matter of academic debate. As economist Diane Coyle argues, "statistics are important because they guide policy, they allow citizens to hold their governments to account in democracies," (Coyle, 2016).

The significance of this study is that it employs surveys and personal interviews to collect granular, firm-level data in order to uncover international trade insights from the ground up. Additionally, this research was conducted amongst a cohort that is economically predominant yet typically excluded from statistical data. While large bodies such as the ONS (and increasingly, the Creative Industries Policy & Evidence Centre (PEC)) can access and produce "big data," the value of this study is that it blends quantitative survey data with qualitative data in the form of interviews to produce "thick data." This provides an understanding of not only "how," but also "why" in order for the data to carry meaning (Bornakke and Due, 2018). This research "genuinely listens" to the smallest, most numerous and often underrepresented segment of the creative industries, thereby presenting useful data for informing and improving future planning (Todnem et al., 2017).

By bridging the triple-helix, the research offers industry analysts and policymakers unique insights into the working conditions of the creative industries. The study suggests that increased productivity and exports in the sample typically stemmed not from increasing staff numbers—though this was an element for some—but from other factors such as unfettered access to selected international markets, digital innovations and participation in creative hubs. In the absence of barrier-free access to trade blocks such as the EU, rather than focusing on increasing firm size in the creative industries,

future policy initiatives may consider focusing on other measures identified in this study.

1.4 Methodology and Study Design

Doctoral researchers were selected for the Transformation North West programme without a premeditated research question. At the same time, the TNW programme mission required the active participation of industry partners. As such, the doctoral training programme leaned itself to a naturalistic line of inquiry or a “grounded theory” approach. The salient feature of grounded theory (GT) is that, instead of attempting to prove or disprove a proposed hypothesis, GT researchers develop a hypothesis as a result of the research (Stiel et al., 2010).

Grounded theory is the opposite of scientific empiricism, which begins with a hypothesis, followed by a literature review, and finally an investigation to prove or disprove the thesis (Glaser and Strauss, 1967). This “grand theory” methodology, also known as positivism, generates theory by deduction based on a priori assumptions. GT reverses (or precedes) this methodology and generates theory by inductive reasoning (Glaser and Strauss, 1967). Glaser and Strauss, the founders of the grounded theory approach, argued that it is rational for researchers to rigorously collect data, analyse it, and use it to generate or “discover” hypotheses that “emerge” after data collection (Glaser and Strauss, 1967; Strauss and Corbin, 1990). An understanding of the phenomena under examination (“theory”) is produced via observation, description, prediction, and, finally, a knowledge-based explanation (Guba and Lincoln, 1982; Kappes, 2014; Lincoln and Guba, 1985; Nelson, 2014).

Discussions with the initial project partner, Baltic Creative, identified specifically the partner’s request for quantitative and qualitative research. As per GT methodology, the “tentative theory of the phenomenon under investigation” (Maxwell, 2005), only began to surface after completion of the inaugural research project.

The research springboard was the anomaly between the UK's international trade figures and the real-life data collected at Baltic Creative. The emerging "phenomenon" under investigation was the discovery that microenterprises and independents appeared to be participating more broadly and deeply in international trade than traditional theory or statistics would predict. The study, however, needed to determine if research results were site-specific to Baltic Creative and/or the city of Liverpool, or whether they indicated a potentially broader phenomenon. The research thus expanded into three further creative hubs intentionally based in diverse locations throughout the North West, including a large city (Manchester), a mid-size city (Preston) and a village (Halton).

Repeating the study in other creative hubs provided several advantages. First, it allowed for "triangulation" of the initial research to assess whether Baltic Creative's tenant firms and independents were representative of the North West's creative industries or if they were outliers. Second, by offering the same research methods developed for Baltic Creative to other creative hubs it fulfilled TNW's mission to "grow and scale up the creative industries cluster in the North West." Finally, by spanning the two inter-Brexit years of 2018 and 2019, the research methods opened opportunities to study broader and more ambiguous concepts such as policy uncertainty rather than concentrating on the singular event of the UK's departure from the EU.

This study's methodological approach employed mixed methods, which blends several varieties of data (Christ, 2014). Mixed methods research, however, is not simply a combination of quantitative and qualitative research. It promotes a pragmatic approach that adheres neither to the rigidity of positivism, which insists on the existence of empirically verified facts, nor to that of relativism, which regards absolute truth as unknowable and human knowledge as fallible (Christ, 2014). The pragmatic, postpositivist position is based on Kuhn's concept of "paradigms," in which objective truth is desirable but is subject to prevailing worldviews. These are stable for a time but change when scientific revolutions occur, requiring a revision of the dominant

paradigms (Christ, 2014; Kuhn, 1962; Thomas, 1980). In short, paradigms are bounded by social and temporal conditions (Christ, 2014; Kuhn, 1962; Thomas, 1980). Christ writes, "Post-positivists continue to pursue and value objectivity, but recognize that bias is always present and knowledge is fallible," (Christ, 2014).

The ontological underpinning of this research is that combining qualitative and quantitative data collection generates synergies that neither method alone can provide (Eisenhardt, 1989; Mintzberg, 1979). Qualitative data fosters diverse perspectives, while quantitative data strengthens the foundations of a study (Eisenhardt, 1989). A blend of methods alone, however, does not provide a more complete understanding unless it offers greater "credibility" to the research findings (Mertens and Hesse-Biber, 2013).

In this study, quantitative surveys provided valuable data for discovering the prevalence or variation of certain variables (Guest et al., 2013). Qualitative interviews collected "thick data," bestowing context to the figures previously harvested via targeted online surveys. In total, 109 online surveys were completed, and 33 face-to-face interviews conducted. Although inherently limited, these methods were dictated by "best practice," and in fact, were similar to the surveys used by the government's own Office for National Statistics at the time of the research, as will be discussed at length in Chapter 6: Discussion. By adopting the mixed methods approach, this study seeks to develop theory that is "grounded" in both quantitative, empirical data and qualitative, substantive data in order to produce solid, powerful scientific research that is imbued with both fact and meaning.

1.5 Main findings

This study suggests that official statistics may have been understating the true value of creative industries international trade prior to Brexit. In four creative hubs in North West England, the SMEs, microenterprises and independents were found to be trading internationally at higher rates and with more economic impact than

government figures suggest. Contrary to reports such as Sir Peter Bazalgette's 2017 *Independent Review of the Creative Industries* and Frontier Economics' 2016 *Absorptive Capacity: Boosting Productivity in the Creative Industries*, small company size did not significantly affect ability to export. The research found that a considerable portion of sampled independents and microenterprises—two groups that were vastly underrepresented in ONS and DCMS statistical data at the time—were exporting not by way of strained or concerted efforts, but simply because they were operating in an open digital, global environment where international trade was integral to their business.

The research results can be grouped into six significant findings.

1. High rate of participation in international trade

The international trade engagement of the sampled independents, microenterprises, and SMEs was considerably higher than official trade statistics would predict: 76 per cent of the sample engaged in international trade, with 66 per cent exporting. This contrasts with official figures, which found that only 18 per cent of creative industries trade internationally (DCMS, 14 February 2018).

2. Small firm size *per se* was not a barrier to international trade

The median firm size of the sampled exporters was 2-3 full-time equivalent (FTE), slightly lower than the national creative industries average of 3.3 FTE (Bazalgette, September 2017). While independents were the least likely segment of the sample to trade internationally, still 58 per cent (15 out of 26) engaged in importing and exporting. Meanwhile, 77 per cent of sampled microenterprises traded internationally.

The findings suggests that increased productivity and exports in the sample typically stemmed not from higher staff numbers—though this was an element for some—but

from other factors such as open access to global markets, digital innovations and, possibly, location in creative hubs.

3. Trade volume: deep reliance on exports for annual income

An unexpected finding was the depth of reliance on exports for annual earnings. A surprising 46% of exporters earned between 11 and 50 per cent of annual income abroad. Furthermore, over a quarter of all exporters were "deeply reliant exporters," earning more than 50% of their annual income abroad. Almost all deeply reliant exporters in the sample were microenterprises or independents, and most traded with the EU. These trade-dependent exporters would have been the industry segment most vulnerable to major changes in the UK's international trade policy (Brown et al., 2020; Brown and Rocha, 2020).

4. Imports were a significant aspect of international trade

The *Creative Industries Sector Deal* equates "international trade" with "exporting." However, 60 per cent of the sample was importing goods and services from abroad. Some importers reported income losses after the pound sterling's devaluation following the Brexit referendum.

5. Most international trade was in services, not goods

Almost all international traders operated in services. Specifically, 69 per cent traded only in services internationally, 29 per cent traded in goods and services, and 3 per cent were involved in goods trade only.

6. Exporters were less optimistic about future earnings

Exporting firms were notably more pessimistic about future earnings than non-exporters, reporting lower rates of expected income in the forthcoming year. The EU

was the largest trading partner for the sample with 82 per cent of international traders doing business with the EU. Business confidence is a fundamental precursor to investments such as R&D and capital expenditure, which are key determinants of productivity growth (BEIS, 2017a; Born et al., 2019b; Crowley et al., 2019a; Frontier Economics, 2016).

1.5.1 Summary of Main Findings

The *Creative Industries Sector Deal* aims to increase the creative industries average firm size to stimulate exports, but this study did not find small firm size a barrier to international trade. The research sample was more active in international trade during the inter-Brexit years of 2018 to January 2020 than official figures would indicate, calling into question the recommendation of “scaling-up” the creative industries in order to boost exports (Bazalgette, September 2017; BEIS, 2018).

Whether exporting or not, 83 per cent of the sample were either sole-proprietors or microenterprises employing ten or fewer workers. The *Creative Industries Sector Deal* is concerned about microenterprises since they account for 95 per cent of creative industries firms (BEIS, 2018). At first glance this is surprising, but, in fact, it is completely in line with the UK average—96 per cent of all UK companies are micro-businesses (Rhodes, 2018).¹ Despite the fall in average company size, digital innovations combined with the extant political and economic environment appeared to have given microenterprises and independents access to global trade opportunities.

This research was carried out while the UK was still a member of the EU. The UK’s creative industries, however, are facing an era of unprecedented transition. At the time of the research, they encountered elevated levels of policy uncertainty regarding

¹ The UK government produces conflicting figures. The DCMS report *Sectors Economic Estimates 2016: Business Demographics* states that 89.2 per cent of UK businesses in 2016 employed fewer than 10 people. It’s unlikely that the number jumped from 89.2 in 2016 to 96 per cent in 2018.

their future international trading capacities. Policy uncertainty during this inter-Brexit era appeared to have dampened the export potential of the sampled creative industries SMEs. Nevertheless, the small and tenacious entities encountered in this study managed to exceed all expectations by exporting at far higher rates than official data would suggest. The *Creative Industries Sector Deal* aims to increase the export capacity of creative industries by increasing firm size. This research endeavours to answer the question, is small firm size a barrier to international trade in the creative industries? This thesis will make a compelling case that small firm size did not hinder creative industries' ability to export given the prevailing political economy at the time of this research.

1.5.2 A word on the interaction of history effect

Brexit will have a long-term effect on the British economy as a whole. Some government policies will stimulate exports while others will create barriers to trade. Brexit will benefit some creative industries firms while others will fail. The unforeseen circumstances of the global Covid-19 crisis during Britain's exit from the EU will add the additional challenge of disentangling the effects of Brexit from the effects of Covid-19 on creative industry exports, so-called "wicked synergies," (King, 2020).

On the one hand, should this research be correct and more creative industries were exporting and with greater financial consequence than official figures suggest, this is a cause for celebration. On the other hand, if creative businesses were as financially reliant on exports as this study suggests, jolts to the UK's existing international trading environment potentially had more wide-ranging effects on this sector than official reports may indicate.

1.6 Thesis Structure

This chapter has introduced the subject under consideration, offering the study's unique perspective: it investigates the global reach of creative industries SMEs, microenterprises and sole proprietors, which are overlooked by most statistical data. By doing so, the research produces knowledge that is useful for progressing the understanding of real-life challenges (Guest et al., 2013)—and successes. The study endeavours to uncover clues to several strands of the inquiry, including: Are the sample exporting and importing at rates higher than suggested by official creative industries reports? If yes, what factors can account for the anomaly? What roles do scale and context play in their ability to trade internationally? How might the study findings influence future public policy? These topics and more will be considered throughout this thesis.

Chapter two reviews the literature. It begins by cross-examining the term “creative industries,” the basis on which policy is founded. It moves onto considering global trade, its role in the UK economy, the *Creative Industries Sector Deal* and policy uncertainty. It examines creative clusters and hubs in relation to SMEs. Finally, it considers the limits of the data generated.

Chapter three discusses the methodological umbrella of the research, which combines mixed methods and grounded theory. It examines the methodology as a response to the competing demands of the Transformation North West doctoral training programme, which mandated combining industry engagement with academic rigour. The chapter inspects the logic and constraints of the methodology, highlighting the limitations of quantitative data both in this research and that of government sources.

Chapter four introduces the research design and its execution with four research partner creative hubs in North West England: Baltic Creative in Liverpool, Halton Mill in Halton village, Society1 in Preston, and The Sharp Project in Manchester. The chapter explains the evolution of the research, as per grounded theory methodology, and examines the trustworthiness of the sample.

Chapter five presents the detailed findings from each of the four industry partners and the consolidated results. The cross-referencing of data uncovers patterns regarding trade engagement, firm size, and reliance on exports for annual income. The chapter presents a synopsis of the significant findings.

Chapter six is the penultimate chapter. This discussion chapter delves into the significance of the study results, potential explanations for the findings, and potential implications for the creative industries and policymakers. It covers topics such as ONS data collection methods, global trade in a digital and service-based economy, the effect of Brexit uncertainty on the sample, the strengths and weaknesses of the *Creative Industries Sector Deal* and suggestions for future public policy initiatives.

Chapter seven is the concluding chapter. It begins by reflecting on the *Industrial Strategy* and the complexities of navigating Great Britain's creative industries through transition. It situates the research in the context of the literature and discusses its impact, with industry partners sharing perspectives on the collaboration. The chapter concludes by considering the study's limitations with a summary of the inconclusive or unexpected results, offering suggestions for future routes of inquiry.

2. LITERATURE REVIEW

There is a critical gap in knowledge about the creative industries global trading patterns, particularly for the SMEs, microenterprises and independents that make up the bulk of the sector. The findings of this study indicate that official statistics may underestimate the extent of importing and exporting undertaken by the UK's creative industries. The sampled independents, microenterprises and SMEs based in four creative hubs in the North West of England were substantially more involved in global trade in 2018 and 2019 than official figures indicate (DCMS, 14 February 2018). These findings suggest that policy uncertainty and large-scale changes to the UK's international trading environment, such as Brexit, may have broader and deeper ramifications on the creative industries than one might assume. The research identifies factors and behaviours of organisations in the creative industries that are at concealed from current statistical methods, something that could explain the gap between policy and practice in the sector.

Drawing on academic literature, as well as primary sources in the form of government and Office for National Statistics (ONS) publications, the aim of this literature review is threefold. First, it provides the context for this research, which stems from two government documents: the *Industrial Strategy* (BEIS, 2017c) and the *Creative Industries Sector Deal* (BEIS, 2018). Second, it introduces and defines the major concepts considered in this thesis: the creative industries, global trade, and the enumeration of activity in global trade. Finally, it introduces the academic literature that provides the tools for the research analysis.

The central question in this study, "is small firm size a barrier to international trade in the creative industries?" requires ascertaining the depth and breadth of international trade activity amongst creative industries firms and independents. If they are more involved than official statistics indicate, consequent lines of inquiry arise, including,

what might account for the anomalies? Did the post-referendum pound sterling slump increase creative industry exports, as economic theory would predict? If not, what role might policy uncertainty have played in the export potential of creative firms during the post-referendum, pre-Brexit years of 2018 and 2019? The *Creative Industries Sector Deal* calls for “scaling up” of firms, but this research and other academic literature suggest that additional factors may play a greater role in the international trade capabilities of the creative industries.

2.1 Definition of Terms

2.1.1 Defining the creative industries

Demarcating the perimeter of the creative industries is not without contention. There are no shared definitions or metrics, and different cultures consider a diverse range of activities as “creative” (Davies and Sigthorsson, 2013; Hesmondhalgh, 2008). The creative industries debate is divided between those who broadly supported the concept and those who oppose it (Banks and O'Connor, 2017; Campbell, 2019). For both camps, “creative industries” is not a neutral, descriptive term (Banks and O'Connor, 2017; Campbell, 2019). In the UK, the collation of the seemingly contradictory terms of “creative” and “industries” came into widespread use in the 1990s and was codified by policy in 1998 (Campbell, 2019; Gross, 2020; Hesmondhalgh, 2008). Until then, the dominant policy discourse centred around terms such as the “arts sector” and “cultural activity,” later developing into the “culture industries” as economic justification seeped into the sector (Throsby, 2015).

To those who initially supported using the term “creative industries” in the 1990s, which included policymakers and scholars alike, “creativity” epitomised confidence, optimism, cosmopolitanism, economic renewal through culture, and the regeneration of post-industrial cities (Banks and O'Connor, 2017; Florida, 2002). Where once art and commerce might have been considered at odds with one another in an ideological sense (Garnham, 2005), the notion of regenerating former industrial areas

through the arts, music and other cultural activities—providing “real” jobs, not just distractions or hobbies that drained the public purse—was fresh and invigorating (Banks and O'Connor, 2017). As culture became increasingly lucrative, policymakers and economists began “finally acknowledging” culture (Oakley and O'Connor, 2015) as it moved closer to “the centre of the economic action,” (Hesmondhalgh, 2008).

Those on the other side of the debate who take umbrage with the term “creative industries,” argue that the term was, and continues to be, imbued with neoliberal, market-driven rationale (Campbell, 2019). The creative industries may bring jobs and wealth creation, but without sufficient social and political consideration, it has also led to highly unequal development that benefits educated elites while leaving others behind—including the very notion of “cultural value” itself, (Banks and O'Connor, 2017; Campbell, 2019; Oakley and O'Connor, 2015; Turner, 2015).

In the 1980s, arts organisations began to make an economic case to prevent funding cuts to the arts sector by the Conservative government under Margaret Thatcher (Throsby, 2015). Publications such as the 1986 Arts Council report, *Partnership: Making Arts Money Work Harder* and John Myerscough's 1988 book, *The economic importance of the arts in Britain* intensified the trend of assigning economic value to cultural endeavours to prove they were not just entertainment, but important catalysts of economic growth (Campbell, 2019). This narrowing down of *cultural value*—which may include messier concepts such as political and social benefits—to its basic *economic value* is attractive to policymakers because it shifts the burden from them having to “reluctantly accept that cultural initiatives will cost rather than raise money” while allowing them to claim that they are “serving both cultural and economic objectives simultaneously,” (Gross, 2020; Turner, 2015). The inherent friction between cultural and economic value was erased by the term “creative industries,” which became an irrefutable slogan that “disguises the very real contradictions and mobilise[s] a very disparate and often potentially antagonistic coalition of interests around a given policy thrust,” (Garnham, 2005). For critics of creative industries policies, the *Creative Industries Sector Deal* (CISD) provides grist to the mill. The CISD

allocates (limited) investment primarily in the IT and games sectors or international trade and data (BEIS, 2018). Recipients of a small Cultural Development Fund would be required to provide “significant private-sector investment” to match-fund government monies and to demonstrate proof that they will be furthering economic growth (BEIS, 2018).

The move from “cultural” to “creative” industries in policy is less academic than it, at first, may seem. While *culture* is largely the “output” or product of the arts, *creativity* is an “input” (Oakley and O'Connor, 2015). This shift in terminology may have been well meaning, but it resulted in glorifying the primacy of “the consumer rather than the citizen...deepening [the] socio-cultural shift from collective to individual identities and values, and a pervasive (and global) drive to strip out the costs (and power) of labour,” (Banks and O'Connor, 2017; Campbell, 2019). It shifted the focus away from the role of the cultural industries in shaping and facilitating community to a focus on “the individual – the entrepreneur, the artist or the consumer,” (Turner, 2015). And it did so by invoking *creativity* because it is an incontrovertible, captivating concept: “who, after all, would want to stifle creative impulses?” asks Campbell (Campbell, 2019). If creativity brings “increased tax revenue, increased spending by tourists, higher value goods and other ‘objectively’ measurable outcomes” then it only makes sense to push the rather vague “creativity agenda” (Campbell, 2019). The celebration of “creativity,” thereby, permitted policymakers to side-step the messy and often contentious arenas of politics and culture, and by doing so, displaced “cultural values”—or the very possibility of collective and public values—onto the heroism of the creative entrepreneur,” (Oakley and O'Connor, 2015). Without much opposition, notions as diverse as entrepreneurship and creativity were now regularly invoked as panaceas for a range of ills—from precarious work in the gig economy to urban regeneration—rather than exposing the underlying inequalities of the system within which they operate (Campbell, 2019).

Some theorists argue that in the current era of modernity, in which Fordist, bureaucratic or “organised capitalism” was coming to a close, the *de facto* nucleus of

the creative industries became the exchange of finance for intellectual property (IP) rights (Lash and Urry, 1994). Cultural policy scholars such as Schlesinger or Banks and O'Connor, argue that the creative industries were not just swept along in the proliferation of neoliberal principles, they were instrumentally used as proof to justify them, making creativity a key "doctrine" of free markets and competitive individualism (Banks and O'Connor, 2017). A romanticised myth of the heroic, self-made entrepreneur or artist pervades neoliberalism's "optimistic individualism" (Wright et al., 2019). Individuals are encouraged to follow their passions, to "do what you love" without sufficiently interrogating the "dark side of creative entrepreneurship" (Wright, 2015; Wright et al., 2019). Creative workers are taking all risks alone without a financial safety net, job security, or medical benefits in a sector that is often uncertain and, at times, risky (Pang, 2015; Wright et al., 2019). Creative, stimulating and autonomous jobs, where one can self-actualise, are regularly hyped against alienating, routine, "uncreative" jobs (Wright et al., 2019). As Murray points out, "high acceptance of the individualization of risk in 'cool jobs'...can prevent stabilization of norms and regulation of workplace[s]" (Murray, 2015). The fierce competition for these jobs in the most glamorous sectors of the creative industries requires workers to make deep investments, such as flexibility and long hours, placing high demands on their home lives, often resulting in anxiety (Davies and Sigthorsson, 2013). As these self-employed workers in the creative industries age, they face additional challenges and precarity (Hennekam, 2015). This is particularly concerning in the creative industries given that over one-third of workers in the sector are self-employed—more than double the UK average—and this trend is increasing (Bazalgette, September 2017; DCMS, 15 August 2019; DCMS, 26 July 2017; Frontier Economics, 2016).

Further critiques of the sector include the introduction of "computer programming activities" (DCMS, 2016) into the UK's definition of the "creative industries." This conflates activities like music composition, acting, and coding into a single notion of "creativity," (Garnham, 2005; Oakley and O'Connor, 2015). Including software in the creative industries sector was useful for creative industries proponents and policymakers because it bulked up the sector's employment numbers by roughly 40

per cent, increased its income and productivity, and thereby bolstered its apparent economic importance (Oakley and O'Connor, 2015). The move subsumed the cultural (now creative) sector into the newly minted “knowledge economy,” allowing it to be used as a tool in the drive to increase national competitiveness and innovation (Oakley and O'Connor, 2015). When the data then showed that these creative industries were growing faster than the manufacturing sector, policymakers took note (Throsby, 2015). This however, backfired for the “cultural” sector: the government’s 2017 *Industrial Strategy*, for example, earmarks only one pot of direct investment of £33 million into the creative industries and this is for “pioneering immersive technologies” like virtual reality and augmented reality—activities that are situated in the “digital” quadrant of the creative space (BEIS, 2017c).

During the course of this PhD, an illuminating change took place. While the acronym DCMS initially stood for “the Department for Culture, Media and Sport,” in July 2017, the unit changed its name to the Department for *Digital*, Culture, Media and Sport (DCMS, 2017). Between 2012 and 2017 the DCMS took over responsibility for telecoms, data protection, cyber security skills, the digital economy, and Internet safety (DCMS, 2017)—thereby increasing its involvement in the digital realm. In fact, the DCMS reported that by 2017, half of its work was related to digital, data or media policy and delivery (DCMS, 2017).

Until 2016, the DCMS was producing separate reports for the creative industries. Thereafter, all reports based were compiled into a single document for all DCMS sectors. The DCMS 2016 *Business Demographics* report disaggregated the grouping into three major subsectors: the creative industries, the cultural industries, and the digital industries, admitting major overlapped between the three (DCMS, 14 February 2018). In the 2017 *DCMS Sectors Economic Estimates*, almost 20 per cent of sector GVA contributions appeared in both the creative industries and the digital industries (DCMS, 28 November 2018). Almost seven per cent of sector GVA overlaps between the creative industries, digital sector, and cultural sector, including activities such as broadcasting and motion picture, or video and TV production (DCMS, 28 November

2018).

It is evident that the definition of “creative industries” is in flux and likely to change in the near future (Gross, 2020). Nevertheless, the wholesale dismantling of the creative industries edifice is not in the scope of this thesis. This thesis is a response to UK government’s 2017 *Industrial Strategy*, the 2018 *Creative Industries Sector Deal*, and their related agendas. As such, it is important to use a mutually intelligible term so as to interrogate the government’s policies via shared platform (Oakley and O’Connor, 2015). Any course of action requires selection from a range of possibilities to create a simplifying narrative from which one can proceed (Oakley and O’Connor, 2015). For all its baggage and failings, this research will use the definition of creative industries as assigned by the DCMS in 1998 (and updated by 2016):

“Those industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property” (DCMS, 2016; DCMS, 2019). This comprises the following nine sub-sectors:

1. Advertising and marketing;
2. Architecture;
3. Crafts;
4. Design (product, graphic & fashion);
5. Film, TV, video, radio and photo;
6. IT, software and computer services (incl. games);
7. Publishing
8. Museums, galleries and libraries;
9. Music, performing and visual arts;

(DCMS, 2019)

As the creative industries evolve and critics become increasingly vocal, its definition may change (Gross, 2020). The DCMS has begun to disaggregate its subsector data. The DCMS definition of the “cultural sector” is as follows: “those industries with a

cultural object at the centre of the industry” (DCMS, 2019). It includes the following sub-sectors: arts; film, TV, and music; radio; photography; crafts; museums and galleries; library and archives; cultural education; and operation of historic buildings and similar visitor attractions (DCMS, 28 November 2018). The DCMS definition of the “digital sector” includes the following sub-sectors: manufacturing of electronics and computers; wholesale of computers and electronics; publishing (excluding translation and interpretation activities) software publishing; film, TV, video, radio and music; telecoms; computer programming, consultancy and related activities; information service activities; and repair of computers and communication equipment (DCMS, 28 November 2018). The *Creative Industries Sector Deal*, however, does not disaggregate the two areas, but repeatedly refers to the sector as the “cultural and creative industries” (BEIS, 2018).

2.1.2 Defining Creative Clusters and Creative Hubs

The research sample was entirely based in creative hubs. Creative hubs typically involve a property element such as a dedicated building or a space within an office block or university, though occasionally they are virtual (Virani et al., 2016). Creative hubs act as a “nest” for “enterprising people ...who work in the creative and cultural industries... [and are] generally made up of micro SMEs and independents,” (Arts and Humanities Research Council, 2022; Virani et al., 2016). The European Creative Hubs Forum specifies that, by definition, part of a creative hub must be a dedicated space available for “networking, organisational and business development,” (Virani et al., 2016). At this local scale, however, creative hubs are not a unit of organisation recognised by the *Industrial Strategy* or the *Creative Industries Sector Deal* so this literature review will examine the relevant policy unit of “creative cluster.”

Confusingly, in both scholarly literature and policy documents, the terms “hub” and “cluster” are often used interchangeably. For this purpose of this research, however, the two terms will be separated, with “creative hub” referring to a constellation of individual entities located at a unique site (e.g. The Sharp Project or Baltic Creative), while “creative cluster” will refer to the regional or metropolitan scale as described

below.

Michael Porter's "Diamond Model" is often cited as the seminal work in cluster theory. Introduced in his 1990 book, *The Competitive Advantage of Nations*, the Diamond Model of National Advantage provides a framework for understanding why some regions or nations are highly successful in particular industries, arguing that regional industry clusters are a key determinant in a nation's global competitive advantage (Porter, 1990; Snowden and Stonehouse, 2006). Clusters are geographic concentrations of interconnected companies, specialised suppliers, and service providers (including universities or government agencies) in a related industry (Porter, 2005). Firms cultivate competitive advantage vis-à-vis one another on a local scale (Porter, 1990; Porter, 1998; Swords, 2013). Proximity produces "knowledge spill-over," which forces firms to rapidly adopt innovative technologies and practices (Porter, 1990). Only the strongest firms and innovators survive this competition, thus creating the conditions for a globally competitive cluster (Porter, 1998). Porter argues that clusters are a feature of every national economy and that they are, in and of themselves, a driving force in increasing exports (Porter, 2005). Examples of well-known clusters are Silicon Valley in California or "The City" financial district of London.

Some argue that the communications revolution and the convergence of global markets have reduced the importance of location, heralded by "the death of distance" (Cairncross, 1997). Creative hubs and clusters, however, show a simultaneous pull in the other direction—a desire for intensity of activity and physical proximity for interpersonal exchanges (Gill et al., 2019). Proponents argue that clusters attract a pool a pool of researchers, company founders and talented potential employees while pointing to the positive effect found between clustering and a firm's capacity for technological innovation (Huber, 2012; Komorowski, 2020; Zeng et al., 2019).

Since publication, Porter's model has been viewed as a leading paradigm for understanding the microeconomic foundation of a nation's, an industry's and a firm's

competitiveness (Snowdon and Stonehouse, 2006). Followed shortly by AnnaLee Saxenian's 1994 book, *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*, corroborated the notion that regional networks of firms and organizations with social, technical, and commercial relationships were key to the success of California's Silicon Valley in comparison to the East Coast Route 128's relative isolation and decline (Saxenian, 1996). Both Porter and Saxenian cemented the notion that, with the emergence of a globalised knowledge-based economy, regional clusters increasingly were features of a nation's success (Maskell and Lorenzen, 2003).

Porter's theory has advanced a large number of public sector-led cluster initiatives with policymakers hoping to drive regional economic development and to enhance the competitiveness of firms within them (Porter, 2005; Swords, 2013). His model has been adopted by the OECD, the EU, national governments and local administrations, resulting in programmes such as the European Commission's Smart Specialisation strategy for modernising industrial sectors, Germany's Clusters of Excellence research funding program, and the UK's Industrial Strategy Challenge Fund (Foray et al., 2009; Fornahl and Brenner, 2009; Swords, 2013). The UK's publicly funded Economic and Social Research Council (ESRC) and the government's Department of Trade and Industry (DTI) commissioned Porter to undertake a review of "the existing evidence on UK competitiveness," (Porter and Ketels, 2003). Porter found a "lack of an overall strategic perspective," calling for more rigorous data collection and analysis of the UK's existing clusters, suggesting that, "the broad industries in which the UK has strong export positions are a suitable starting point for cluster case studies," (Porter and Ketels, 2003).

It could be said that UK policymakers have been grappling with this task ever since (Swords and Prescott, 2023). In the creative industries, research such as the report by the UK's National Endowment for Science, Technology and the Arts (NESTA) entitled *Manifesto for the Creative Economy* again called for mapping of the UK's creative clusters and devised a seven-point creative clusters guideline for policymakers and

local development agencies (Bakhshi, Hargreaves and Mateos-Garcia, 2013; Mateos-Garcia and Bakhshi, 2016). The report insisted that cluster development policies “must be prioritized on growing industrial clusters that fuse creativity and digital technologies” (Bakhshi, Hargreaves and Mateos-Garcia, 2013). Along with NESTA’s ensuing “Geography of Creativity in the UK creative networks” and the Frontier Economics report, these policy petitions made their way into Sir Peter Bazalgette’s *Independent Review of the Creative Industries*:

My key recommendation is that support for regional growth is prioritised...supported by a £500 million Creative Clusters Fund... I believe strongly that... creative clusters will deliver a model that solves problems for other significant parts of the economy.

(Bazalgette, September 2017)

The *Creative Industries Sector Deal* implemented this recommendation by earmarking £500 for the Creative Clusters Fund to “enable clusters of world-class businesses to increase GVA and employment” providing “backing for leading creative industries clusters” (BEIS, 2018).

Launched in 2018, the Arts and Humanities Research Council (AHRC) Creative Industries Clusters Programme (CICP) selected nine university/industry cluster partnerships to share in an investment pot of £80 million over five years “to drive innovation and skills, and create products and experiences that can be marketed around the world,” (Arts and Humanities Research Council, 2022). Each of the nine clusters focuses on a different creative sector, including fashion textiles, digital storytelling, and the screen industries. For example, the Bristol and Bath Creative Research and Development Cluster aims to improve the performance of the Creative Industries in the region by partnering local universities, venues and industries from television, theatre, publishing and computing. Its core aim is to gain understanding about user engagement in new platforms, laying the foundation for the Cluster to be “internationally successful by 2030,” (Arts and Humanities Research Council, 2022).

Some critics of the Diamond Model argue that, by concentrating on firms and competitive advantage, Porter's paradigm is less relevant to policy makers, who are (or should be) concerned with a broader economic and industrial system (Pratt, 2004). Other scholars have found innovation and co-location to be particularly relevant in the early stages of an industry's life cycle, but with innovation dispersing in the mature and declining stages of an industry's life cycle (Audretsch and Feldman, 1996). Some researchers have argued that the cluster's scale or critical mass is a fundamental factor, but one on which Porter is vague, focussing instead on the firm (Sand, 2020). Other scholars have argued that certain key mechanisms (including competent cluster managers or "drivers") need to be put in place for a successful regional development cluster strategy (Lundequist and Power, 2002). In relation to creative clusters, some have noted insufficient research into the specificities of regional contexts and sub-industry activities that are consolidated into the broad category of "creative industries," (Domenech et al., 2011; Sand, 2020). Furthermore, in Porter's Diamond Model, a nation builds its competitive advantage through its companies in the home market first (Porter, 2005). Recent research, however, questions this premise. This factor will be discussed in Section 6.5 What the CISD fails to address entirely: Born Globals. Successful exporters need to be considered not only in the context of their cluster, but also in the internationally connected environment in which they operate, as discussed below (Wadha, 14 July 2011).

The Creative Industries Sector Deal champions both the "scaling up" creative industry SMEs and the development of world-class "creative clusters" (BEIS, 2018). This study will argue that "clustering up" is a more effective policy tool than "scaling up" for advancing the international trade capabilities of independents and microenterprises—but only if particular conditions are met. This too will be critically considered, however, as clusters theory is not applicable to every national and regional context and is at risk of becoming an orthodoxy that is "frequently repeated, but rarely examined," (Sand, 2020).

2.1.3 Absorptive capacity

The *Creative Industries Sector Deal* aimed to increase firm size in the sector, arguing that small firms lack “absorptive capacity” to undertake extra export duties (BEIS, 2018). Absorptive capacity, a term coined by Cohen and Levinthal in 1990, refers to an organisation's “ability to recognize the value of new information, assimilate it, and apply it to commercial ends,” (Cohen and Levinthal, 1990). The concept stemmed from the authors’ investigations into research and development (R&D) and as such, R&D investments were key to their model of absorptive capacity (Cohen and Levinthal, 1989; Cohen and Levinthal, 1990). In their model, investments in R&D create a positive feedback loop by engendering higher absorptive capacity allowing the firm to remain innovative (Cohen and Levinthal, 1990).

Zahra and George expanded the concept of absorptive capacity (ACAP) dividing it into two components of learning: *potential* (PACAP) and *realised* (RACAP) absorptive capacity (Zahra and George, 2002). PACAP is exploratory learning that entails searching for and experimenting with new knowledge, while RACAP is exploitative learning involving refining and applying existing knowledge (ibid.). Zahra and George posit that more exposure to diverse external sources of knowledge increases a firm’s ability to develop its PACAP while prior experience is key to RACAP (ibid.). Organizations need to balance both forms of learning to remain competitive (ibid.). Zahra and George focus on the organisational capacities of the firm, highlighting the use of processes and routines to increase absorptive capacity (ibid.). As with Cohen and Levinthal, innovation and absorptive capacity are linked, and both are pivotal to the firm’s competitive advantage (Cohen and Levinthal, 1990; Zahra and George, 2002).

In relation to exports, absorptive capacity is “path dependent”—prior knowledge is essential to effectively employing new information in international markets (Fitjar and Jøsendal, 2016). Based on an the ONS’ Annual Respondents Database dataset from 2000 and 2001, Harris and Li found that, in the UK, firm size plays a fundamental role

in export propensity, with greater absorptive capacity (for scientific knowledge, international cooperation, and organizational structure) significantly reducing barriers to foreign market entry (Harris and Li, 2009). Problems with this dataset in relation to the creative industries, however, will be discussed in Section 6.1.2 ONS data and microenterprises.

Critics of absorptive capacity argue that the paradigm of absorptive capacity had become reified and oversimplified (Lane, Koka, and Pathak, 2006). The authors stress the importance of dynamic capabilities, or the organisation's ability to adapt in response to a changing environment (ibid.). Other critiques include the difficulty of distinguishing between the phases of acquisition, assimilation, transformation, and exploitation (Zahra and George, 2002). Others note that precise evaluation methods need to be developed, including context-specific measurement approaches (Lane, Koka, and Pathak (2006).

Some scholars argue that an overemphasis on technology and innovation in the creative industries overshadows the "complex and ambivalent...production and circulation of cultural artefacts," (de Souza Freitas, 2018; Hesmondhalgh, 2013). Cultural industries often have different *raison d'être*, employment practices, and socio economic influences to that of technology companies (Hesmondhalgh, 2013). They typically operate in markets with a high demand for novelty, with goods or services consumed not only for their practical utility, but also for the appeal or novelty of their creation (Dewett and Williams, 2007). Even the frequent stumble over "cultural and/or creative industries" demonstrates an uneasy merger of fields (O'Connor, 2013).

Indeed, the concept of absorptive capacity was explicitly developed in relation to manufacturing and may be less appropriate for creative industries, where the development of new ideas, services and products is integral to the sector, yet only a small contingent of firms explicitly engage in R&D (Fitjar and Jøsendal, 2016; Cohen and Levinthal, 1990). Inattention to these and other characteristics can result in the conflation of the creative industries with Silicon Valley.

Despite the ease of digital communication today, many claim that face-to-face encounters are still a necessary aspect of innovation with others arguing that *international* encounters are crucial to the process (Fitjar and Rodríguez-Pose, 2017). A large-scale study in Norway revealed that companies maintaining ties only with players in the same cluster or region were four times less likely to innovate than companies that were globally connected (Fitjar and Rodríguez- Pose, 2011).

Absorptive capacity, as such, is a useful concept for many sectors and business applications, but cannot simply be applied as a “plug and play” paradigm to creative industries’ exports. As Fitjar and Jøsendal write, “for firms in the creative industries, absorptive capacity is a complex and contingent phenomenon, with its effect on exporting depending both on the nature of the firm's absorptive capacity and on the type of knowledge that the firm wants to absorb,” (ibid.).

2.1.4 Defining global trade

International trade is defined as the exchange of goods or services across national boundaries (Hassan et al., 2014; Rodrigue, 2020). Inbound trade from foreign countries is defined as *imports*, and outbound trade is defined as *exports* (Rodrigue, 2020). One might expect this definition to be settled, but in fact international trade theory has become a dynamic field of study (Ethier, 1987).

Traditional trade theory (including the Ricardian model of comparative advantage, the Heckscher-Ohlin model of natural endowments or the Uppsala model of firm internationalisation) views international trade as the *expansion* of capacities once an entity has established itself within its national borders (Hassan et al., 2014; Van Marrewijk, 2017; Zohari, 2008). Recent branches of trade theory, however, challenge these notions. The “born global” model, for example, suggests that some firms are trading internationally by finding a global niche before gaining a national or regional foothold (Gabrielsson et al., 2008; Tanev, 2012).

The “gravity model,” named after Newton’s theory of gravity, however, argues that national economic sizes and distances still remain the critical determinants of international trade between countries (Hassan et al., 2014; Kang and Dagli, 2018). The gravity model implies setbacks for UK firms after exit from the EU, hitherto the UK’s most proximate and largest trade partner prior to Brexit (Dhingra et al., 2016; Douch et al., 2018b; Douch et al., 2018c; Rhodes, 2018).

The distinction between *international* and *global* trade merits discussion.

While *international* trade between two or three countries (or political entities) has been ongoing for centuries, *global* trade involving a multitude of countries and entities has been growing since the mid-20th century due to technological advances that have allowed for a worldwide global time/space convergence (Rodrigue, 2020; World Trade Organisation, 2020; World Trade Organization, 2010). In a *global* economy, no country is self-sufficient; each is involved in foreign trade by selling what it produces and acquiring what it lacks (Rodrigue, 2020). This thesis will use the terms international and global trade interchangeably because while the term “international trade” is used in government documents, trade interactions are frequently “global” in nature, sometimes imperceptibly so (Coyle, 2015b).

Trade in physical *goods* is often global with supply chains spread across many locations: components are made in numerous countries, shipped to altogether different countries for assembly and again shipped to destination markets (Coyle, 2015b). This practice is known as “production fragmentation” or “vertical specialization” of production (World Trade Organization, 2010). Similarly, international trade in *services* is often multifaceted or fragmented (World Trade Organization, 2010). According to the International Monetary Fund (IMF), international trade in services is defined as transactions between residents and non-residents of a given country (Breinlich and Criscuolo, 2011). This might include call-centres in India responding to customers in the UK, or a computer programmer from France physically attending a course in Manchester, or a UK-based engineer working on a mining

project in Mongolia (Breinlich and Criscuolo, 2011). The latter two examples include no cross-border transactions; the producers and consumers remain residents of their respective countries (Breinlich and Criscuolo, 2011). Increasingly, however, it is neither goods nor people or services crossing borders, but data, which has prompted some economists to call for “information” or “data” to be added as a third trade category though currently they are considered services (Coyle, 2015b; Mandel, 2015).

2.1.5 Defining the amount of “activity” in global trade

Measuring the amount of “activity” in global trade is expressed by statistics on a country’s imports and exports (Rodrigue, 2020). The rate at which trade practices are changing, however, is challenging the international statistical system’s ability to adapt (World Trade Organization, 2010). The complexity of economic transactions in the globalised world is leading to statistical discrepancies (Coyle, 6 June, 2019; Coyle, 2015a; Coyle, 2015b; World Trade Organization, 2010). In her Oxford lecture, economist Diane Coyle says,

We have no idea about cross border flows. If a manufacturer in this country emails a blueprint to a contract manufacturer in Malaysia, we don’t know what the value of that is... we don’t know what their transfer of pricing is, we don’t know how much data is crossing borders. If a company here uses the cloud computing service, we don’t know if there’s any export or import involved because we don’t know which data centre it goes to – It could be here in the UK or it could be in Belgium.

(Coyle, 6 June, 2019)

These “statistical headaches” (Coyle, 2015b) are important because, using current methodologies, only 18 per cent of creative industry firms engage in international trade (DCMS, 14 February 2018). These figures drive government policies, which include, “increasing trade and the number of businesses exporting,” (BEIS, 2017c) or

“targeting a 50 per cent increase in creative industries exports by 2023,” (BEIS, 2018). Without accurate statistics it is difficult for policymakers to devise strategies that reflect the needs of the sector (Coyle, 2016).

The terms defined in this study, including “creative industries” and “global trade” are largely derived from grey literature. As agreed at the Third International Conference on Grey Literature, held in Luxembourg in November 1997, grey literature is that which is, “produced on all levels of government, academics, business and industry in electronic and print formats not controlled by commercial publishers” (Harris et al., 2009). The principal advantage of defining terms using grey literature is that academic publishing is not primary activity of the authors, thus, providing the terms with a less biased, more neutral platform for discussion both from within academia and from without (Harris et al., 2009).

2.1.6 A note on the role of international trade in the UK economy

Many debate the need for global trade, but the link between national economic prosperity and international trade are well documented (Balassa et al., 2020; Cernat, 2019). International trade is key concern for British policymakers because the UK is highly integrated into the global economic system: in 2016, 59 per cent of the UK’s Gross Domestic Product (GDP) came from the international trade of goods and services (BEIS, 2017b; Ward, 2020). In the same year, international trade came to the forefront of government policy and public debate when the citizens of Great Britain voted in a referendum to leave the EU trading block by a margin of 52 to 48 per cent (The Electoral Commission, 2019). At the time of this so-called “Brexit” referendum, however, the EU was the UK’s biggest trading partner with 44 per cent of the UK’s exports going to the EU and 53 per cent of imports coming from EU countries (Ward, 2019). This international trade accounted for 30 per cent of the UK’s GDP at the time (Harari, 2017).

A year after the Brexit referendum, Theresa May's Conservative government launched its 2017 *Industrial Strategy* policy, its vision of Great Britain's economic future outside of the EU (BEIS, 2017c). Zeroing in on different industries, regions, and case studies, the *Industrial Strategy* aimed to "build a Britain that's fit for the future," setting out "Grand Challenges" to put the UK at the global forefront of future industries: (BEIS, 2017c). A key approach of the *Industrial Strategy* was to nurture "industries of the future" announcing "Sector Deals" between the government and selected high-impact, high-potential industries (BEIS, 2017c). The aim of the Sector Deals was to increase productivity through government investment in order to cement the UK's position as global leader in the selected industries (BEIS, 2017c). In 2018, the government introduced the *Creative Industries Sector Deal* policy (BEIS, 2017c).

Because the UK was setting out to leave its hitherto biggest trading partner, a priority for both the *Industrial Strategy* and the *Creative Industries Sector Deal* was the export of British goods and services (BEIS, 2017c; BEIS, 2018; Harari, 2017). The UK is a net importer, meaning that it imports more than it exports. In 2017, for example, the UK imported £641.5b worth of goods and services, but exported only £616b, leaving a net trade deficit of £25.5b (ONS, 31 July 2018). If we separate goods from services, however, the UK ran a trade *deficit* of £137b in goods (exporting £339b and importing £476b) and a trade *surplus* of £111.5 in services (exporting £277b and importing £165.5b (ONS, 31 July 2018). The UK has a comparative advantage in services. In fact, the UK is the world's second largest services exporter (Breinlich and Criscuolo, 2011). The UK, however, is also the world's third largest services *importer*, which attests to the complex nature of global trade (World Trade Organisation, 2020).

It is important to note that the term "exports" is not synonymous with the term "international trade." Given the value of international trade to the British economy, it is puzzling why neither the *Industrial Strategy* nor the *Creative Industries Sector Deal* zoom out to survey Great Britain in the context of global trade...and imports. The *Industrial Strategy* mentions "exports" 47 times (BEIS, 2017c). The *Creative Industries Sector Deal* even more—63 times (BEIS, 2018). In contrast, the *Industrial Strategy*

mentions “imports” once (BEIS, 2017c). The *Creative Industries Sector Deal* fares worse, never once mentioning “imports,” (BEIS, 2018). Both reports almost exclusively refer to “international trade” in terms of “exports,” as if the two concepts were synonymous. Given that the UK is a net importer, this is a significant omission.

The creative industries play a key role in economic policy, accounting for over 5 per cent of the UK economy (House of Commons Committee on Exiting the European Union, 2017). They contribute more to the UK economy than the automotive, aerospace, life sciences, and oil and gas industries combined (Creative Industries Federation, 2019). Unlike the greater UK economy, the creative industries have a comparative trade advantage in *both goods and services*. Using the DCMS figures for 2015, the creative industries had a trade surplus of £11.3b in services and a trade surplus of £4.1b in goods for a combined trade surplus of £15.4b (DCMS, 26 July 2017). In short, the creative industries punch far above their weight when it comes to exports, particularly in services. While heartening, this also presents a concern because in 2015, a year before the Brexit referendum, 45 per cent of the UK’s creative industry exports went to the EU (DCMS, 26 July 2017) so, Brexit may present challenges to the many firms accustomed to seamless trade with the EU.

2.3 Secondary lines of inquiry

2.3.1 The role of the Brexit referendum on creative industries’ trade

Once the amount of international trade activity amongst the sample was established, secondary lines of inquiry arose from the particular timing of this study, which took place during the post-Brexit-referendum, pre-EU exit years of 2018 and 2019. How did the Brexit referendum affect the creative industries international trade? Traditional trade theory asserts that as a currency depreciates, exporters sell more because their products have become relatively cheaper so importers from other countries (and currencies) will buy more of their goods or services (Kang and Dagli, 2018; Van Marrewijk, 2017). Was this the case for the surveyed cohort of creative industries? Did

their exports increase after the Brexit referendum, which triggered the sharpest depreciation of pound sterling since the end of the Bretton Woods agreement in 1971 (Breinlich and Criscuolo, 2011)?

The *Creative Industries Sector Deal* set an ambitious target of delivering a 50 per cent increase in creative industries exports by 2023 (BEIS, 2018). Setting steep export targets without considering the import side of the equation is a startling oversight. As Douch, Edwards and Soegaard explain, "Since a significant amount of Britain's exports are used to buy imports, what really matters is the value in terms of the currencies of our trading partners," (Douch et al., 2018b). In relation to all major trading-partner currencies, the UK's pound sterling plunged by ten per cent after the Brexit referendum and pound sterling did not recover in the ensuing three years (Breinlich and Criscuolo, 2011). Given that the UK imports more than it exports, sterling's fall has meant higher prices for imported goods, such as petrol or vegetables, translating to a fall in living standards (Douch et al., 2018b). This study found that the depreciation in sterling did not increase creative firms' foreign sales, as traditional economic theory would suggest (Kang and Dagli, 2018; Van Marrewijk, 2017). Instead of the expected inverse relationship between exchange rates and exports (i.e., lower pound sterling stimulates more exports), this research project found that almost all surveyed exporters experienced either no effect or a direct, positive relationship (i.e. as the value of pound sterling fell, the amount of goods and services sold also fell). Economists have identified the latter to be a key feature of the post-global financial crisis (GFC) international trading environment (Kang and Dagli, 2018). Some economists argue that domestic economic stability and national exchange rate policies play a role in a country's trade volumes (Kang and Dagli, 2018; Krugman, 1989). This study concurs with the notion that, "little evidence is found of the hypothesised disconnect between trade and exchange rates," and that the gravity model of trade proximity may indeed be a key determinant of trade volumes (Kang and Dagli, 2018).

2.3.2 The role of policy uncertainty on international trade

This study posits a further line of inquiry. If a decline in pound sterling did not affect a predicted increase in international trade among the study's sample, what role might policy uncertainty have played in the key post-referendum, pre-Brexit years of 2018 and 2019? In business and management studies, some argue that uncertainty is *the* key challenge that company and organisational heads must face (Milliken, 1987; Thompson, 1967). Uncertainty is defined as the inability to predict outcomes due to insufficient information or the inability to discriminate between relevant and irrelevant information (Brown and Rocha, 2020; Milliken, 1987). While economic uncertainty can stem from unforeseen shocks, such as the COVID19 crisis, this research will confine itself to policy-induced uncertainty stemming from Brexit prior to the onset of COVID19 lockdowns. As the Bank of England writes, "uncertainty about future outcomes is an important driver of economic behaviour...The Brexit process has already affected the UK economy. It has made some firms and households more pessimistic about the central outlook...depressed investment spending and weighed on productivity," (Bank of England, 2019).

Economic research shows that policies in the form of trade agreements between countries increase trade not only by reducing tariffs themselves, but also by reducing *uncertainty over future* tariffs (Crowley et al., 2019a; Crowley et al., 2019b; Graziano et al., 2018). In the case of Brexit, studies show that the anticipation (or even apprehension) of potential future trade barriers has had a significant impact on firms' exporting and importing decisions, even *before* concrete policies were implemented, or even decided upon (Douch et al., 2020b). Handley and Limão have devised a structural equation that predicts how firms respond to policy uncertainty (Handley and Limão, 2015). They find that firm level investment and entry into export markets is reduced when trade policy is uncertain (Handley and Limão, 2015).

In *Measuring Economic Policy Uncertainty*, economists Baker, Bloom and Davis developed an index of economic policy uncertainty (EPU), a "measurement of how

uncertain people are about what the government is going to do...going forward," (Baker et al., 2016a; Bloom, 2012). Their American EPU index spikes during tight presidential elections, during both Gulf Wars I and II, the 9/11 terror attacks, and the failure of Lehman Brothers in 2008...and skyrockets after May 2020 when the extent of the COVID-19 outbreak becomes evident and large swathes of the world enter lockdown (Baker et al., 2016a; Baker et al., 2021b). These socio-politic events and moments of policy uncertainty were all correlated with greater stock price volatility as well as reduced investment and employment in policy-sensitive sectors like defence, health care, finance, and infrastructure construction (Baker et al., 2016a). Furthermore, policy uncertainty was shown to foreshadow declines in investment, output, and employment in the United States and 12 other major economies (Baker et al., 2016a).

A notable feature in the UK's EPU Index is that major policy uncertainty has typically been linked to *external, non-domestic* events such as 9/11, Gulf War II, the Lehman Brothers failure, and the ensuing Eurozone Crisis (Baker et al., 2016b; Bloom, 2018), see Fig. 2.1.

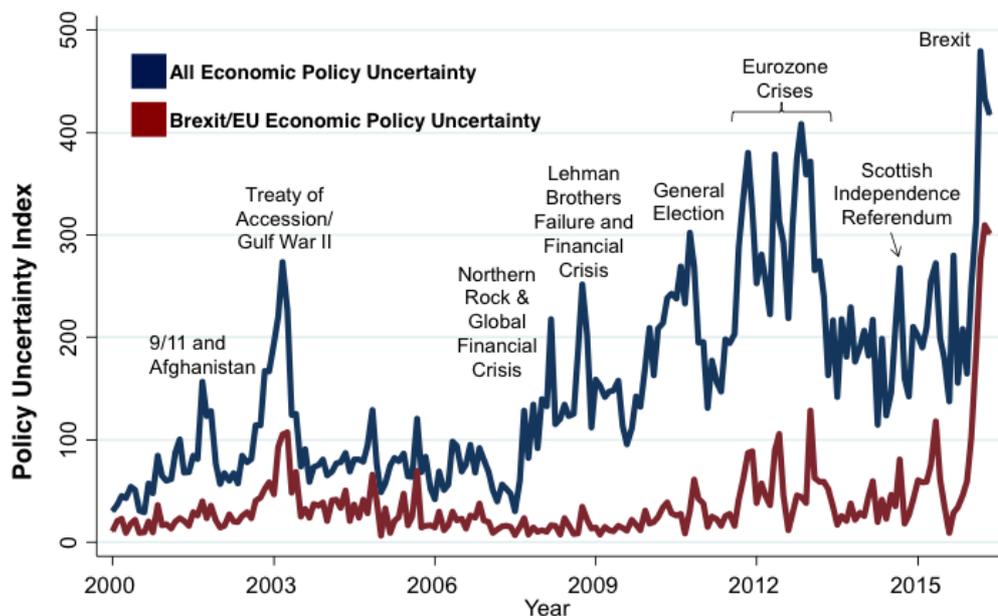


Fig. 2.1 UK's Economic Policy Uncertainty (EPU) Index (Baker, Bloom and Davis, 2016b)

These international events affected the UK's EPU more often than domestic events such as elections (Bloom, 2018). Uncharacteristically, the UK's largest EPU spike was in June and July 2016 prior to and just after the purely national event, i.e., the Brexit referendum (Bloom, 2018). Typically, the EPU Index drifts downwards after a major policy event or shift, but the UK's EPU Index remained above average after the referendum right into 2021, see Fig. 2.2 (Baker et al., 2016b; Baker et al., 2021b).

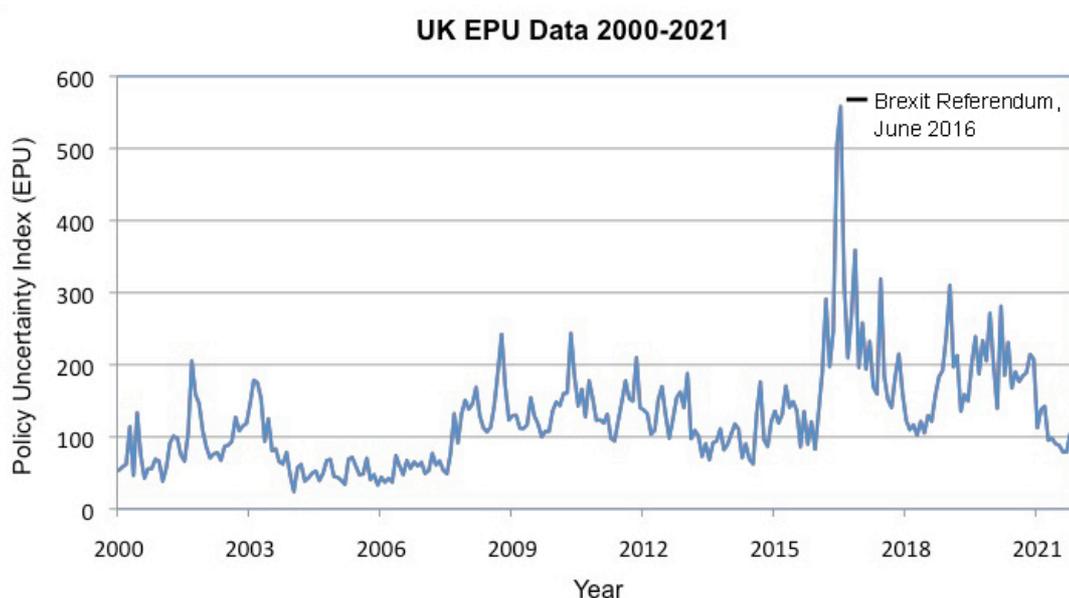


Fig. 2.2 UK's Economic Policy Uncertainty (EPU) Index, 2000-2021 (Baker et al., 2022)

Using the EPU as a springboard and joined by the Bank of England, Nick Bloom went on to develop a measure specifically of the impact of Brexit policy on firms (Bloom et al., 2020). The so-called Brexit Uncertainty Index (BUI) surveyed some 3000 CEOs, Chief Financial Officers (CFOs) and other senior managers beginning in August 2016, shortly after the Brexit referendum (Bloom et al., 2020). The BUI increased in mid-2018 and remained high as the deadline for leaving the EU came closer (Bloom et al., 2019), see Fig. 3. During the two years of this study, namely the "inter-Brexit" years of 2018 and 2019, the UK's Economic Policy Uncertainty Index was higher than the previous twenty-year average (Baker et al., 2021a; Baker et al., 2021b), see Fig. 2.3.

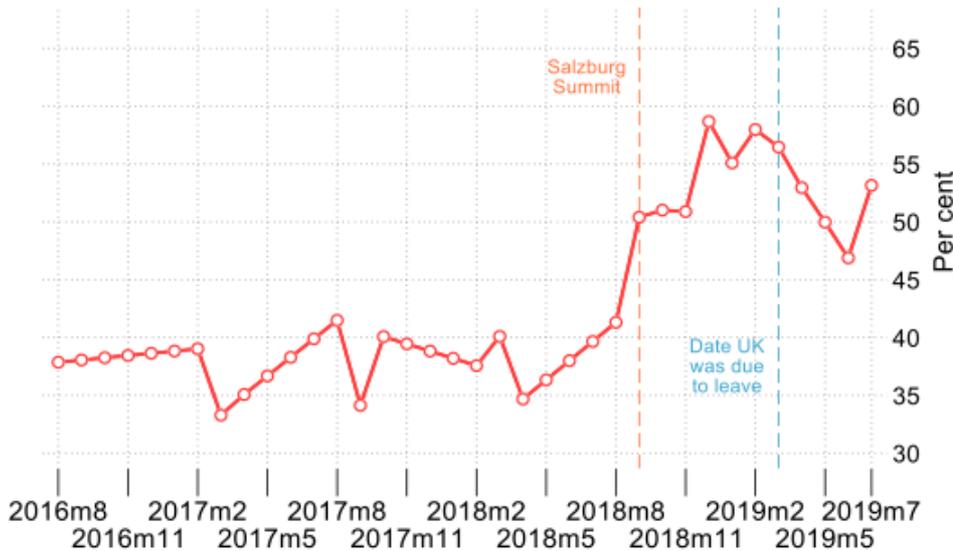


Fig. 2.3 UK's Brexit Policy Uncertainty (BPU) Index (Bloom et al., 2019)

The voters' decision to leave the European Union took its toll on businesses, but the prolonged *policy uncertainty* of a "deal" or "no-deal Brexit" had deeper and longer repercussions. Bloom and his collaborators concluded that, from the referendum until the end of 2019, Brexit-related policy uncertainty reduced business investment by 11 per cent and decreased productivity by between two and five per cent due to the "substantial uncertainty amongst business around what they think will happen in the negotiations between the UK and EU on a future trade deal," (Baker et al., 2021a; Baker et al., 2021b; Bloom et al., 2019).

2.3.3 The role of firm size in the *Creative Industries Sector Deal*: SMEs, microenterprises & independents

Another line of inquiry relevant to this study is whether the *Creative Industry Sector Deal* is focussing on the right policy measures to increase the international trade potential of the creative industries? By calling for creative firms to increase exports by 50 per cent within 5 years, authors of the *Creative Industries Sector Deal* presumed there is potential for huge growth—and hence growth in productivity (BEIS, 2018). The rationale for linking exports to productivity is that, on average, exporting firms are

more productive than non-exporting firms (Van Marrewijk, 2017). Exporters also tend to have faster productivity growth, to be more innovative, and to conduct more research and development (R&D), which allows them to pay higher wages and to offer more sustainable employment (Department for Business Innovation & Skills, 2011).

A key concern of the *Industrial Strategy* is redressing the UK's low productivity as compared to other comparable industrialised countries—the so-called “productivity gap”—which has been evident since the early 1970s (BEIS, 2017a; BEIS, 2017c). On average, it takes UK workers five days to produce as much as workers in France, Germany, or the US produce in only four days (BEIS, 2017a). Until the 2008 financial crisis, the UK's “per hour worked” productivity was nearing that of Germany and France, with productivity growing at 2 per cent in the decades before then (BEIS, 2017a; Tetlow and Stojanovic, 2018). Since the financial crisis of 2008, the gap has again widened with productivity remaining stubbornly low (BEIS, 2017a). Why is this a problem? As a Bank of England economist puts it, “people working to make, and do, things *is* our economy; and if the same people are making and doing less after the same amount of work, something has gone awry,” (Schneider, 2016).

While the *Industrial Strategy* aims to redress the productivity gap in the face of other challenges presented by leaving the EU, there is a chance that Brexit will compound the problem (Tetlow and Stojanovic, 2018). A 2020 ONS study of the non-financial business economy found that, between 1998 and 2018, foreign-owned firms based in the UK were more productive than equivalent, domestically owned firms: EU-owned firms were 14 per cent more productive and other foreign-owned firms were 19 per cent more productive (ONS, 2020a; ONS, 2020b). The median GVA per employee in UK-owned firms based in the UK is £25,500, in EU-owned, UK-based firms it is *almost double* at £40,500, and in non-EU foreign-owned firms based in the UK it is £42,500 (ONS, 2020b). It is unclear how many of these highly productive EU and foreign firms will enter or exit the UK in light of Brexit, but a meta-analysis of economic and finance research found that all studies predicted a negative impact on productivity in the UK after Brexit (Tetlow and Stojanovic, 2018).

The UK's exporters play an important role in redressing the productivity puzzle because they account for 60 per cent of the UK's productivity growth (BEIS, 2017a; Department for Business Innovation & Skills, 2011). In contrast, the UK's non-exporters mainly contribute to productivity growth through the exit of low-productivity firms (BEIS, 2017a; Department for Business Innovation & Skills, 2011). The *Industrial Strategy* pins much hope on the creative industries for two reasons. Firstly, they are highly productive: between 2011 and 2014, the creative industries grew by 29 per cent in terms of GVA as whereas the rest of the UK economy grew at only 12 per cent (Frontier Economics, 2016). When disaggregating by firm size, almost all creative industries subsectors have higher productivity than the UK average (Frontier Economics, 2016). Secondly, highly successful exporters, the creative industries accounted for only 6 per cent of UK services jobs, but accounted for an impressive 9.4 per cent of the UK's total services exports in 2015 (DCMS, 26 July 2017). While the UK imports more than it exports (a "trade deficit"), the creative industries typically have a trade surplus, meaning they export more than they import, in both goods and services (DCMS, 26 July 2017).

According to policymakers, the creative industries, however, pose one problem. With 95 per cent of creative industry firms employing fewer than ten people, the *Creative Industries Sector Deal* identifies company size as a particular challenge for increasing international trade in the sector because small firms lack the "absorptive capacity" to undertake "extra" export duties (BEIS, 2018). The *Creative Industries Sector Deal* states, "there remains a great deal of untapped potential in the sector, with many businesses not yet exporting at all" (BEIS, 2018). The CISD, however, does not back this statement up with figures, instead, relying heavily on two reports—the 2016 Frontier Economics report *Absorptive Capacity: Boosting Productivity in the Creative Industries* and Sir Peter Bazalgette's 2017 *Review of the Creative Industries*—for this rationale.

The Frontier Economics report contends that the prevalence of microenterprises (firms employing fewer than ten people) is hampering the creative industries because they are “less productive, innovative, and growth-oriented than are larger businesses” (Frontier Economics, 2016). This is a cause of concern for the UK’s creative industries where the average company size is 3.3 FTE (full-time equivalent) and shrinking (Bazalgette, September 2017). In the creative industries, 90 per cent of businesses have no more than five employees, 80 per cent have no more than two, and 60 per cent have just one (Bazalgette, September 2017; Frontier Economics, 2016).² In UK legislation, companies employing 50-250 people are designated “medium”-sized businesses, firms employing 10-50 people are considered “small” businesses, while those employing under ten people are labelled “microenterprises” (Companies Act, 2006a; Companies Act, 2006b). As such, the vast majority of firms in the creative industries are “smaller” than small businesses: they are microenterprises. Rather than growing in size, creative industries firms in 2007 were 15 per cent larger than in 2014 (Bazalgette, September 2017). According to Frontier Economics, small business size is hampering the creative industries because microenterprises lack “absorptive capacity,” which is the ability to identify and assimilate relevant new ideas, use them to transform internal practices, and finally, generate higher returns (Frontier Economics, 2016). The report’s solution (and that of the *Creative Industries Sector Deal*), is to help firms grow or “scale up” (BEIS, 2018; Frontier Economics, 2016).

Sir Peter Bazalgette’s *Review of the Creative Industries* points to this same Achilles Heel: “Many would-be creative clusters face issues linked to business size. They lack modern leadership, commercial confidence and acumen to realise their growth potential so that they can take on more lucrative ventures, including exports,” (Bazalgette, September 2017). These ideas stem from trade theory with key scholars finding that, the transition from autarky (a domestic economy that does not engage in international trade) to an “open” liberalised economy results in the number of firms declining as the market share of the least productive firms drops to zero with these

²The comparative figures for UK industries as a whole are ten, five and two (Bazalgette, September 2017; Frontier Economics, 2016).

firms “exiting” or ceasing to trade (Melitz, 2003). This is known as ‘exit autarchy,’ see Fig. 2.4.

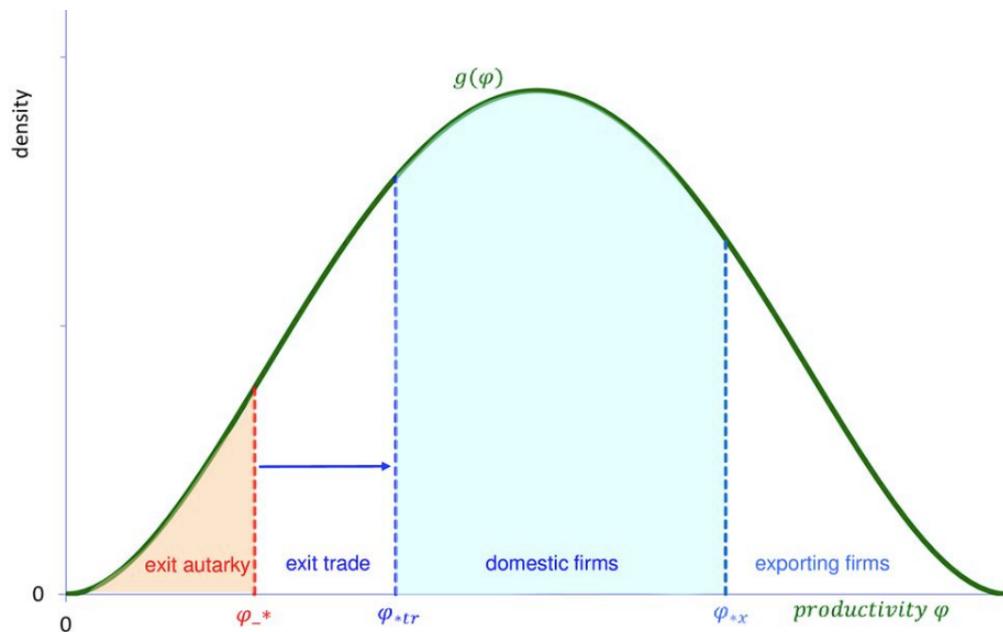


Fig. 2.4. Impact of foreign trade exposure on distribution of firms (Van Marrewijk, 2017)

In this model, international trade induces the reallocation of resources to the more productive firms (Melitz, 2003). Only the most productive firms will enter the export market while less productive firms will continue to exist, but will produce only for the domestic market (Melitz, 2003). Empirical findings concur, finding that “exporting firms are larger, employ more workers, use more capital, pay higher wages, use more skilled workers, and are more productive,” (Van Marrewijk, 2017). If microenterprises have a harder time with productivity and exporting than their larger counterparts, the UK’s creative industries indeed need support to grow.

Confusingly, none of these reports and theories explain why, then, the UK’s creative industries are so successful in comparison to other UK sectors where larger (and hence, theoretically, more productive) companies prevail. Why are the creative industries the UK’s fastest growing sector, growing at twice the rate of the wider economy, and creating jobs four times as quickly as other sectors (BEIS, 2018; Chung et al., 2018; Creative Industries Federation, 2017)? Why do the creative industries,

with their predominance of microenterprises, account for 9.4 per cent of UK service exports, almost twice their share of the economy (BEIS, 2018)? Why is their share of the economy growing while the size of their companies is shrinking (Bazalgette, September 2017; BEIS, 2018)? Perhaps other factors, such as the UK's hitherto open international trading environment with its nearest neighbours in the EU, twinned with digital innovations over the past two decades, have changed the playing field so much that small creative companies are challenging traditional economic wisdom (Coyle, 6 June, 2019; Coyle, 2016; Hassan et al., 2014; Kang and Dagli, 2018).

Some studies, in fact, concur with this study's findings, reporting that the creative industries are exporting at higher rates than official figures report. While the DCMS states that 18 per cent of the creative industries³ are involved in importing or exporting (DCMS, 14 February 2018), the 2018 BDRC report *Access to Finance* found that 63 per cent of creative industry survey respondents traded internationally, with 57 per cent exporting (Creative Industries Council, 2018). The bulk of creative industry exports, 45 per cent, go to the EU, likely making Brexit a bigger worry than company size for these small firms (Creative Industries Council, 2018). In fact, 79 per cent of the Creative Industries Federation members surveyed feared that Britain will not maintain its global reputation for creative exports post-Brexit (Creative Industries Federation, 2017).

2.3.4 The role of small firm statistics in the era of big data

Another set of questions stemming from this research involves the economic assumptions upon which the *Industrial Strategy* is built, particularly exploring criticisms from within the field of economics itself. GDP is the internationally recognised standard measure of the size of a country's economy, but even conventional

³By 2018, the DCMS had started disaggregating its sectors, but acknowledged much overlap between the cultural, creative, and digital sectors. In 2018, 17.9 per cent of firms in the creative industries were involved in international trade, as were 24.1 per cent of businesses in the cultural sector, and 18.6 per cent of companies in the digital sector (DCMS, 14 February 2018). Averaging the number of businesses in each sector, this works out to 19 per cent of the creative industries as a whole).

economists are acknowledging its serious shortcomings (Coyle, 2015b; Raworth, 2017; Vollrath, 2019). Economist Diane Coyle argues that traditional measures such as GDP and productivity are no longer suited to today's service-based, digital economy (Coyle, 6 June, 2019; Coyle, 2016). In a 2019 address to the Oxford Martin School at Oxford University, economist and policy advisor Diane Coyle says that,

The economic characteristics of digital technology mean that the way we need to think about doing economics has to change. A lot of what we revert to as our instinct about how markets operate doesn't apply in these markets... We don't know what prices people are paying for things. The price of a digital camera is still recorded... but nowhere are we putting the zero price that we're all paying for taking photographs and looking at them on our smartphone. So the price indices that we use to calculate real GDP and real productivity are completely wrong.

(Coyle, 6 June, 2019)

Such methodological inconsistencies and statistically incongruities limit the accuracy of global trade statistics (Coyle, 6 June, 2019). These difficulties in measuring international trade in digital and services are particularly relevant to this study because the creative industries export far more intangible services than physical goods (59 per cent vs. 41 per cent in 2015) (DCMS, 26 July 2017). This increases the import of studies such as this one, which employs surveys and personal interviews to gather firm-level data in order to get a granular understanding of trade patterns from the ground up.

Furthermore, in its 2016 *Creative Industries Economic Estimates*, the DCMS notes that its GVA (Gross Value Added) estimates for some sectors are "based on the ONS Annual Business Survey (ABS) and therefore do not include micro-businesses," (DCMS, January 2016). This is particularly significant for the creative industries where 35 per cent of workers are self-employed (more than double the UK average) and 90 per cent of businesses have no more than five employees (Bazalgette, September 2017; DCMS,

15 August 2019; DCMS, 26 July 2017; Frontier Economics, 2016). Despite their significance to the creative industries, these microenterprises and independents are almost entirely overlooked by official statistics (Bean, 2016; DCMS, January 2016). This thesis will take a deep dive into how the Office for National Statistics (ONS) produces economic statistics, a methodology that requires a major overhaul and modernisation (Bean, 2016; Kent-Smith, 3 February 2020; ONS, 2020a).

2.3.5 The role of clustering on SME export propensity

Porter's Diamond Model argues that firms (including SMEs) belonging to industry clusters can benefit from shared resources, knowledge exchange and a favourable business environment, thus improving their competitiveness in the global market (Porter, 1998). SMEs face particular business challenges such as tight running capital, insufficient R&D capabilities, and difficulties surmounting international trade barriers when the external economic environment changes significantly (Chen et al., 2022; Nordman and Tolstoy, 2016). Yet SMEs play an important role in the economy because disruptive innovations often emanate from SMEs (Baumol, 2015). Under particular circumstances, regional networks of SMEs are able to successfully compete in global markets (Porter, 1991; Mundim et al, 2000). Clustering has been shown to give smaller SMEs advantages, including the reduction of international trade barriers (Chen et al., 2022; Gereffi and Lee, 2016).

Naysayers, however, point out failures of active clustering—for example, where business parks set up, but no interaction between tenants results (Wadha, 14 July 2011). Indeed, one study of small creative industries firms and independents in Norway found a negative relationship between national networks and exports:

Linkages to the national...community actually significantly reduce the likelihood to export...These results question the idea that extensive collaboration within a tight-knit network of local creative producers is a

useful method for promoting competitiveness and exporting. An excessive reliance on learning from other members of the national artistic community is potentially destructive for the ability of firms in the creative industries to export. Nor do close linkages to suppliers, customers, competitors, colleagues and governments, many of whom are bound to be located within Norway, appear to be very helpful in promoting exports – indeed, the coefficients of many of these indicators also tend to be negative, if not significantly different from zero.

(Fitjar and Jøsendal, 2016)

Fitjar and Jøsendal's sample of 464 entities consisted of small firms and independents (70 percent of the sample) and was located in small towns and cities outside of larger cultural hubs (ibid.). Firm size did not have a significant impact on the likelihood of exporting when absorptive capacity was controlled for, but firms that explicitly pursued strategies for identifying and absorbing external knowledge were found to be more successful at exporting (ibid.). The researchers found that those who had close collegial linkages to colleagues or peers within their industry's international community and did not rely mainly on local interaction were most likely to be exporting (ibid.). A large share of those who did not export cited a lack of international networks and of knowledge as important barriers (ibid.). These links, were not incidental, but rather central to the entity's strategy: "a firm that relies on the international...community for keeping up to date on developments within its profession...increases its odds of exporting by 135 per cent," (ibid.). Fitjar and Jøsendal quantified this research, finding that: "Linkages to the national artistic community actually significantly reduce the likelihood to export, with a one unit increase on this variable cutting the odds of exporting in half," (ibid.).

Fitjar and Jøsendal's study found that the most significant predictor of exports amongst its creative industries sample was absorptive capacity, but only in the case where entities expressly and strategically applied the use of collegial linkages to *foreign-based* counterparts and competitors to keep themselves updated on

international developments and markets within their field (ibid). These connections appeared to be closely connected to the ability to export (ibid). Fitjar and Jøsendal's research, however, was published in 2016 and refers to the sample's exports in 2007. Between 2007 and the time of this research, technological innovations changed socio-economic practices, exports expanded globally, and the prevalence of creative hubs increased. Furthermore, Fitjar and Jøsendal's research was conducted in one region of Norway and may not be applicable directly to the UK context.

One NESTA study, however, made a similar conclusion, finding that international links between individuals based in the UK and those based abroad were a key feature of the UK's internationally successful clusters (Mateos-Garcia and Bakhshi, 2016). Networking and collaborating between the UK's clusters can offer many benefits, such as helping entities realise opportunities "without having to reinvent the wheel," (ibid.). Clustering itself, however, may not automatically generate an increase in exports. These potentially paradoxical conclusions will be viewed in light of this study's findings and will be discussed in greater detail in Section 6.6 What the CISD gets (partially) right: creative clusters.

2.4 Summary

Because this research spans three distinct academic realms—namely design studies, economics, and public policy—it provides unique insights into the UK's creative industries. The findings of this project suggest that the UK's creative industries may be more involved in global trade than official figures indicate.

The study's sample comprises creative industries SMEs located in four creative hubs in the North West of England. While statistics tell one story about international trade in the creative industries, inconsistencies in the literature show there is room for greater understanding. By applying a fresh methodology, including in-depth interviews that provide a thick description of strategic decisions about importing and exporting, this research provides a novel approach to the current literature about the creative

industries' international trade patterns. The findings suggest implications for the broader community of creative industries firms throughout the UK. The following section will discuss the methods upon which this study is based.

3. METHODOLOGY

This chapter introduces the research methodology developed in response to the multifarious demands of the research agenda. The chapter begins by outlining the Transformation North West doctoral training programme, followed by the methods considered for interrogating the research question, finally moving onto Grounded Theory and the Mixed Methods of quantitative and qualitative research employed in the research. The benefits and limitations of Grounded Theory will be explored, including suggestions for verifying the dependability of the study's results.

3.1 Choosing a methodological umbrella

The Transformation North West (TNW) doctoral training programme was designed to "grow and scale up the creative industries cluster in the North West" and required participating doctoral candidates to team up with local firms, charities, or governmental organisations in order for research to contribute to wider industry (Transformation North West, 2018). It was based on the "triple helix" model that cuts across the institutional divides of academia, government, and industry. The model calls on collaborative work to promote synergies in knowledge production and application (and vice versa) "without damaging the integrity of the underlying processes," (Etzkowitz and Leydesdorff, 1998; North West Consortium Doctoral Training Programme, 2017). As such, the guiding ontological philosophy of TNW itself was pragmatism, or the position that research should be contextually situated so that it serves a practical purpose (Moon and Blackman, 2014).

Given that doctoral researchers in TNW were selected for the doctoral training programme without a premeditated research question, but rather based on research ability and interest or experience in the field, the programme leaned itself to a "grounded theory" methodological approach. The salient feature of grounded theory

(GT) is that, instead of attempting to prove or disprove a “pre-formulated” hypothesis, GT researchers develop a hypothesis as a result of the research (Stiel et al., 2010). GT researchers do not begin with a theory and proceed to prove or disprove it. Instead, they begin with an area of study and allow the relevant information or data to emerge (Strauss and Corbin, 1990). In grounded theory, observations are grouped, coded, classified, and finally abstracted to develop a theory about the facts under observation. The intention of this theory is to simplify or decipher a phenomenon to make better sense of the world (Hull, 2013).

Grounded theory is the reverse of *scientific empiricism*, which begins with a hypothesis, continues with a literature review, and concludes with a study to prove or disprove the thesis (Glaser and Strauss, 1967). Also known as *positivism* or *scientific-based research* (SBR), the “grand theory verification” methodology generates theory via *deduction* based on *a priori* assumptions. GT turns this methodology on its head, producing theory via *inductive* reasoning (Glaser and Strauss, 1967). Founders of the grounded theory approach, Glaser and Strauss, argued that it was reasonable for researchers to rigorously gather data, analyse it, and use it to generate or “discover” a hypothesis that “emerges” after the collection of data (Glaser and Strauss, 1967). Knowledge is created by observing, describing, predicting, and explaining phenomena (Guba and Lincoln, 1982; Kappes, 2014; Lincoln and Guba, 1985; Nelson, 2014).

Positivism continues to have a strong tradition and following in research, but GT theorists point out numerous shortcomings with the paradigm. For example, randomised controlled trials—the gold standard for studying causal relationships in scientific empiricism—are not possible in countless situations (Guba and Lincoln, 1982; Lincoln and Guba, 1985). Randomisation, which eliminates the many biases associated with choosing a sample, or monitoring results via control groups, is often impossible in actual, real-life circumstances (Price and Murnan, 2004). The ambition of grounded theory, then, is to provide “a paradigm that can tolerate [the] real-world conditions” found in the social sciences (Guba and Lincoln, 1982).

Within the grounded theory rubric, or related to it, several avenues were available to the researcher. Given that the TNW programme required engagement with the creative industries, action research was a route favoured by several TNW doctoral candidates. Action research (AR) is a series of steps that includes planning, the execution of an activity or "action," and finally, the discovery of facts resulting from the action (Dick, 2007). Action research serves the dual purpose of both producing research and bringing about change (or 'action') within a community, organisation, or programme (Dick, 1993). It requires dialogue with the study participants and is participatory in nature (Villari, 2014). AR and its various forms such as design thinking sprints and prototyping were considered in the early stages of this PhD project. After participating in several design thinking workshops and AR "sprints," the researcher contemplated initiating a series of practice-based workshops to follow on from the initial research at Baltic Creative. This methodological route finally was rejected for three reasons. First, the TNW doctoral training programme mandated active participation of industry or organisational partners. Additional discussions with Baltic Creative identified specifically the need only for quantitative and qualitative research rather than direct action, for which Baltic Creative would engage a professional body to devise a programme for tenants including, but not be limited to, international trade support. Thus, directly implementing or achieving change was not desired by the initial project partner. Second, the doctoral candidate is not a designer by training, instead possessing expertise in creative industries management. Action research requires high skill in facilitation and improvisation because the researcher works with participants in a group (Dick, 2007; Hennessy, 2015). For want of sufficient experience and skill in AR, bearing in mind the important goal of providing worthwhile, meaningful research for industry partners, the researcher deemed this route as insufficiently effective to merit pursuing. Third, the researcher's "tentative theory of the phenomenon under investigation" as per the GT methodology (Maxwell, 2005), began to emerge with completion of the initial project with industry partner Baltic Creative. The "emerging phenomenon" was the anomaly between the UK's official international trade figures and the real-life data collected at Baltic Creative.

Another methodology under consideration originally was a longer, deeper engagement and immersion into the Baltic Creative community. Using an ethnographic methodology, the tenants at Baltic Creative would have been studied over a much longer period of time, perhaps the entire length of the PhD, with the assumption that any group of people who interact long-term develop their own culture (Guest et al., 2013; Moon and Blackman, 2014). This was, indeed, the original intention for the PhD. When the PhD programme began in autumn 2017, the UK's citizens had already voted to leave the European Union (the so-called Brexit referendum). The initial thesis intent was to follow a group of creative industry firms through UK's transition out of the EU in an ethnographic fashion. In this scenario, the investigation would have been limited to studying the behaviour patterns and beliefs of the Baltic Creative sample, but without extrapolating to other populations (Moon and Blackman, 2014). At the time, the UK government signaled its intention to leave the EU in March 2017 with the withdrawal scheduled for March 2019. This would have allowed an ample period for an ethnographic study of Baltic Creative's tenants before and after Brexit. This methodology would have yielded a deeper and broader understanding of the sample's international trade practices and the effect of Brexit on them. After two unforeseen UK general elections, however, and three extensions to the Article 50 withdrawal process, it became clear that the original Brexit timeframe would not be achieved, if at all. Whether or not the UK eventually would leave the EU, and under what circumstances, remained a hotly debated topic throughout 2018 and 2019. It became evident that an ethnographic study of creative industries firms before and after Brexit would not be feasible within the allocated duration of this PhD, which was scheduled for completion in autumn 2020.

Brexit uncertainty combined with Baltic Creative's satisfaction with the completed survey and interviews compelled the research to finally pivot to reproducing the initial Baltic Creative study at several other creative hubs. Rather than applying the action research approach of "research through design," the final approach was "research into design," which Frayling describes as the most straightforward of models because

it can rely on procedures and rules from other disciplines (Frayling, 1993). This branch of design research is concerned with discovering fundamental knowledge, which can inform the field of design and stimulate other theories or actions (Davis, 2014).

Repeating the research at other creative hubs offered several advantages. First, it allowed for 'triangulation' of the initial study to examine whether Baltic Creative's tenant firms and independents were representative of the North West's creative industries or if they were outliers. Second, it fulfilled the TNW mandate to "grow and scale up the creative industries cluster in the North West" by offering the same research methods as developed at Baltic Creative to other creative hubs throughout the North West. Finally, the methodological route opened opportunities for studying broader and potentially more nebulous concepts such as policy uncertainty instead of concentrating on the singular event of Brexit.

3.2 Mixed methods

The final methodological approach in this research employed mixed methods, which "blend and merge multiple forms of data to gain a deeper understanding" of relationships, circumstances, and other demands (Christ, 2014). Both quantitative and qualitative data collection were equally important with interviews providing "thick data" to complement the quantitative data previously harvested via targeted online surveys. This approach relied to a greater degree on quantitative data than the bulk of GT studies, which often focus primarily, though not exclusively, on interviews, (Hull, 2013). Qualitative research aims for hypothesis generation, rather than hypothesis testing (Strauss and Corbin, 1990). Quantitative research, on the other hand, is typically associated with statistics and quantities (Strauss and Corbin, 1990).

Positioning quantitative and qualitative methodologies as dichotomies, however, is counter-productive (Guest et al., 2013). By using a mixed methods approach, the data produced in this thesis marries the logic of rational empiricism via quantitative, statistical analysis with the paradigm of "naturalistic inquiry" in the form of case

studies and in-depth interviews (IDI), which rely on qualitative methods (Guba and Lincoln, 1982). Today's design researchers typically work in this vein, aiming neither to emulate scientific research nor to drive a further divide between art and science; instead, they cultivate a more harmonious approach to research (Rodgers and Yee, 2014).

Mixed methods research does not simply consist of blending quantitative and qualitative research. Like any other methodology, it is based in a specific ontology. Interpretative methodologies, for example, give predominance to the lived experience of individuals while positivist and postpositivist methodologies give primacy to objective facts (Mertens and Hesse-Biber, 2013). Most methodologies favour particular methods with positivism or empirical methodologies, for example, preferring hypothesis-testing and causality methods (Greene, 2002).

Mixed methods researchers promote a pragmatic approach that adheres neither to the rigidity of positivism, which holds to the existence of empirical and verified facts, nor that of relativism, which deems absolute truth as unknowable and human knowledge as fallible (Christ, 2014). The pragmatic, postpositivist view is informed by Kuhn's notion of "paradigms" in which objective truth is desirable, but subject to the prevailing worldview, which is stable for a time and changes with episodic scientific revolutions that require revision of prevailing paradigms (Christ, 2014; Kuhn, 1962; Thomas, 1980). In essence, paradigms are influenced by social, temporal conditions (Christ, 2014; Kuhn, 1962; Thomas, 1980). "Postpositivists continue to pursue and value objectivity, but they recognize that bias is ever present and knowledge is fallible," writes Christ (Christ, 2014). Postpositivists accept that objective truths exist, but imperfectly and they are bounded by social conditions, with new, qualified observations adding to the understanding of reality (Christ, 2014).

Reflexivity about one's methodological ontology is required in "thoughtful" mixed method practices (Greene, 2002). Why, for example, conduct interviews when an online survey may produce sufficient data? After all, surveys provide the quantifiable

data that is often given supremacy even in social science research funding (Christ, 2014). Quantitative data were key to this study for two reasons. First, potential anomalies in UK trade statistics and their effect on policymaking sparked the research and statistics were of interest to all four industry partners. Second, quantitative data acted as a scaffold for the research agenda. As the research approach was based on a grounded theory methodology, however, the hypothesis was not fully developed when the initial survey was conducted. Therefore, the purpose of quantitative data collection was not hypothesis confirmation or negation. The qualitative data was a valuable tool used for “discovering” the thesis, as per GT methodology.

Mixed methods researchers value both objective and subjective knowledge (Creswell et al., 2013). Holding to pragmatism: mixed methods researchers accept that aspiring to “objective truths” about social phenomenon is not possible because they change according to circumstance or paradigm shifts (Creswell et al., 2013; Kuhn, 1962). Pragmatism advocates mixed methods on the basis that no single method is appropriate, but rather that the best “fit” for the research question must guide the ontological approach (Mertens and Hesse-Biber, 2013). Pragmatism’s stance of useful, socially, and temporally bounded knowledge production underpins the research agenda of this thesis. Data without the lived experience and interpretation of creative industry practitioners (or the opposite, only interpretation without quantitative data) would not have fulfilled the ontological stance of the researcher: while objective facts exist, it is their interpretation and lived experience that give meaning to facts...and produce new facts. For example, this research and other studies have found that the subjective notion of “uncertainty” can have profound effects on international trade patterns (Crowley et al., 2019a; Douch and Edwards, 2021; Douch et al., 2018c). As Mintzberg writes,

For while systematic data create the foundation for our theories, it is the anecdotal data that enable us to do the building. Theory building seems to require rich description, the richness that comes from anecdote. We uncover

all kinds of relationships in our hard data, but it is only through the use of this soft data that we are able to explain them.

(Eisenhardt, 1989; Mintzberg, 1979)

The ontological underpinning of this research, then, is that qualitative and quantitative data collection produces synergies that neither method alone can provide. Qualitative data can foster divergent perspectives while quantitative data strengthens the foundation of the research (Eisenhardt, 1989). Blending methods, however, does not alone ensure a more complete understanding unless it imparts greater “credibility” to the study results (Mertens and Hesse-Biber, 2013). The importance of credibility and three other key metrics in grounded theory methodology and will be discussed in greater detail below. By applying the mixed methods approach, this thesis endeavours to establish a theory that is “grounded” in both the quantitative, empirical data and the qualitative, rich data with the aim of producing solid, powerful scientific research imbued with both fact and meaning.

3.3 The logic of grounded theory

Grounded theory requires an ontological shift from classical scientific lines of “rationalistic” inquiry. In scientific empiricism, a thesis must meet four basic requirements to qualify as a theory (or “law” of science). It must be:

- falsifiable (or have the ability to be proven wrong, i.e., fact vs. opinion)
- reliable (or logically consistent)
- valid (or be able to survive attempts to disprove it)
- generalisable (or have the ability to predict outcomes in other situations)

(Hull, 2013)

Lincoln and Guba, however, argued that research in the social sciences requires a different ontology and a distinct, but related, set of criteria. “Naturalistic” inquiry involving case studies, interviews, and field research should instead meet the following four criteria to achieve the status of theory:

- credibility (prove that the study measures what is actually intended)

- transferability (provide sufficient context for judging if the thesis can be applied to similar situations)
- dependability (supply rigorous steps to allow for study repetition by others, even if the exact same results would not be achieved)
- confirmability (present sufficient proof that the theory emerges from data not the author's predisposition, i.e., that the results are as objective as possible) (Guba and Lincoln, 1982; Shenton, 2004).

The methods through which these criteria can be achieved will be discussed below.

3.3.1 A grounded theory methodology

A grounded theory is discovered...and provisionally verified via systematic collection and analysis of data (Strauss and Corbin, 1990).

Employing the GT methodology does not indicate that researchers begin with a completely blank slate (Maxwell, 2005). This would risk the collection of "bulky, irrelevant and meaningless set of observations," (Miles, 1979). One must begin with a "tentative theory of the phenomenon" under investigation in order to develop relevant research questions, to select appropriate methods of data collection, and to reassess or refine the design of the study (Maxwell, 2005). Throughout the field research phase, researchers should have continual interaction with their data while regularly revisiting and revising their emerging analyses (Bryant and Charmaz, 2007). As mentioned, GT follows an inductive process with the researcher extrapolating from individual cases in order to design conceptual categories (Bryant and Charmaz, 2007). Moving back-and-forth between data collection and an emerging hypothesis, the researcher tests hypotheses against data in a process that is iterative (Bryant and Charmaz, 2007).

Grounded theory is not haphazard. It follows a logical, systematic approach that builds

empirical checks into the research design (Bryant and Charmaz, 2007). Interviews are a means of collecting data and as such, must be done systematically (Mintzberg, 1979). Hull outlines a 10-step process for designing a GT research project, Weiner outlines seven integral stages, while Urquhart issues five guidelines (Bryant and Charmaz, 2007; Hull, 2013). This researcher distilled these down to three main processes, which are constantly revisited throughout the study iteratively (and often non-linearly) until saturation is achieved: data collection, coding/categorising, and conceptualising.

3.3.2 Process 1. Data collection

Developing good theory rests on the foundation of gathering appropriate, robust data in the first place (Strauss and Corbin, 1990). This includes quantitative data (e.g., figures and measures) as well as qualitative data gathered via the three main GT methods of interviews, observation, or focus groups (Chetty, 2020).

3.3.2a Qualitative data

Qualitative research refers to gathering data by working with text, images, or sounds (Guest et al., 2013). In-depth interviews (IDI) are one method of qualitative data collection. IDI have several distinct features: they are conducted one-to-one, they feel like a conversation, they employ open-ended questions, they feature inductive probing with the researcher asking questions based on replies (Guest et al., 2013). Kvale writes that the purpose of an in-depth interview is "to gather descriptions of the life-world of the interviewee with respect to interpretation of the meaning of the described phenomena," (Kvale, 1983). Interviews allow the researcher to get in-depth insights from experts in the field of study, beyond the simple questions of who, what, where and when (Guest et al., 2013).

In GT, semi-structured interviews with open-ended questions are a useful tool because they allow for themes or subtopics to arise (Harvey-Jordan and Long, 2001). Explicit

interview questions enable the collection of systematic, relevant data while open-ended questions allow for the “discovery” of new insights (Miles, 1979).

The researcher considered semi-structured, IDI interviews to be the most effective strategy for this study.

Choosing informants, also known as the sample population, is integral to the process. “Excellent informants” have first or second-hand experience of the phenomenon; they are reflexive and willing to share their knowledge articulately (Morse, 2015). Such informants, however, are not always available. One solution is starting with the available, amenable sample (“convenience sampling”) and analysing the responses to deliberately seek out additional participants later in the study, so-called “purposeful sampling” (Hull, 2013). Analysing the data again, the researcher identifies which concepts are insufficiently represented and deliberately seeks out participants that, for example, provide negative examples to the majority responses (so-called “theoretical sampling”) (Morse, 2015). Negative cases do not necessarily disprove the burgeoning theory, rather they offer the extreme case, stress-testing the validity of the hypothesis (Strauss and Corbin, 1990).

3.3.2b Quantitative data

Quantitative data are an important element of the mixed methods approach as they may indicate relationships that were not immediately evident to the researcher and they can support findings gathered using qualitative methods (Eisenhardt, 1989). They also can prevent the ascendancy of vivid, but false impressions emerging from qualitative methods (Eisenhardt, 1989). Without the use of quantitative methods, researchers can become overwhelmed with the volume and density of qualitative material, losing the ability to tease out the most important relationships needed for theory building (Eisenhardt, 1989).

Quantitative data collection might include methods such as examining VAT returns or annual accounts, analysing blood samples, or conducting surveys. Responding to questionnaires entail costs and as such, researchers should only ask meaningful questions (Joye et al., 2016). Advantages to anonymous surveys include the respondents not feeling pressure to give socially desirable responses (Joye et al., 2016). Nevertheless, questionnaires are not a neutral tool of observation as participants must form opinions in order to choose from multiple-choice responses and, if desired, to elucidate replies in the open-ended text boxes (Joye et al., 2016).

Quantitative questionnaires provide useful data regarding prevalence or variation of certain variables (Guest et al., 2013). In the mixed methods approach, neither qualitative nor quantitative data are sufficient; data are blended to create a representative model (Christ, 2014). In practical terms, however, the researcher must take an epistemological stance foregrounding either quantitative or qualitative data (Mertens and Hesse-Biber, 2013).

Data collection, including both quantitative and qualitative methods, must be synchronous with memo-writing, field notes and diary-keeping along with continued research into external sources such as journals, newspapers, etc (Hull, 2013).

3.3.3 Process 2. Coding and categorising

An integral part of GT research is the sifting and sorting of the qualitative data via processes known as *coding* and *categorising*. Coding is the process of systematizing disorganising data into a logical state. Codes capture patterns (Lempert, 2007). These patterns will be inherent in the data, but are not self-evident. Coding allows patterns to emerge from the data with codes then clustering around “constellations” of concepts (Lempert, 2007), which later are grouped to form categories. Coding is the central process by which GT emerges, allowing researchers to break through their inherent biases (Hull, 2013).

The process of coding itself can be broken down into several exercises. "Open coding" refers to line-by-line classifying or disassembly of data such as interview transcripts (Chetty, 2020). Open coding can result in hundreds of codes (Hull, 2013). To begin giving meaning to codes, they need to be thematically grouped into categories from which theory can later emerge (Hull, 2013; Strauss and Corbin, 1990). Categories should not be forced on the data, rather they should emerge (Bryant and Charmaz, 2007).

"Axial coding" follows with an axis drawn through the data (Hull, 2013; Strauss and Corbin, 1990). Open coding fractures the data, while axial coding attempts to put it back together again, but in novel and illuminating ways (Hull, 2013). Axial coding begins identifying causal relationships, contexts, and intervening conditions in order to re-connect and interconnect the data, which develop into categories (Chetty, 2020). Finally, "selective coding" develops the emerging core categories by systematically connecting them to other categories for the beginning stages of analysis or conceptualisation (Chetty, 2020; Hull, 2013). Selective coding allows researchers to note the salient features of their developing theory, noting where more data collection may be required, so-called "theoretical sampling," (Chetty, 2020).

Coding and categorising is not done after all qualitative data is collected, but is synchronous with both the first stage of data collection and the third stage of conceptualisation. Each process is separate, but coterminous, with each process informing and re-informing another. Categories are the building blocks of theory, with hypothesis emerging from the connection of various categories (Bryant and Charmaz, 2007).

This complex process requires *theoretical sensitivity* on the part of the researcher who requires an analytical aptitude for separating what is important from what is not in order to give the data meaning (Hull, 2013; Strauss and Corbin, 1990). This process is not for everyone. Researchers working with in the GT vein require particular traits,

including the incongruous combination of an analytic temperament that also tolerates confusion or regression as new facts emerge (Hull, 2013). While some knowledge of existing literature on the phenomenon is required, GT differs from scientific-based research in this regard. Extensive engagement with academic literature prior to data analysis runs the risk of “clouding” the creative thinking required for discovery of new core categories (Holton, 2007).

“Saturation” is achieved once a researcher feels confident about a certain category and gathering more data no longer sparks new theoretical insights (Bryant and Charmaz, 2007; Hull, 2013). Coding and categorising must lead to the third “C” of grounded theory, *conceptualising* (Chetty, 2020).

3.3.4 Process 3. Conceptualising: analysis and theory building

Conceptualising is not the final stage of a linear method. It is integral to the iterative processes of the grounded theory methodology. While analysis of the data continues, core categories are either promoted or demoted as more data continues to be collected (Hull, 2013). Memoing continues, with memos and diagrams revisited and new ones are drawn up (Hull, 2013). “Memoing is analysis” according to Strauss and Corbin, with memos used to “clarify” initial thoughts, “magnify” concepts that might not be immediately evident, and to “generate” new meanings or analyses (Strauss and Corbin, 1990). The workable theory emerges from on-going memoing and diagramming even while coding and categorising continues (Hull, 2013). Some GT theorists avoid calling this process “deduction,” instead favouring “abduction,” which entails forming theories for a range of possibilities and finally selecting the most plausible explanation (Bryant and Charmaz, 2007). In both cases, the theory develops as the result of the research (Stiel et al., 2010). Theoretical completeness, or a useable paradigm, is achieved when the fewest number of concepts can logically explain a phenomenon (Hull, 2013). The key feature of this entire GT process is that the emergent theory has been grounded in the data (Hull, 2013).

3.3.5 Advantages to grounded theory

Producing careful and academically thorough arguments using the grounded theory approach has several advantages. First, the resulting theory is rooted in real-world experience and is therefore both relevant and testable (Glaser and Strauss, 1967). Furthermore, the researcher approaches the subject with no theoretical preconceptions so she or he is obliged to constantly re-frame the problem and to test various explanations (Eisenhardt, 1989). This emergent process is likely to produce theory that is relatively unfettered by the researcher's attempt to prove a thesis (Eisenhardt, 1989). By not relying on previous literature or empirical findings, GT's data-derived theories can produce genuinely novel insights (Eisenhardt, 1989). Finally, by locating their research in actual situations, GT researchers are capable of producing knowledge that is useful for furthering understanding of real-life challenges (Guest et al., 2013). Using case studies to develop theory emphasises the local context, while also acknowledging the influences of national and international politics, social contexts, and policy changes (Barry and Roux, 2013). Because Grounded Theories are constructed using a series of building blocks with specific participants, contexts, and moments in time, the "grass roots" influences must be considered whenever a study is evaluated or revisited. Grounded Theory's successful application in numerous fields (most famously palliative healthcare) attests to the method's endurance in applied research (Stiel et al., 2010).

3.3.6 Limitations to grounded theory

Grounded Theory's application in the social sciences and applied research offers many advantages, but also suffers from several drawbacks. For instance, GT offers rules of thumb, but it does not offer a step-by-step recipe for research (Bryant and Charmaz, 2007). Making judgements and pronouncements as required by GT, requires "a good

deal of effort” and the development of confidence on the part of the researcher (Bryant and Charmaz, 2007).

Furthermore, *external validity*, or the generalisation of theory to different settings, researchers, times, or measurement techniques (Bracht and Glass, 1968; Steckler and McLeroy, 2008) is problem for all grounded theorists and those involved in case study research (Bryant and Charmaz, 2007). In GT, knowledge is produced by gathering information about a data set (for, example individuals) and making inferences, or taking an inductive leap, to a larger population (Bryant and Charmaz, 2007; Kappes, 2014). Regardless of the researcher’s thoroughness, critics still charge that GT’s inductive, qualitative methods sanction the collection of incomplete data and the making of illegitimate claims (Bryant and Charmaz, 2007).

External validity threats can be classed into two major categories: population validity and ecological validity (Bracht and Glass, 1968). Population validity threats include the available sample group’s relationship to a wider target population (Bracht and Glass, 1968). For example, an element of *self-selection bias* inherently exists in this research because participants are allowed to decide for themselves whether or not to take part in the survey (Lavrakas, 2008). Ecological validity is the ability to generalise results to the real world or wider population and threats include issues such as participants responding uncharacteristically because they are aware they are under observation (*Hawthorne Effect*), or momentous, historical events producing exceptional results at the time of the study whereby the same research at a later date produces different results (*interaction of history effect*), or the influence of the study’s researcher on results (*experimenter effect*) (Bracht and Glass, 1968).

One experimenter effect includes “observer bias” whereby researchers have an effect on the phenomenon under study, seeing what they want to see (Allan, 2003). The researcher also may unwittingly sway responses given by informants, she or he may be biased in interpreting the results or have limitations on data access, and any other influences of the researcher’s mind that might prevent taking informants’ statements

at “face value,” (Allan, 2003). Depending on the researcher, interviews may have the potential to slide into therapy with participants complaining rather than provide a measured observation of their circumstances (Kvale, 1983). Rather than making the research irrelevant, however, Lincoln and Guba argue that the interaction between researcher and those under observation is a key feature of qualitative research that must be preserved with proper safeguards put in place (Guba and Lincoln, 1982; Lincoln and Guba, 1985).

Internal validity refers to a study’s ability to provide a reliable cause-and-effect relationship. It expresses the internal logic of the study—whether the observed covariations can be interpreted as causal (Steckler and McLeroy, 2008). A research project has “internal validity” when it measures what it intends to measure, obtains accurate results, is free of bias and systematic error (Price and Murnan, 2004). Internal validity is important for GT theorists as it is highly dependent on how rigorously the study’s methods are undertaken.

GT uses the same data to both discover and prove a theory thereby threatening the “logic of validation”(Bryant and Charmaz, 2007). Critics argue that, to confirm the validity of a hypothesis, independent testing of the data is required, but this is not possible using GT methodology because GT’s practice of coding and interpreting results is inherently subjective (Bryant and Charmaz, 2007; Dey, 1999; Guba and Lincoln, 1982). Testing GT theory is inherently problematic because gathering data, analysis and constructing theory are coterminous (Bryant and Charmaz, 2007). As per Dey’s observation, the “logic of validation” and the “context of discovery” can create a tautological problem when the GT researcher uses the data for both discovery and validation (Bryant and Charmaz, 2007; Dey, 1999). For some, this makes the methodology too vague to produce verifiable theories (Bryant and Charmaz, 2007).

Applied or real-world research inherently suffers from a direct approach of trying to solve a problem, which taints the objectiveness of the researcher (Lincoln and Guba, 1985). As Lincoln and Guba write, “images of what the inquirer wants, or what he or

she will do with the responses, guide the respondent in dealing with the instruments,” (Guba and Lincoln, 1982). The researcher must resist distorting data or suppressing counter-relevant data to produce a palatable theory (Glaser and Strauss, 1967). The burden, then, rests on the researcher to use a paradigm that can be applied to real-world situations (Glaser and Strauss, 1967).

GT theorists admit that inherent risks remain. While the researcher may have the best intention of providing an unbiased account of the phenomenon studied, pure objectivity is always compromised when humans are the object of study (Guba and Lincoln, 1982; Lincoln and Guba, 1985). The author’s own biases and personality will have played a role in the results, so-called “observer bias” (Lincoln and Guba, 1985; Noble and Heale, 2019). In particular, observer bias is inherent in studies when a single observer is employed, such as in this study (Noble and Heale, 2019).

Respondents will have also reacted to the researcher and/or her method of inquiry and may react differently to other researchers and methods (Guba and Lincoln, 1982; Lincoln and Guba, 1985). Furthermore, while categorising data is a quantitative activity, the creation and analysis of these categories is primarily qualitative (Guest et al., 2013).

Counterweights to these challenges, however, have been devised and are under regular scrutiny and revision by GT theorists. They have been designed to test the “trustworthiness” of the research using the four criteria of *credibility*, *transferability*, *dependability*, and *confirmability* of the researcher’s results (Guba and Lincoln, 1982). Given that complete independence of the observer and the observed is not possible in qualitative research, methods for verifying or confirming the results would need to be deployed (Lincoln and Guba, 1985). So-called *triangulation* by other researchers can be used to test of the validity and trustworthiness of results (Guba and Lincoln, 1982; Lincoln and Guba, 1985; Noble and Heale, 2019). Triangulation involves employing a variety of data sources, methods, or theories to sense-check the thesis (Guba and Lincoln, 1982; Lincoln and Guba, 1985; Morse, 2015). For instance, *peer debriefing* can safeguard the line of inquiry or the interpretation of results (Noble and

Heale, 2019). Rather than simply proving or disproving a theory, triangulation allows for the enrichment of datasets by providing different views on the phenomenon under investigation (Noble and Heale, 2019).

Another method for testing or controlling observer bias is focus groups, which have the advantage that group interactions may produce different data from face-to-face interviews (Krueger and Casey, 2000). The limitation, however, is that group interactions form a social atmosphere and some participants may refrain from voicing views contrary to the majority view (Krueger and Casey, 2000; Price and Murnan, 2004). Ethnography or prolonged engagement by researchers embedded within the field of study can also yield insightful data (Guest et al., 2013). *Prolonged engagement* allows for understanding of initial biases (Noble and Heale, 2019).

A final method of confirming the trustworthiness of the data includes a thorough review of similar studies. While this will have been done before in the early stages of the research, similar studies may be coming up even towards the end of the primary research period and therefore should be revisited regularly (Guba and Lincoln, 1982; Lincoln and Guba, 1985; Noble and Heale, 2019).

3.3.7 A note on replicability

Randomized controlled trials (RCTs) have long been held as the “gold standard” in scientific research. In scientific empiricism, a self-selecting, small sample (such as the one in this study) cannot represent the “normal distribution” of a given population (Christ, 2014; Kappes, 2014). Indeed, non-random sample studies in medicine, for example, have an empirical reproducibility estimate of 25 percent or less (Kappes, 2014). Economics research also has found that the differences between individual firms are so astoundingly large, known as “firm heterogeneity,” that they call into question the viability of generalising from case studies at all (Van Marrewijk, 2017).

There are numerous drawbacks, however, to the RCT paradigm and approach. RCTs are large-scale projects that are difficult and expensive to conduct without any guarantee that they are suitably matched to solve the problem in question (Christ, 2014). Once underway, RCTs cannot be modified or enhanced as new information and insights are gleaned or the research design would be compromised. The deductive methods of RCTs, therefore, narrow the scope of what might be learned (Christ, 2014). Others argue that scientific-based research is conferring a distorted view of what is going on in the real world (Christ, 2014). Instead, studying humans in their local, authentic environment can achieve *meaningful* research results (Barry and Roux, 2013; Christ, 2014). Even if RCTs signify internal validity for causal conclusions, on their own, they do not indicate appropriate or effective interventions (Christ, 2014; Mertens and Hesse-Biber, 2013).

Despite their seemingly opposing worldviews, both scientific empiricism and qualitative naturalism are today embroiled in the so-called “replication crisis,” (Morse, 2015; Schooler, 2014). The replication crisis is an ongoing methodological dilemma whereby the results of even well-known and oft-cited research cannot be reproduced by other researchers (Morse, 2015; Schooler, 2014). Some empirical researchers themselves are calling for the rigorous application of standards regularly employed by grounded theorists—namely the detailed accounting of methods (Kappes, 2014). The Reproducibility Project in the realm of psychological science, for example, aims to empirically estimate the reproducibility of studies (Kappes, 2014). The project spawned a global movement with important scientific journals such as *Nature* and *Science* abolishing length restrictions on methods sections (so other researchers can re-conduct the studies) and the issuing of new standards for publications (Van Bavel et al., 2016). While reproducibility remains a challenge for all branches of science, qualitative researchers argue that excellent data can be collected when careful sampling methods are employed (Richards and Morse, 2012). Moreover, progress has been made in both theory and software to account for heterogeneity in analysis (Harris et al., 2009).

3.4 Limiting the limitations in this research project

Applying the GT methodology, the author first developed a set of questions based on her tentative theories, then moved to *inductive* reasoning to develop categories and infer relationships on the data, finally adding *deductive* reasoning via testing as the study proceeded (Kocaturk, 2018; Stiel et al., 2010). As per GT methodology, the researcher built a hypothesis from case study research through which a “testable, relevant, and valid” theory could be produced (Eisenhardt, 1989). The study took advantage of the complementarities that arise through the “blending” of analytical data with thick data to establish an understanding of how and why, in order for the data to carry meaning (Bornakke and Due, 2018).

The targeted online surveys were employed as a quantitative and qualitative steppingstone for the research as well an entry point for interviewees. With the help of creative hub owners and managers who personally introduced the researcher to tenants, the researcher aimed to establish a rapport with interviewees. The researcher then mapped relationships, kept a diary and recordings/transcriptions of interviews to give the research detailed context and interpretation not available through simple statistical analysis (Geertz, 1973). Mixed methods were employed, but the trajectory of the research remained in the vein of GT with theory emerging as the research progressed. This process will be described in greater detail in the following section, Chapter 5: Research Design and Execution.

The initial Baltic Creative survey results and the researcher’s analysis were used as the starting point for devising a series of questions for personal interviews with firm owners. The researcher opted to follow-up the survey, which had discovered quantitative facts, with semi-structured interviews. This was done in order to, as Mintzberg explains, “fill in the gaps,” (Mintzberg, 1979). By employing mixed methods, blending qualitative and quantitative data, the researcher aimed to produce comprehensive and detailed “thick data” about the trading patterns within Baltic Creative.

The findings from the first case study at Baltic Creative in Liverpool formed the basis for the ensuing case studies at other creative hubs in a bid to get a clearer picture of the international trade practices of creative industries throughout the North West. In total, the 109 survey results produced quantitative data. Each question offered multiple-choice tick boxes with suggested responses (a “closed-format” questionnaire), but to reduce the “internal validity” threat (Price and Murnan, 2004) the survey included a text box for open-ended replies or clarifications. Almost four dozen interviews, lasting between 35 and 60 minutes, were conducted across the four creative hubs providing ethnographic, “thick descriptions.” Interviewees had all completed the survey. Part of the purpose of the interviews, therefore, was to unpack the meaning of survey responses, as well as leaving room for unexpected, illuminating evidence. The interviews were intended to go beyond understanding the current scope of Baltic Creative tenants’ international trade to include more rich responses such as how business owners had started exporting, the impact of Brexit thus far on business, and their views on the future of their international trade. While questions were structured, the interview itself allowed time and space for non-linear responses. The interviews were then transcribed and coded—applying axial and later selective coding—with specific data identified for further theoretical sampling.

The research, therefore, initially was led by quantitative data via an anonymous online survey, with qualitative data collection via interviews ensuing shortly thereafter. As such, although mixed methods methodology was employed, the work leans toward a postpositivist paradigm. This was not done intentionally, but adhering to the GT methodology and the exigencies of the PhD programme, the research was led by the industry partners, all of whom were interested primarily in reports based on quantitative data with interviews largely playing a supporting role, giving flavour and colour to the quantitative data. For the researcher, however, the interviews played a key role in developing theory. For the final research thesis, both qualitative and quantitative data were woven together and then separated and analysed in a dialectic process that allowed the hypothesis to emerge.

The initial findings at Baltic Creative encountered one of the fundamental challenges of Grounded Theory (GT), namely whether they could be verified or validated (Glaser and Strauss, 1967). The initial international trade survey at Baltic Creative, however, was already an act of “secondary analysis,” which tested the trustworthiness of Baltic Creative’s own 2016 *Annual Report*, which had found 57 percent of tenants exporting (Baltic Creative, 2017).

Upon discovery that indeed Baltic Creative’s tenants again reported significantly more international trade engagement than government statistics would predict, the researcher embarked upon finding additional research partners in other creative hubs throughout the North West. The trustworthiness of the author’s findings at Baltic Creative was tested yet again by means of repeating the same research at in three further creative industry hubs based in different cities of various size, thereby conducting an internal “triangulation” exercise. This was done to determine whether research results were an anomaly, site-specific to Baltic Creative and/or the city of Liverpool, or if they potentially indicated a broader phenomenon.

When the survey results of the three further case studies concurred that creative industries SMEs, microenterprises and independents—at least those based in creative hubs—were trading internationally at appreciably higher rates than official government statistics suggest, the researcher was able to establish a basic hypothesis that government statistics may be underestimating the creative sector’s exports and imports. These empirical results made a step towards answering this study’s primary research question: is small firm size a barrier to international trade in the creative industries? The findings also allowed the research to develop a more nuanced theoretical position about what the study’s results might mean for the creative industries, a relevant question at a time when the UK was negotiating its withdrawal from the EU and reformulating its global trade outlook.

Another limitation of this research stems from the inherent drawbacks of interviews. In accordance with codes of ethics, interviewees were made aware that they can stop the interview at any time and can withdraw their responses up to two weeks after the interview. This indicated, however, that the researcher's interviews suffered from a self-selection bias. Only those with the time and interest in the topic participated in interviews. Furthermore, managers of the creative hubs played an active role in encouraging tenants to participate in the research so those with warmer landlord relationships may have been more likely to respond. The interviews themselves had a potential drawback: typically a lacklustre subject, international trade was a highly emotional issue at the time so interviews may have slid into "interview as therapy" with participants complaining rather than provide a measured observation of their circumstances (Kvale, 1983). Tenants already trading internationally, or those with the intention to do so, may have been more likely to respond to surveys and interviews on the topic. Furthermore, it is possible that firms and independents working internationally are more likely to be based in creative hubs than those working from home, in stand-alone offices, at universities, etc.

To control for self-selection bias, invitation to the survey and interviews explicitly requested responses by those both engaged and not engaged in international trade. Creative hub managers, who introduced the research to their tenants, stressed this point to tenants both verbally and in their emails or messages to tenants. Furthermore, the introductory passage to online surveys (which was amended for each project partner), explicitly addressed those new to international trade, those with an existing international portfolio, and those who "wish to remain a mainly local business," (see for example, Survey 2 or Survey 3 in the Appendix).

It is not possible to gauge the effectiveness of this method, though some 25 percent of survey respondents indeed reported no engagement in international trade. Furthermore, the study's interviewed informants would be considered "excellent" by GT standards: they were firm owners, senior managers or independents with first-hand experience of running a business (internationally or locally/nationally), they were

articulate and willing interviewees, and they were reflexive about their experiences providing both advantages and disadvantages of their trading decisions. Furthermore, the research includes theoretical sampling of negative cases. Interviews were conducted with firm owners and independents who did not trade internationally and had no clear intention to do so.

To control for specific Brexit-related news informing results, which is an *interaction of history effect*, the research was conducted over 22 months from April 2018 to January 2020 during which no single Brexit event (such as actual departure from the EU) would have influenced the research. This prolonged period of Brexit uncertainty, however, did affect the research. Instead of becoming a “confounding variable,” though, this “Brexit uncertainty” variable developed into a key feature of the study. This was the benefit of employing the grounded theory methodology: instead of derailing a strict research agenda of studying creative industries before and after the UK left the EU, Brexit uncertainty itself became an important aspect of the investigation. Instead of becoming an external validity threat, the *interaction of history effect* became integral to the project itself. Some additional measures, however, were required. For example, to control for “interview as therapy,” specific interview questions about Brexit were left until the end of the interview (Price and Murnan, 2004). This was done to avoid contaminating views about international trade in general, which was discussed earlier in the interview

A limiting factor of this research, as with all research based on case studies, is that it was based on a small, geographically isolated sample based in four creative hubs in North West England and as such does not achieve statistical significance. Generalising to the creative industries throughout the UK is not possible, but this was not the aim of the research. The dependability of the research would allow for independent validation of the findings. Furthermore, a thorough review of similar studies can be used to confirm the trustworthiness of the findings. No other studies exist in precisely this domain—the international trade practices of creative industries SMEs, microenterprises and independents. Throughout the project, however, the author kept

abreast of emerging research in related fields and, as per GT methodology, treated academic literature as another source of data by integrating it into the process of constant comparison (Hull, 2013). For example, a 2018 Creative Industries Federation (CIF) members' survey conducted by the Centre for Economics and Business Research (Cebr) also found much higher export rates than indicated by ONS statistics. In the Cebr study, the value of the UK's creative industries exports was 24 percent higher than the official ONS figure (Young and Cauldwell-French, 2018).

3.5 Quantitative data and a note on ONS methods

Qualitative research is an investigation into how people make sense of their world and their experiences in it, while quantitative research involves ordinal values (Guest et al., 2013). An absolute dichotomy, however, gives the impression that one approach can be entirely devoid of the other, which is not the case in this study. The *quantitative* data generated in this research (such as, the percentage of the firm's annual turnover generated by exports) were arrived at through targeted online surveys, hence *qualitatively*.

This process risks the internal reliability of the data (Price and Murnan, 2004). The author did not have access to the firm's annual accounts or VAT returns to independently verify responses. Looking at a firm's actual accounts would have provided a more accurate "excellent" dataset than the "back of an envelope" estimation of international trade made by owners and senior managers. The author did not request accounting data for two reasons: first, was deemed inappropriate by the initial project partner for fear that it would turn participants away. Second, and importantly, a self-reporting survey is the methodology used by the Office for National Statistics (ONS), which produces trade statistics for the government. For data protection reasons, the ONS does not arrive at its trade figures via VAT returns or annual reports, but rather through self-reporting surveys, i.e., employing the same method as used in this research (ONS, 2019a). In-depth examination of ONS data

collection methods, so-called “secondary analysis” (Glaser and Strauss, 1967), will be conducted in ‘Chapter 6: Synthesis and Discussion.’

Employing the same methodology as the ONS to determine what effect sampling might have on the ONS’ own trade figures was deemed to be the most effective strategy because, at the time of the study, the ONS almost exclusively sampled larger creative industries firms, yet microenterprises employing under ten people constitute 95 percent of creative industries firms (Creative Industries Federation, 2020) while the self-employed represent 34 percent of creative workers (DCMS, 26 July 2017). By almost entirely omitting microenterprises and independents, ONS’ data on creative industries exports and imports are biased by the trade practices of larger firms (Bean, 2016; DCMS, January 2016; ONS, 2020a). Currently, no state apparatus for the production of accurate metrics exists, though changes are underway (Kent-Smith, 3 February 2020). This study’s sample was too small to ensure “normal distribution” (Moon and Blackman, 2014). Nevertheless the methods employed were the most logical for interrogating this significant, but overlooked segment of the creative industries, i.e., smaller SMEs, microenterprises and independents.

Both the ONS and the author’s quantitative data suffer from another external validity challenge: participants may respond uncharacteristically knowing they are being studied, the so-called Hawthorne Effect (Bracht and Glass, 1968; Price and Murnan, 2004). Given that the ONS’ own *quantitative* data is also arrived at *qualitatively*, however, the author decided it was the most rigorous and practical method of inquiry available at the time.

It was equally important, however, to substantiate quantitative data with qualitative methodologies to develop a more vivid picture of the actual international trade practices of creative industries professionals themselves. In this sense, the research is broader, thicker, and deeper than the ONS’ own research. By listening to actual creative industries practitioners, the research provides novel insights for creative industries policymakers considering the effectiveness of any proposed legislative

changes.

3.6 Summary

The methodology employed in this research reflects the desire to uncover both a broad and a deep understanding of the of the international trade practices of the UK's creative industries SMEs, microenterprises and independents during a particularly uncertain historical moment. The mixed methods of quantitative and qualitative research were used to produce a thick description. While limitations inherently exist, the methods were determined by the best practices available at the time and were comparable to those producing official government statistics. The discrepancies between official figures and the findings of this study necessitate a robust examination of ONS methodologies, which will be discussed in detail in Chapter 6, Synthesis and Discussion. The step-by-step procedures of the methods deployed in the research will be discussed in the following chapter, Research Design and Results.

4. RESEARCH DESIGN and EXECUTION

As discussed in the proceeding chapter on Methodology, the springboard for the TNW doctoral training programme was publication of the government's Industrial Strategy. It first appeared as a blueprint "Green Paper" in January 2017 and invited reaction from the UK public at large. After public consultation, the final Industrial Strategy "White Paper" policy was published in November 2017.

Funded by the National Productivity Investment Fund (NPIF), the TNW cohort submitted a response to the Industrial Strategy *Green Paper*. For the response document, the researcher chose to focus on "Encouraging trade and inward investment," one of the Green Paper's ten industrial pillars. During investigation into the creative industries' international trade, the researcher discovered the annual report of Baltic Creative, a community interest company (CIC) in Liverpool that lets office space to creative industries firms and independents at commercial rates. Baltic Creative's 2016 *Annual Report* stated that 57 percent of its tenants traded internationally. This number was surprisingly high in comparison to the figure quoted in the Green Paper, which stated that only 11 percent of UK businesses export (Baltic Creative, 2017; BEIS, 2017a). This raised numerous questions such as, "Do the UK's creative industries firms export more than the UK average business?" and "Are official figures underestimating the amount of international trade conducted by UK firms?" or "Are the tenants at Baltic Creative outliers, exporting far more than the average UK creative company?"

In December 2017, the researcher approached Mark Lawler, Managing Director of Baltic Creative. Without any specific theory or method in mind, as per grounded theory methodology, the researcher inquired whether Baltic Creative might be interested in becoming a TNW industry research partner on the topic of international trade within the creative industries.

Lawler revealed his intention to develop a tailored programme of export support for his tenants in light of the Brexit referendum and the UK's likely, but uncertain, departure from the European Union. Lawler disclosed that Baltic Creative issued an annual *Business Output Survey* that tenants were required to complete as per their tenancy contract. In the survey, tenants were asked to provide data such as annual turnover, annual growth and expected growth. The survey also asked questions about international trade and export. Because company owners had been reporting increased engagement with international clients year-on-year, Lawler indicated that further research into the number of tenants trading internationally, at what scale and in which countries, would be valuable knowledge for informing his intended export support programme.

Rather than adding questions to the existing annual *Business Output Survey*, Lawler suggested designing and conducting a separate survey with more granular questions about international trade so as to not overwhelm the existing annual survey. The researcher suggested that the questionnaire could be followed-up by face-to-face, in-depth interviews with firm owners to arrive at a more nuanced picture of their international trade practices, which an online survey might miss. Lawler agreed.

This solicitation and ensuing industry partnership played a vital role in setting up the foundation for the methods employed throughout the entire research project. Table 4.1 summarises the industry partners' location, city size, response rate, the number of interviews carried out and the dates during which the primary research was conducted.

Table 4.1

Industry Partner	Location	City Size	Total Tenant Base Contacted	Number of Survey Replies	Response Rate	Number of Interviews Conducted	Dates of Research
1. Baltic Creative	Liverpool	1.5 million (GLA)	75 firms employing c. 500 FTE	Survey 1: 59	Survey 1: 79%	10	April – August 2018
2. Halton Mill	Halton Village	2,000	c. 24 regular users	Survey 2: 16	Survey 2: 67%	4	November 2018- March 2019
3. Society1	Preston	125,000	c. 24 regular users	Survey 3: 10	Survey 3: 42%	9	May-June 2019
4. The Sharp Project	Manchester	2.7 million (GMA)	60 firms employing c. 600 FTE	Survey 4: 24	Survey 4: 40%	10	November 2019 - January 2020
Total Results				109/89*	60%	33	April 2018 - January 2020

*The researcher used only 89 of the survey responses when presenting the consolidated results instead of the total sample of 109. This was done to ensure inclusion only of high-quality responses. Twenty surveys responses were not used for several reasons, including respondents not stating employee numbers or income bands (hence relationships such as the firm size and export income could not be calculated).

4.1 Industry Partner 1: Baltic Creative, Liverpool

The first industry partner was Liverpool's Baltic Creative, a commercial property landlord providing mixed-use spaces designed for the creative and digital industries. Although Baltic Creative refers to its tenants from the "creative and digital" industries, the term "creative industries" is used in this thesis because the DCMS definition of creative industries includes "digital" as one of its nine-subsectors.

Liverpool City Region has a population of over 1.5 million. In the early 2000s, the area now known as the Baltic Triangle was full of abandoned or dilapidated warehouses and boarded-up shop fronts. It was, however, popular with artists who were drawn in by the cheap rents and large spaces. Foreseeing the inevitable story unfold—artists moving into an undesirable area and revitalising it only to get pushed out by

developers and sky-rocketing rents—a group of dedicated locals determined to not let economic regeneration push creative workers out.

The Liverpool City Council (LCC) and a collection of creative industry insiders set about regenerating the Baltic Triangle without letting commercial interests take over. In 2009, with the support of the European Regional Development Fund and the now defunct North West Development Agency, Liverpool City Council acquired a suite of 18 derelict warehouses in the Baltic Triangle. The Council's arts, creativity and music arm (ACME) joined forces with Liverpool Vision (the city's investment arm, now Invest Liverpool) to set up the Baltic Creative community interest company (CIC) with a voluntary board consisting entirely of creative industry leaders. Baltic Creative CIC was founded to redevelop the neglected buildings into spaces for the creative and digital industries. Baltic Creative's articles of association mandate it to reinvest profits back into its tenants, into developing and maintaining its properties, or supporting the local Baltic Triangle area.

When launching its pilot phase in 2010, Baltic Creative housed just 11 companies across 700m². At the start of the primary research in May 2018, Baltic Creative housed over 500 people in a space occupying 12,500m² and it had not stopped growing. Baltic Creative was fully let with a waiting list of over 130 businesses hoping to get in. Baltic Creative also ran several artist-led spaces for artists, makers, writers and musicians. During the research engagement period, Baltic Creative opened two new buildings adding hundreds of square feet to its portfolio. Baltic Creative had a pipeline of several more warehouses that was due to provide co-work/live spaces, a tech hub, and more. What started as a local-government regeneration scheme, had turned into a thriving economic community with an annual GVA of £8.35m (Baltic Creative, 2017).

As a mark of success, the Baltic Triangle was voted the UK's coolest place to live and work in 2017 by *The Times* (Whateley, 2017). Creative England included Baltic Creative in its 2017 "CE50" list of top 50 innovative and inspiring creative companies

across England. Start-ups in Liverpool said the city's biggest strength was the helpful local tech community (Tech Nation, 2018a).

4.1.1 Survey 1: Quantitative survey with qualitative elements

Before devising survey questions, the research began with analysis of Baltic Creative's *Business Output Survey* from 2014, 2015, 2016 and 2017, which had included two questions about international trade. Based on this analysis, the researcher designed a multiple-choice survey, which thereafter was refined by Baltic Creative staff. A second inspection with further alterations was conducted by an external, third-party research firm who had designed Baltic Creative's previous surveys. In the end, the *International Trade Survey* (Survey 1 in this study) consisted of 16 quantitative and qualitative questions. Survey 1 can be found in the Appendix.

Questions fell into three groups: the first section requested insights into the scale of the company by asking questions such as the number of employees, annual turnover and predicted annual turnover for the coming fiscal year. Each question offered multiple-choice tick boxes with suggested responses (a "closed-format" questionnaire). To reduce the internal validity threat (Price and Murnan, 2004) the survey included a text box for open-ended replies or clarifications. This quantitative section was designed to allow for segmentation of responses to future potential lines of inquiry such as, "Do larger companies with more employees or higher turnover engage more in international trade than smaller firms or independents?" as traditional trade theory would suggest (Van Marrewijk, 2017).

The second group of questions targeted international trade specifically, with queries including the percentage of income generated by international trade (ranging from zero to over 75 percent), the countries and regions in which trade occurred, whether trade was in goods or services, perceived trade barriers, trade impact of the Brexit referendum (held two years prior) and future export plans. Again, each question

offered multiple-choice responses, but also a text box for clarification.

Bearing Lawler's intended programme in mind, third and final group of questions focussed on the type of trade support that tenants might welcome. Again, every question offered tick boxes with suggested responses and a text box for clarifications. Offered suggestions included matchmaking with foreign firms, Department of International Trade (DIT) workshops and export funding seminars, along with suitable times for such activities.

Survey 1 was emailed to 75 tenant firms by a senior member of Baltic Creative's staff on 27 April 2018 and indicated the researcher's involvement in compliance with General Data Protection Regulation or GDPR. The survey completion date was set for three weeks later on 18 May 2018. Two days before the closing date, a senior Baltic Creative staff member sent a reminder to all tenants. By close of the survey, however, only ten percent of tenants had replied. Lawler decided to keep the survey open for another few weeks and sent individual emails to non-responsive tenants. A week later, the researcher spent the day at Baltic Creative walking from office-to-office with a senior Baltic Creative employee who introduced her to company owners in person. The researcher requested completion of the survey and arranged several future in-depth interviews with firm owners. The survey finally closed in mid-June 2018. These combined approaches generated a high response rate of 59 completed surveys, which represented 79 percent of approached tenants. The researcher conducted six site visits to Baltic Creative throughout the research project.

4.1.2 Survey Analysis

A matrix was devised to code the findings. The matrix allowed data to be cross-referenced for analysis of relationships such as firm size and trade exposure, trade exposure and annual income, or trade exposure and future income expectations. In addition, the researcher cross-referenced her own 2018 *International Trade Survey*

(Survey 1) with data from Baltic Creative's 2018 *Business Owners Output Survey*. Here, each year Baltic Creative's tenants were asked to provide specific figures including questions on annual turnover, number of employees, annual growth and expected growth. In 2018, 71 company owners responded to this survey. In summary, 43 company owners/independents responded to both surveys, 16 responded only to the *International Trade Survey* (Survey 1), and 30 only responded to Baltic Creative's annual *Business Owners Output Survey*. The researcher employed this combined data to arrive at figures such as median company size, annual turnover, and per-employee GVA of both exporters and non-exporters.

Although the sample size of 59 respondents was small, it represented 80 percent of Baltic Creative's tenants at the time. As such, it could be used to produce figures that were statistically significant for the total population of Baltic Creative. Nevertheless, the "median" (the midpoint between the highest and lowest half of the results) was used to present the "typical" or average Baltic Creative tenant. A very small number of firms at Baltic Creative had turnovers well in excess of £1m and employed over 50 workers, which would have distorted the average (or "mean") of a small sample. By using the median, the researcher has arrived at a more accurate snapshot of the typical firm based at Baltic Creative. When the researcher pooled the survey responses across the four creative hubs to produce the combined results, again the median was employed for the same reason.

4.1.3 Qualitative Interviews

Survey 1 was followed up by in-depth interviews with tenants based at Baltic Creative over the course of two months (July to August 2018). Seven explicit and open-ended questions were prepared. As Maxwell argues, all interview questions should be deemed to be necessary and sufficient (Maxwell, 2005). The purpose of the interviews, however, was to "discover" additional, qualitative data that the survey had not uncovered despite the use of open-ended text boxes for clarification of each response

(Guest et al., 2013). As such, prepared questions were interspersed with relevant, supplemental questions for the sake of clarification or “linking” the line of inquiry with the research objectives (Guest et al., 2013; Wengraf, 2001).

The researcher invited all tenants—who ranged in gender, age and those who both exported and those who did not—to participate in interviews to ensure a broad range of views. Interviews took place either at Baltic Creative or online via video conferencing. Ten of the 59 surveyed business owners agreed to participate. Interviewees included owners of companies that already trade internationally and those who do not, but would like to. The interviews lasted between 35 and 60 minutes. Participation was entirely voluntary and was treated anonymously. Participant information sheets and consent forms were handed over or sent by email prior to commencement of the interview. These interview questions, information sheets and consent forms had previously been approved by the Lancaster University research ethics committee and are attached in the appendix to this thesis. The consent form was collected in person or via email before the start of the interview. As per the Lancaster University ethics procedure, participants were made aware that they could stop the discussion at any time and could withdraw any data associated with their interview up to two weeks after the interview. After these two weeks, it was understood to the participant agreed to data usage in the study.

At the time of this primary research, the UK was scheduled to leave the EU (and possibly its trade-barrier-free customs union) the following year, at the end of March 2019. Not known for stirring strong emotions, international trade had become a highly dynamic and, at times, emotional topic due to the daily news bulletins about on-going Brexit negotiations. This situation could have coloured the respondents’ responses. Measures, therefore, were put in place to limit the “Interaction of History Effect,” a known external validity threat that can affect responses due to momentous historical events at the time of research (Bracht and Glass, 1968). Interviewees may have been experiencing “Brexit fascination” or “Brexit fatigue” at the time of the study. As such, there was a potential for interviews to slide into therapy (Kvale, 1983). To reduce this

"Brexit variable," the structured question of Brexit was left until the end of the interview. This methodological decision was intended to reduce the effect of a "confounding variable" (i.e., Brexit) contaminating earlier responses to questions about international trade in general (Price and Murnan, 2004).

Like the survey, the structured interview questions were grouped thematically into three sections. Interviews began with more neutral, factual questions such as, "How long have you been located here at Baltic Creative?" and "How many clients do you have abroad? Are they significant to your annual income?" This was done to ensure the interviewee had time to become comfortable in the interview process. As the interview progressed, the second group of questions examined more qualitative subjects and included questions for those who both did and did not trade internationally. Some of the questions included were, "What prompted you to export?" or "Is anything preventing you from trading abroad? The third and final set of questions broached more subjective and emotional themes, including, "Are you optimistic or apprehensive about the effect on your business when the UK leaves the EU? Why?" and "Have your exports increased or decreased since Brexit? or "Has your company felt any effects of the Brexit referendum?" These questions served as a guideline and were not strictly adhered to.

Because all the interviewees were company owners or very senior company managers, the one ingredient that conjoined them was a lack of time so interviews needed to be both precise, but quick. Some informants had extensive experience and knowledge of international trade and significant policy changes that had affected their industry in the past, while others were running start-ups with a limited history. Some informants had extensive experience trading internationally, even if the company was young, while others were not interested in trading unless the situation presented itself. Some informants were apprehensive about sharing too many company figures or personal opinions while others were frank. Some interviewees immediately broached the subject of Brexit while others did not want to discuss it at length. The interviews were

designed to be “semi-structured” so the questions served as a guide, not as a strict, step-by-step manual.

4.1.4 Interview Analysis

Following grounded theory methods, the interviews were coded and categorised, with patterns beginning to emerge as the process proceeded. A matrix was used to code the findings and linked to the survey responses. Some quotes mentioned in this thesis are from the personal interviews and others are from the open-ended replies in Survey 1. The open-ended replies from the survey were treated in the same manner as the interviews, i.e., coded and categorised. These in-depth, first-hand insights began to generate the researcher’s conceptualisation of the phenomenon under investigation.

4.1.5 Industry Partner Report 1

The agreement made between the industry partners and the researcher included issuing a report of the study’s findings, which could be made public or shared with tenants. Upon completion of the project at Baltic Creative, a 9-page report of the research findings was presented to the managing director, Mark Lawler. The report included quantitative findings and relevant quotations from the interviews. Lawler requested that the findings be presented to the Board of Baltic Creative. On 24 September 2018, the findings were presented to the Board, which motioned to prepare and publish a press release on the research findings. A press release was prepared by Baltic Creative and was published in June 2019. Each of the industry partners received similar reports, which were as long as 19 pages in one case.

4.2 Industry Partner 2: Halton Mill, Halton village, Lancashire

The second research partner was Halton Mill, a low-carbon workspace for small businesses, social enterprises, community-based organisations, craftspeople, artists

and independents. Set in a small village of 2000 inhabitants, Halton Mill offers offices, workshops, studios and a coworking space. The building itself dates to the 19th Century when it originally served as part of a mill, which later became the home of an engineering firm. When the firm moved in 2008, the site was largely abandoned. The building was refurbished, partly by the European Agricultural Fund for Rural Development and partly by the adjoining Lancaster Cohousing, an ecologically oriented community of passive houses. Halton Mill opened in September 2013. At the time of the research, it had a regular or full-time occupancy rate of roughly two dozen tenants.

The sample at Halton Mill consisted of significantly more independents and sole proprietors than at Baltic Creative. Halton Mill was expressly approached as a counterweight to Baltic Creative, in which most tenants were SMEs or microenterprises. Expecting a much more local business base, the sample was surprisingly international and significantly involved in international trade than expected. Of the 16 tenants who responded to the survey, three were EU citizens, one was a UK citizen recently returned from living abroad for 20 years, and more than half had regular international clients or had done business abroad in the previous year.

The research comprised a 14-question online survey (Survey 2) and four semi-structured interviews with tenants. The procedure for the questionnaire and interviews at Halton Mill followed a similar schema to that of Baltic Creative with some small variations, discussed below.

4.2.1 Survey 2: Questionnaire and Analysis

Survey 2 was directly modelled on Survey 1 with three minor modifications. First, Survey 1 for Baltic Creative asked respondents to provide annual income (also known as 'turnover'). The co-director of Halton Mill, Alison Cahn, asked the question to be modified. Halton Mill, a much smaller creative hub where tenants know one another

personally, tenants had never been asked about their annual income. Cahn did not want specific income figures to appear in the final report, nor did she feel comfortable asking for that information for research purposes. Baltic Creative was an exception in this regard because tenants were bound by their tenancy contracts to reply to an annual survey about their income and employee numbers so they were accustomed to answering such questions. This was not the case with the other industry partners. As such, Survey 2 conducted at Halton Mill included a multiple-choice question/response with tenants providing their annual turnover in income “bands” instead of asking for precise figures. Similarly, the question regarding employee numbers was changed to a system of “bands” instead of specific numbers. For each subsequent industry partner, i.e., Survey 3 and 4, this scheme was followed for the same reason.

Second, the list of responses to the question, “In which regions do you currently trade?” was slightly modified. In Survey 1, the respondents could choose from the three following non-international locations: locally within Liverpool & Merseyside, North West and UK-wide. These choices were whittled down to only two potential responses (“Locally and/or around the North West” and “Nationally within the UK”).

Third, two questions were removed from Survey 2. Because Baltic Creative had a specific goal in mind, i.e., to use the research to directly inform a programme of support for tenants, two questions in Survey 1 refer to that aim. Question 14 gave respondents a choice of support measures (including the response, “I am not interested”), while Question 16 asked what time of day would be most suitable for workshops (including the response, “I am not interested in attending”). At Halton Mill, however, the directors had no particular objective in mind for the research so these two questions were omitted. Rather than the 16 questions found in Survey 1 at Baltic Creative, Survey 2 was reduced to 14 questions. Survey 3 and 4 followed the same scheme as Survey 2. Survey 2 can be found in the Appendix.

No questions in the survey were mandatory. The questionnaire asked for email addresses and company names, but should respondents wish to remain anonymous,

they could continue with the rest of the survey.

On 22 November 2018, one of the directors of Halton Mill emailed all tenants, requesting completion of the questionnaire. Unlike Baltic Creative, tenants were not accustomed to replying to regular surveys so by the end of the week only two tenants had replied. As the researcher occasionally used a Halton Mill co-working hot-desk for her PhD, she was familiar with some of the other tenants. With the permission of the Halton Mill directors, other tenants were personally approached by the researcher in the lunchroom, the co-working space or in private offices with a request to complete the survey. A further 11 survey responses were garnered in the following two weeks using this method. A final three responses were gathered in the new year. In total, 16 out of roughly two-dozen creative and digital independents and microenterprises responded to the targeted online survey about their international reach.

4.2.2 Qualitative Interviews and Analysis

The qualitative interviews with company owners and independents began in November 2018 with the final interview taking place in March 2019. In total, four in-depth interviews were conducted at Halton Mill.

At the time, the mood was of apprehension and unease. The UK was scheduled to leave the EU at the end of March 2019, however, by 14 March, the UK government had been unable to secure an agreement so it appealed to the EU to extend the succession process by seven months. Some members of the opposition and the government discussed holding a second referendum about whether the UK should at all leave the EU. This atmosphere of policy uncertainty may have influenced respondents' outlook on international trade.

Following the scheme developed at Baltic Creative, a matrix was used to code the interviews and linked to the survey responses. Some quotes mentioned in this thesis

are from the personal interviews and others are from the open-ended replies in Survey 2. The open-ended replies from surveys were coded and categorised in the same manner as the interviews. These first-hand insights of international trade continued to shape the researcher's understanding of the phenomenon under investigation.

4.2.3 Industry Partner Report 2

The industry partner report prepared for Halton Mill was slightly longer than that for Baltic Creative, comprising 11 pages. After presenting to the Board of Baltic Creative the researcher realised that quotes from business owners produced the highest impact so more were included in Report 2.

4.3 Industry Partner 3: Society1, Preston

The third industry partner was Society1, a coworking space in Preston, a city in Lancashire with 125,000 inhabitants. Unlike the other sites of the research, Society1's refurbishment was entirely self-funded by its owners and was privately owned. It opened in March 2017.

Society1 offered an open plan coworking space and communal kitchen on the ground floor. The first floor consisted of an open plan coworking space and several meeting rooms while the second floor offered a large conference room. Society1's meeting rooms and conference space were hired regularly by companies and groups for one-off events or off-site training days.

Society1 had roughly 100 members, including full-time members, those with a virtual office and "pay-by-the-hour" community members who used the hub only occasionally. Less than two-dozen tenants, however, were regular or full-time occupants of the coworking space. All were independents, microenterprises or telecommuters working for larger firms outside of Preston. While many tenants worked

in the creative industries, there was no requirement for Society1 members to be in the sector. The researcher interviewed and surveyed only those members working in the creative industries. The study at Society1 was conducted throughout May and June 2019, with four site visits conducted at the time. In total, ten tenants replied to Survey 3, of which all ten participated in in-depth interviews. One respondent was not a creative industries firm so the survey responses and interview were not included in the study's results. The final sample of nine was too small to present findings in statistical form, so survey results are presented by number of firms and by the median rather than the average.

4.3.1 Survey 3: Questionnaire and Analysis

Survey 3 at Society1 was based on Survey 2 with four minor changes. First, because Society1 was not a purely creative industries hub, Question 1 requested the respondent's email address, but this time the respondent's industry was also requested. An open-ended text box was provided. In this way, the researcher could remove responses from tenants who were not in the creative industries while enabling the researcher to cross-compare "core creative" and "digital" industries, should this be of interest later in the research. The survey responses of one tenant were not included in the final results because his business did not fall into the category of "creative industries."

Second, Question 15 was slightly modified to include Brexit uncertainty as one of the multiple-choice responses regarding trade barriers. Data from the previous two industry partners revealed that respondents primarily considered Brexit to be a trade barrier rather than an opportunity. Adding Brexit uncertainty to the list of potential trade barriers allowed for the contextualisation of Brexit uncertainty in comparison to all other trade barriers. To ensure that it was not prioritized as the leading trade

barrier, “Brexit uncertainty” intentionally was placed at the bottom of the list of potential trade barriers.

Third, Question 14, “How are you preparing for Brexit?” was removed from Survey 3 for fear that the question would make respondents nervous or uncomfortable in the erstwhile climate of uncertainty. It was replaced with a more neutral question, “If you don’t trade internationally, would you like to begin trading abroad? (Skip this question if you already export/import.)”

Fourth and finally, an additional question was added to Survey 3. Survey 2 at Halton Mill consisted of 14 questions, but Survey 3 at Society1 consisted of 15 questions. The additional question was, “Do you work with independents? If yes, how many independents do you employ and how often?” This question was added because, during of the research at Halton Mill, the researcher became increasingly aware that independents and sole proprietors were working in “networks.” Although their firm size was officially listed as “one,” this did not reflect the nuances of their working practices. It also did not reflect the scope of their international engagement. For example, one tenant at Halton Mill turned out to be “exporting” 100 percent of her work to the EU, where she was employed remotely as a translator. Another tenant was working remotely, full-time, as a programmer for a large EU-based company while based in a small rural, Lancashire village.

Similar in size and scope to Halton Mill, Society1 again was likely to accommodate independents. The researcher decided to include the additional question to Survey 3 to get a clearer picture of firm size, particularly in organisations that had only one official employee—the sole proprietor. This indeed turned out to be a fruitful line of investigation with at least one company owner at Society1 revealing that she was the only “official” employee of her company, but she “imported” the work of numerous designers in the Philippines and a PA based in India. Other small firms also turned out to be “importing” the work of programmers in Ukraine, translators in the EU, etc. This was a fruitful investigation because it revealed that many respondents initially had not

considered these services “imports,” confining their concept of “imports” primarily to the importation of goods. Because the *Creative Industries Sector Deal* was calling for the “scaling up” of firms to increase creative industry exports (BEIS, 2018), the researcher also added this question to get a better understanding of the nuances of creative industries working practices. As per GT methodology, after analysing the data that came in from industry partners 1 and 2, the researcher was adding “theoretical” sampling as new categories arose and hypotheses began to emerge. The researcher realised that the multiple intricacies of international trade amongst the sample of sole proprietors and microenterprises necessitated further lines of investigation. As such, the quantitative surveys and interviews were increasingly informing one another—not only within each case study, but across industry partners—providing a richer and deeper understanding of the phenomenon under investigation.

Owner and manager of Society1 Brendan King posted Survey 3 to tenants via Slack on 17 May 2019. When this failed to engender any responses, a reminder was sent via email on 29 May 2019. The researcher conducted her second site visit on that day and, as at Baltic Creative, King personally introduced the researcher to tenants. In this manner, 10 survey responses were collected and follow-up interviews conducted or arranged. Survey 3 can be found in the Appendix.

4.3.2 Qualitative Interviews and Analysis

At the time of the study in May-July 2019, the UK was scheduled to depart from the European Union at the end of October 2019, after agreeing an extension on the original departure date of 31 March 2019. The prevailing mood again was that of uncertainty. Prime Minister Teresa May had just resigned, the Conservative Party was embarking on a leadership race, calls were heard for a second Brexit referendum, and negotiations with the EU had stalled. These historical, external events were likely to have been on the mind of those responding to questions about international trade and Brexit.

Nine semi-structured, face-to-face, in-depth interviews were conducted over the course of two months (May and June 2019) during four site visits to Society1. Following the scheme developed at Baltic Creative, a matrix was used to code the interviews and linked to the survey responses. Some quotes mentioned in this thesis are from the personal interviews and others are from the open-ended replies in Survey 3. The open-ended replies from surveys were coded and categorised in the same manner as the interviews.

4.3.3 Industry Partner Report 3

The industry partner report prepared for Society1 was slightly longer than that for Halton Mill, comprising 13 pages. The report included the additional question asked in Survey 3. It also continued to include more quotes and thoughts from business owners as these appeared to have the highest impact with the creative hub managers and directors.

4.4 Industry Partner 4: The Sharp Project, Manchester

The fourth project partner was The Sharp Project, a large creative hub in Manchester. Situated in a reclaimed industrial block, The Sharp Project offered a range of flexible and affordable offices of assorted sizes in a 200,000 sq. ft. refurbished warehouse. It also offered several production stages and green screen studios for film and television production. Launched in 2011 and owned by the Manchester City Council, The Sharp Project was an initiative of the Manchester City Council and was co-funded by the City Council, the Northwest Regional Development Agency, and the European Regional Development Fund. Similar in size and scope to Baltic Creative in Liverpool, it offered a counterweight to the two smaller previous case studies.

At the time of the research in October and November 2019, The Sharp Project accommodated roughly 60 tenant firms with some occupying more than one office. The research included a 16-question online survey (Survey 4) and semi-structured interviews with company owners, directors or senior members of the management team. Survey 4 was based on Survey 3, with small modifications (discussed below).

In total, 24 tenants replied to Survey 4, of which 10 participated in in-depth interviews. The surveyed cohort of 24 corresponded to 40 percent of The Sharp Project's population, which was too small to present findings in statistical form, so results are presented by number of firms and by the median rather than the average response.

While small, the sample represented a good cross-section of The Sharp Project's tenant base. Ten interviewees occupied one of the 32 affordable "Red" shipping containers intended for SMEs, start-ups and those requiring a flexible lease; four respondents occupied one of the 12 larger "Blue" or "Silver" offices, and ten respondents occupied one or more of the 28 largest "Gold" offices overlooking The Sharp Project's Campus courtyard.

Because The Sharp Project offered a selection of offices without offering a dedicated coworking space for independents or contractors, the sampled firms employed significantly more people than the average UK creative company. While 95 percent of UK creative companies are microenterprises employing nine or fewer people (BEIS, 2018; Frontier Economics, 2016) only 15 of the respondents (or 63 percent) fell into this category. The other ten respondents were SMEs employing ten or more employees. As such, it was important to undertake an intra-hub analysis as was done in Halton Mill, which was on the other end of the scale with the sample consisting of much smaller companies than the UK average.

Two of The Sharp Project respondents employing ten or more FTE were the Manchester office for larger UK or multinational groups. In these cases, the researcher

only evaluated the turnover, staff-numbers, exports, etc. of The Sharp Project-based arm of the company.

4.4.1 Survey 4: Questionnaire and Analysis

Survey 4 at The Sharp Project comprised a 17-question online questionnaire based on Survey 3, which had comprised only 15 questions. Because The Sharp Project provided only offices and had no dedicated co-working space, all respondents were likely to be owners of firms with at least some employees. Because no or very few independents were likely to be found, the question of working with “other” independents was removed. However, three additional questions were added.

First, In Survey 3, Question 1 offered an open-ended text box requesting the respondent’s email and specification of the industry in which they worked. In Survey 4, these became two separate questions for clarity's sake.

Second, as it became evident that Brexit would not take place during the course of this thesis, one of the emerging phenomena under consideration was the impact of Brexit *policy uncertainty* on the international trade of the creative industries. Business confidence, in terms of optimism or pessimism, was an emerging category. This topic had been covered at Baltic Creative where its own *Business Owners Output Survey* included questions about business plans regarding future employee numbers and income projections. The researcher decided to add an explicit question about expected business expansion or contraction. Instead of asking only about current annual income, the following question was added to Survey 4: “What is your expected company turnover for the NEXT fiscal year (2019-2020)?”

Third, a direct question about Brexit was re-inserted into Survey 4. In Survey 3, the question “How are you preparing for Brexit?” found in Survey 2 was removed. The written responses about Brexit in Survey 2, however, were found to be enlightening

and this was lacking in Survey 3, where all Brexit questions were saved for interviews. Considering that the anonymity of written responses may have been a benefit of a direct Brexit survey question, the following question was added to Survey 4: “Has Brexit, thus far, affected your business positively or negatively?” This was done to offer those respondents not interested or able to participate in interviews to offer their thoughts on Brexit.

Again, this approach was informed by GT methodology where the emergence of new facts needs to be integrated into the research, despite the confusion or regression this causes the researcher at the time (Hull, 2013). As the researcher’s understanding of the topic under consideration advanced via the previous three case studies, more nuanced positions came to light.

The research methods continued along the lines of that established at Baltic Creative. Survey 4 was approved by the Managing Director of The Sharp Project, Colin Johnston, and emailed to tenants by the Operations Manager in early October 2019. This produced no replies. The following week on 10 October the researcher made a site visit to The Sharp Project. The Operations Manager introduced the researcher to tenants, knocking on doors to ask company owners or managers to reply to the questionnaire. The researcher also arranged several interviews. She returned the following week to continue this approach. This method produced 24 responses from a potential tenant base of 60 tenants. Survey 4 can be found in the Appendix.

4.4.2 Qualitative Interviews and Analysis

The researcher conducted 10 interviews at The Sharp Project. Six took place in person at The Sharp Project and four were conducted by telephone (by company owners and senior managers who were willing to share their experiences, but were extremely time-pressed). A total of three site visits throughout October and November 2019 took place. The first interview took place in October 2019 and the last one in January 2020.

At the time of the site visits, the UK was facing a general election dominated by the question of whether the UK would leave the EU on schedule at the end of January 2020, which was only weeks away. Because the topic dominated the news and had been hotly debated for over three years since the Brexit referendum in 2016, the researcher noted some “Brexit fatigue” during the interviews. As such, the researcher modified her interview questions to also delve into a secondary topic of interest concerning the amount of intra-hub collaboration amongst tenants in the creative hub, which engendered lively discussions. When the interviewees were more involved in the discussion, the researcher could circle back to the topic of Brexit and its effect on international trade.

4.4.3 Industry Partner Report 4

The industry partner report prepared for The Sharp Project was the longest one yet, comprising 17 pages. The report included graphs detailing responses to the two additional questions asked in Survey 4. It also continued to include more quotes and thoughts from business owners as these appeared to have the highest impact with the creative hub managers and directors. It also included quotes regarding the additional topic of intra-hub collaboration between tenants of The Sharp Project.

4.5 A note on the trustworthiness of the sample

To address the trustworthiness of the Survey 1 sample and its associated interviews, the researcher undertook an internal triangulation exercise by reproducing the initial Baltic Creative study in three other locations throughout the North West to ensure that results were not site-specific. Creative hubs were approached in diverse locations, including larger cities (Manchester with a population nearly three times that of Liverpool), smaller cities (Preston, with roughly one-third of Liverpool’s population) and a village with a population of only 2000 people. This was done to infer whether

the size of a creative hub, or the size of the city in which it was located, played a role in the scope and breadth of tenants engaged in international trade. To ensure a similar financial situation for all surveyed firms, the researcher intentionally avoided creative hubs that served as “incubators” whereby so-called “angel investors” pay for a firm’s rent. All four creative hubs provide office space to creative industries firms at commercial rates, which varied widely depending on the local property prices in the four locations. As such, the reproducibility of the research was shown to be possible. Furthermore, while only limited in scope, the internal triangulation exercise revealed that survey respondents in all four locations reported significantly higher international trade participation than ONS figures report.

While each of the creative hubs in this study was heterogeneous, none was an outlier or over-performer, which would have distorted international trade data. Baltic Creative, for example, operated within a creative industries cluster that was neither a super-performer nor an under-achiever. The government’s *Creative Industries Sector Deal* identified Liverpool as a cluster of high growth, but not high concentration (BEIS, 2018). Also, Liverpool’s digital tech GVA in 2017 was smaller than almost any other one of the 30 digital clusters identified by TechNation (£456k)⁴ and turnover by employee was far below any other digital cluster in the report (only £76,000)⁵ (Tech Nation, 2018a; Tech Nation, 2018b). Still, digital companies seemed to do well in the relatively small digital cluster of Liverpool. TechNation ranks the North’s Top 100 Fastest Growing Tech Companies and in 2018, four were based in Liverpool, placing Liverpool as one of the top digital destinations just behind Manchester (30 firms), Leeds (13 firms), and Newcastle (six firms) (Tech Nation, 2018a). The tech sector bears mentioning here because, while it is only one of nine sectors that comprise the official

⁴ GVAs of digital industry clusters in Northern UK in order of size: Manchester £3.4b, Leeds £1.3b, Newcastle £1.3b, Leicester £895m GVA, Liverpool £456m, Dundee £205m (TechNation, 2018a).

⁵ Turnover per employee in a sample of UK digital industry clusters: London £201k, Hull £133k, Sheffield £120k, Dundee £115k, Leeds and Leicester £113k each, Manchester £105k, Glasgow, Liverpool £76,000 (TechNation, 2018a).

definition of the “creative industries,” it is by far the largest sector in terms of GVA.⁶ Thus, Baltic Creative in Liverpool was a suitable location for this study precisely because it was in a creative cluster that was, by and large, average. The companies based at Baltic Creative yielded a better snapshot of ordinary creative firms than might those based in other, higher-performing clusters. The same may be said of Halton Mill, a small creative hub set in a village of fewer than 2,000 inhabitants, and Society1, based in a city of 125,000, neither of which were proximate to the UK’s major creative clusters.

⁶ At the time of CISD’s publication, “IT, software and games” was the largest sub-sector in the creative industries at £34,704m GVA, more than double the second largest sub-sector “Film & TV” at 15,361m GVA (BEIS, 2018).

5. RESULTS FROM INDUSTRY PARTNERS

The results from data gathered at the four industry partners will be presented in this chapter. The data were collected via four separate targeted online surveys (Survey 1-4, one for each industry partner) and 33 interviews across the entire sample. Employment figures were calculated on a FTE (full-time equivalent) basis with part-time employees translated to FTE (e.g., an employee on half-time was calculated as 0.5 FTE).

5.1 Industry Partner 1: Baltic Creative, Liverpool

At the time of this research in 2018, Baltic Creative accommodated roughly 500 individuals spread across approximately 75 SMEs consisting mainly of microenterprises employing fewer than ten people and a handful of SMEs employing 10-50 or over 50 FTE. One tenant firm let out individual desks on a co-working basis. The median company size at Baltic Creative was 2.5 full-time employees and the median company turnover was £127,000. The median turnover per employee was £50,500.

All tenants were approached to complete Survey 1 (approximately 75 tenants), and 59 responded. The total response rate was 79 per cent. Like all the industry partner questionnaires, Survey 1 was conducted online. Of this group, ten tenants agreed to participate in in-depth interviews.

5.1.1 International Trade Profile

While official DCMS figures state that almost 18 per cent of creative industries firms traded internationally in 2016 (DCMS, 14 February 2018), Survey 1 found that 41 out of 57 sampled Baltic Creative tenants (or 69 per cent) exported. Of the 30 per cent

who did not trade internationally (16 respondents), one-third reported the desire to start exporting in the near future (Fig. 5.1).

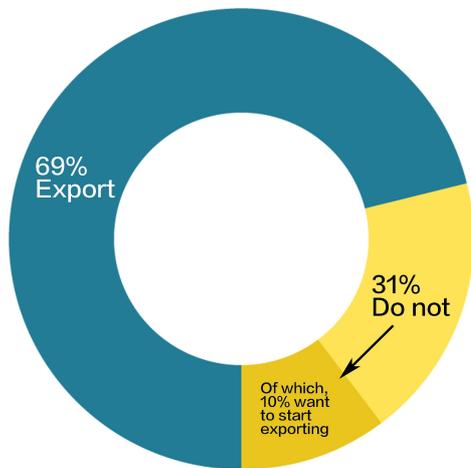


Fig. 5.1 Survey 1 at Baltic Creative: Proportion of sample trading internationally

All firms who imported also exported so henceforth international traders will be called "exporters" for the sake of simplicity. Isolating exporters from the rest of Baltic Creative, most traded in services with 70 per cent trading only in services, 15 per cent trading in both goods and services, and another 15 per cent trading in goods only (Fig. 5.2).

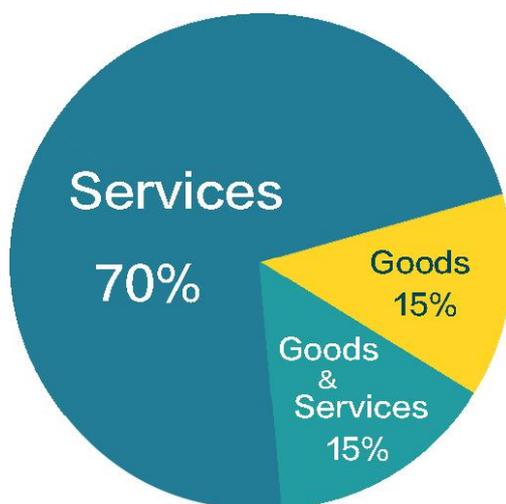


Fig. 5.2. Survey 1 at Baltic Creative: What exporters trade internationally

Baltic Creative’s exporters made a considerable share of income overseas (Fig. 5.3): 35 per cent of firms made over 50 per cent of their total income abroad, 37 per cent made between 10 and 50 per cent of income abroad, and 29 per cent made under 10 per cent of income abroad.⁷

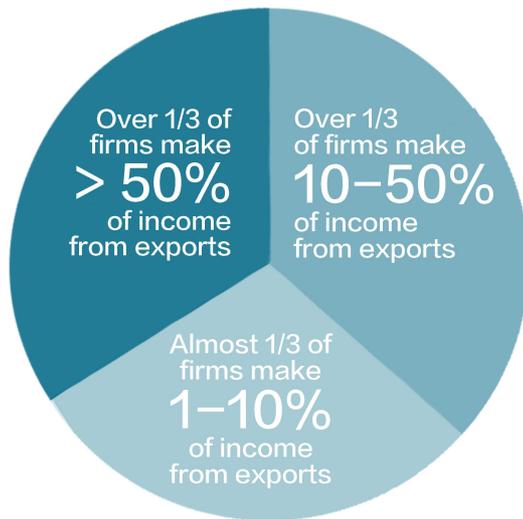


Fig. 5.3. Survey 1 at Baltic Creative: Proportion of income exporters generated abroad

During interviews, exporters reported that their primary concern around international trade was Brexit. Europe was the main trade partner at the time, with 93 per cent of exporting firms trading with the EU, 63 per cent trading with North America, and 51 per cent trading with Asia.

Imports

Baltic Creative exporters also imported goods and services from abroad. While 21 per cent of exporters had spent no money abroad, in the previous year, 38 per cent spent up to 10 per cent of their total expenditure abroad, 22 per cent spent between 10 and 25 per cent abroad, and 19 per cent spent over 25 per cent of their expenditure abroad (Fig. 5.4).

⁷ Detailed breakdown: 15 per cent of exporters earned over 75 per cent of their annual income/turnover abroad; 20 per cent earned between 50 and 75 per cent; 15 per cent earned between 25 to 50 per cent of income; 22 per cent earned between 10 to 25 per cent, and 29 per cent earned under 10 per cent of their annual income abroad.

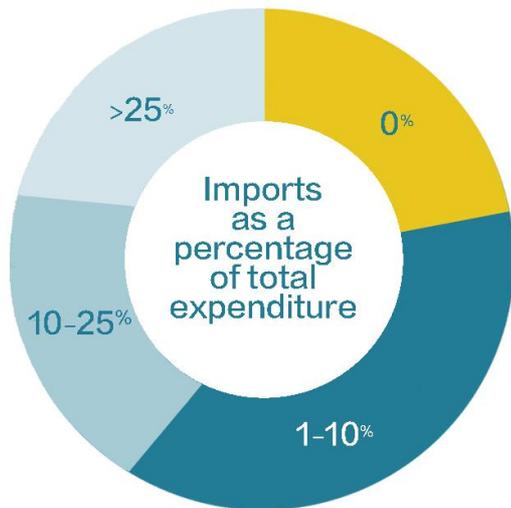


Fig. 5.4. Survey 1 at Baltic Creative: Percentage of annual expenditure importers spent abroad ("imports")

5.1.2 Origins of International Trade

Ten per cent of the Baltic Creative sample did not yet export, but wanted to begin. As agreed with the managing director of Baltic Creative, two of the questions in Survey 1 were designed to foster knowledge sharing between seasoned exporters and those wishing to begin trading internationally. How did successful exporters start? Where did they find their first international trade partners? Respondents were able to choose more than one response because international trade may involve more than step, i.e., numerous international clients may be found simultaneously using more methods, or contracts may be short-term and new methods may be deployed in a start-stop fashion.

Most exporters reported launching into international trade through personal contacts (friends or colleagues based either in the UK or abroad) with 56 per cent beginning via this route. Not far behind, 51 per cent of exporters said that a strong online presence gained through investing in international online marketing and search engine optimisation (SEO) was crucial to finding initial international clients. While a more

costly solution because travel and conference fees were involved, trade shows also worked for many exporters: 38 per cent of exporters met some of their earliest international clients at trade shows, either in the UK or abroad. Government departments and local organisations also provided strong trade links with 21 per cent of exporters meeting their earliest trade contacts via an intermediary such as the Department of International Trade (DIT), their local Chambers of Commerce or by participating in a sponsored trade delegation. While not in the top tier of export strategies, a sizeable number of exporters still managed to make impressive strides without leaving the office: 18 per cent reached out to potential trade partners after desk-based research and another 13 per cent of exporters started by proactively responding to (and winning) international tenders.

Some international traders admitted to being “accidental exporters.” One firm owner recounted, “We never set out to export. It's just the nature of the Internet to unlock that kind of potential without thinking you're starting a global business.” This firm was now making over 75 per cent of its annual income abroad. Another owner reported, “If you are an online business and you are selling digital products, I think it's fairly standard that you are more of an exporter than...a domestic company because the cost of delivery is not there and the cost of fulfilment doesn't exist. So it makes sense to open your borders from day one.” This firm was making between 51 and 75 per cent of its annual income abroad.

5.1.3 Firm size and exports

As discussed in the literature review, trade theory posits that companies engaged in international trade are larger and have higher turnover than non-exporters (Van Marrewijk, 2017). At Baltic Creative, these assumptions held true. The median firm size was 2.5 FTE with a projected 3.5 FTE in the following fiscal year. Meanwhile, exporters at Baltic Creative had a higher median firm size of 3.2 FTE, expected to rise to 4.5 FTE in the coming fiscal year (Fig. 5.5). The median company turnover of the total sample

was £127,000, projected to increase to £180,000 in the next fiscal year. Exporters' median turnover was appreciably higher at £200,000, expected to rise to £240,000 in the following fiscal year (Fig. 5.5). In terms of productivity, exporters at Baltic Creative had a higher turnover per employee at £60,000 as compared to the median turnover per employee of £50,500 (Fig. 5.5).

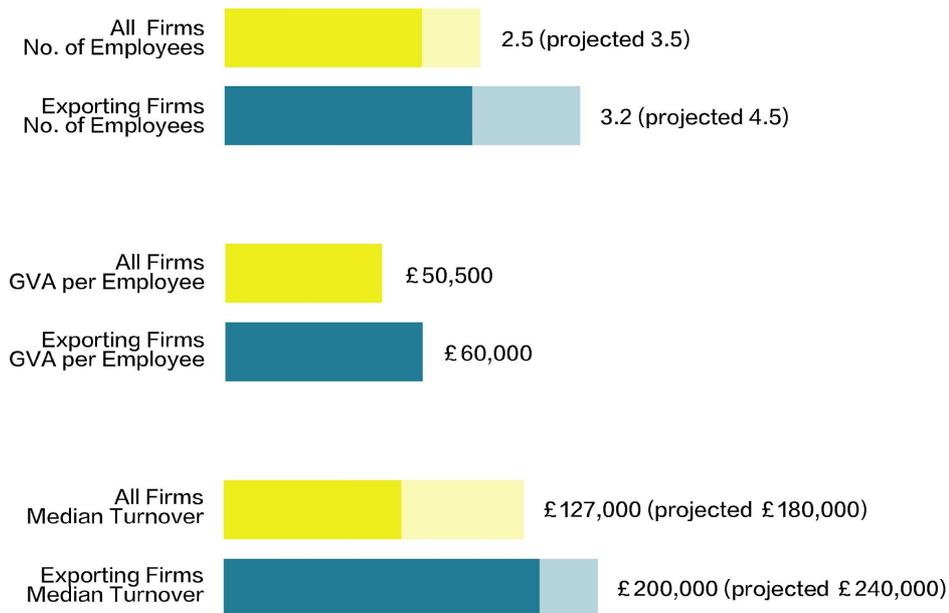


Fig. 5.5. Survey 1 at Baltic Creative: Firm size and income of total sample vs. exporting firms

Comparing all sampled tenants within Baltic Creative to each other, exporters did indeed exhibit traits predicted by international trade theory: they employed more workers, had higher turnover, and had higher per-worker GVA (Gross Value Added) than the median Baltic Creative company.

It is important to note, however, that the exporters were still very small firms. In the designation "SME," or small-to-medium size enterprise, the median size of both Baltic Creative's surveyed exporters and non-exporters was on the lowest end of the scale. In UK legislation, companies employing nine people or less are neither small nor medium-sized firms, but rather "microenterprises," (Companies Act, 2006a; Companies Act, 2006b). So the difference between exporters with a median size of

3.2 FTE compared to all tenants who have median size of 2.5 FTE is insignificant in terms of policy.

The same was true of turnover at Baltic Creative. In UK legislation, companies with a turnover of between £10.5 million and £36 million are considered “medium” sized, and companies with a turnover of between £632,000 and £10.5 million are “small,” while “microenterprises” are those with a turnover of under £632,000 (Companies Act, 2006a; Companies Act, 2006b). Again, the median turnover of both exporters and the entire sample (£200,000 and £127,000, respectively) fell into the category of “microenterprise.” Evidently, the very small turnover and company size of sampled exporters at Baltic Creative did not hamper their ability to trade internationally. This calls into question the concerns about creative industries’ ability to export and the policy of “growing” creative industries to increase exports in the sector (Bazalgette, September 2017; Frontier Economics, 2016). This matter will be considered in Chapter 7: Discussion.

5.1.4 Trade Barriers

Sampled exporters and non-exporters both perceived the same major barriers to international trade: finding clients and building relationships, access to knowledge and skills related to international trade, language and cultural issues, and the cost of doing business abroad. Interestingly, one would expect seasoned exporters to be less anxious, but in fact exporters were considerably *more* worried about customs procedures, delivery, tariffs and duties than non-exporters (Fig. 5.6).



Fig. 5.6. Survey 1 at Baltic Creative: Perceived international trade barriers

Seamless and borderless trade was a pipedream for some exporters, even before Brexit. One exporter wrote, “[We] could do with workshops on how to work around the red tape so that we don't spend 71% of our time doing unproductive red tape, instead exporting our skills and experience to bring in much needed wealth for the region.” Another respondent to Survey 1 wrote that most annual turnover was made in the USA, Japan, Korea and the EU. “[These markets are] much more important to us than the UK, so if Brexit gets in the way we may scale down British operations,” she noted.

5.1.5 Brexit and business confidence

During interviews, tenants often voiced a concern about Brexit. The EU was a key export destination for exporters at Baltic Creative with 38 out of 41 exporters trading with Europe. Of all firm owners surveyed and interviewed, only one had managed to profit from Brexit. He reported, "So far, Brexit has been good to us because the pound has weakened to the dollar and 65% of our income is in US dollars. We've consciously spent aggressively to acquire more US customers while the pound is weaker." This firm, however, was an online education services provider with no "marginal cost of production." It had high initial investment costs (i.e., paying teachers to design and teach an online course), but negligible marginal costs of production from adding more clients (i.e., new customers would not incur extra expenses for more materials, more staff, etc.). The only extra variable costs were the additional marketing and SEO investments.

The remaining firm owners were either apprehensive about the effect of Brexit on their future business or had already faced considerable losses since the Brexit referendum. One SME owner testified, "We are retrenching all international business and making teams redundant to increase productivity. Because of Brexit, we've lost 7 major contracts in the last 12 months, a risk we cannot afford to make again." Another senior manager recounted, "On the day of Brexit, it cost us £13,000 because the value of transactions changed [overnight]. It has cost us more since then because of exchange rates and on-going commitments." Another firm was already preparing for Brexit by opening an office in another EU country, but most owners reported a wait-and-see approach. "The biggest issue for us is tariffs. Whilst that is up in the air, the planning we can do is minimal," one firm owner said.

In the coming fiscal year with Brexit on the horizon, the entire sample expected turnover to grow by 40 per cent, but exporters were notably more pessimistic

expecting their turnover to grow by just over 25 per cent. Unfortunately, such a precise calculation of business optimism as produced at Baltic Creative was not possible in the following three industry partners because the researcher was not able to ask for specific annual income, but only bands of income. As such, business optimism and pessimism could only be reported anecdotally via interviews and open-ended survey replies.

5.1.6 Significant Findings from the Industry Partner 1

As predicted by trade theory, larger firms at Baltic Creative were indeed more likely to have international exposure. Firm size, however, did not determine whether an entity engaged in international trade. No minimum firm size was required for engagement in international trade. Exporters were found across the spectrum, from sole proprietors to “larger” SMEs.

Furthermore, Survey 1 data revealed that firm size did not determine how reliant a firm was on exports for annual income. In fact, most Survey 1 exporters who relied on foreign income for more than 50 per cent of their income were microenterprises with fewer than ten employees. This was a significant discovery because firms with high exposure to foreign markets are more vulnerable to large shifts in international trade policy, such as Brexit (Brown et al., 2020). For policy makers, this was a noteworthy finding because microenterprises comprise such a substantial portion of the creative industries so the higher their hitherto undetected exposure to foreign trade, the greater the impact of policy shifts on the sector as a whole.

Finally, interviews with owners of exporting firms revealed that most were apprehensive about the UK’s forthcoming departure from the EU. Cross-referencing Survey 1 data revealed that exporting firms were notably more pessimistic about future earnings than non-exporters. The EU was the most common trade partner for Baltic Creative’s tenants, with 38 out of 41 exporters (93 per cent) trading with the EU

at the time. Only one exporter reported increasing exports since the Brexit referendum, while all others reported either fiscal losses due to currency devaluation of the pound sterling or a decrease in their international customer base. With business confidence playing a key role in investment, this again was a significant finding and will be examined in Chapter 6: Discussion.

These initial findings revealed that continuing this line of research in other locations indeed was worthy of pursuit.

5.2 Industry Partner 2: Halton Mill, Lancaster

Halton Mill was selected as a project partner to be a counterweight to Baltic Creative, where firms ranged from microenterprises with 9 or fewer employees to medium-sized SMEs with over 50 employees. Halton Mill's tenant base consisted of roughly two-dozen sole proprietors and microenterprises with one or two employees. Conducted online, Survey 2 at Halton Mill garnered 16 responses, equivalent to an estimated response rate of 67 per cent of the total solicited population at Halton Mill. Four respondents participated in in-depth interviews.

Survey 2's sample at Halton Mill was too small to present findings as formal statistics so responses will be reported in numerical form only. For the same reason, instead of reporting results as an "average," results are presented as the "median," or the midway point separating the upper half from the lower half of a dataset.

Survey 2 found that the composition of the Halton Mills sample was as follows:

- 12 of the 16 respondents were independents or sole proprietors.
- 3 of the 16 respondents were companies with 1-2 employees.
- 1 of the 16 respondents worked remotely for a large company based abroad.

The median firm size of the total Halton Mill sample was 1 FTE (Fig. 5.8). This was smaller than the Baltic Creative sample, where the median firm size was 2.5 FTE.

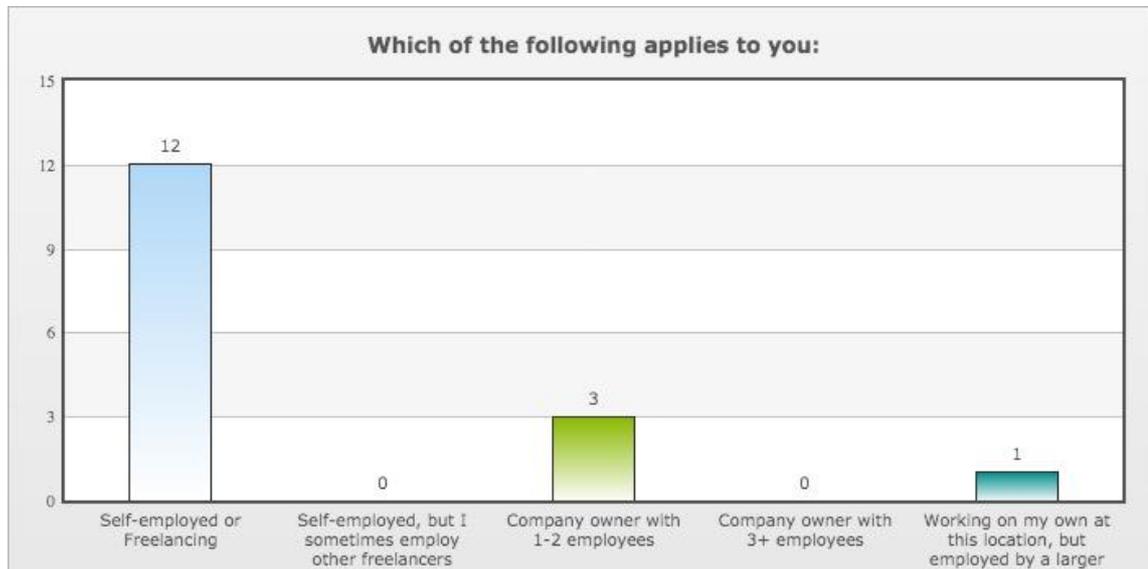


Fig. 5.8. Survey 2 at Halton Mill: Company size of total sample

The turnover of the total sample of 16 at Halton Mills was as follows:

- 8 respondents had a turnover of less than £30,000 per annum.
- 1 respondent had a turnover of between £30-50,000 per annum.
- 3 respondents had a turnover of between £50-100,000 per annum.
- 2 respondents had a turnover of between £100-200,000 per annum.
- 2 respondents declined to comment.

The median turnover of the Halton Mill sample was £30,000 (Fig. 5.9). This was considerably lower than at Baltic Creative, where the median turnover of the sample was £127,000. Indeed only 2 of the tenants sampled at Halton Mill matched or exceeded this income.

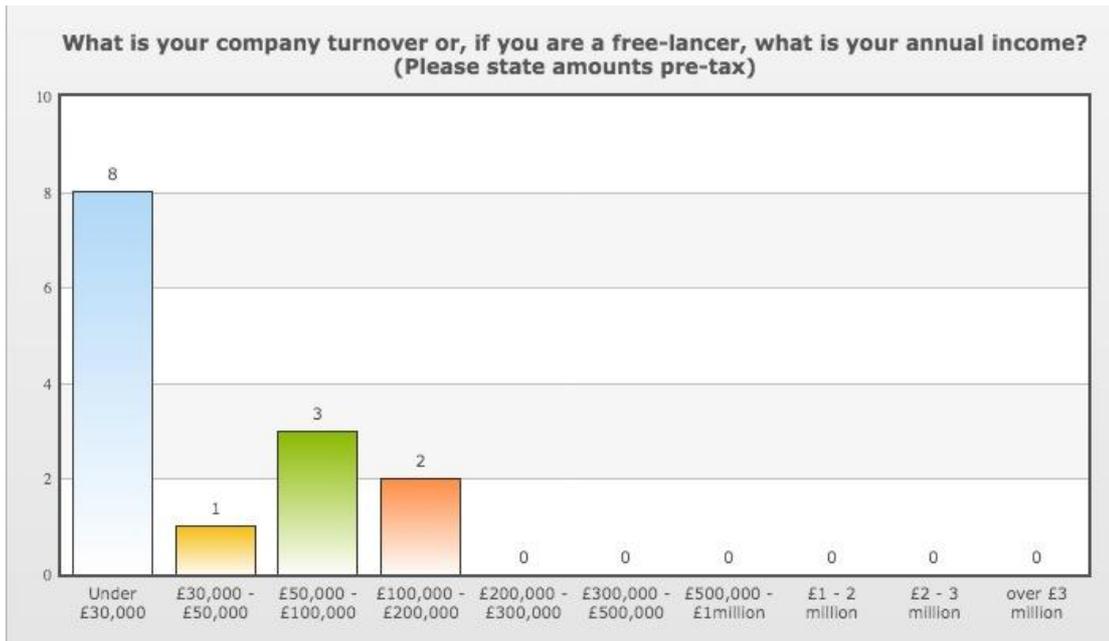


Fig. 5.9. Survey 2 at Halton Mill: Company turnover of total sample

5.2.1 International Trade Profile

Survey 2 discovered that despite their small company size and turnover, nine of the 16 respondents at Halton Mill were involved in importing and/or exporting as part of their business (Fig. 5.10).

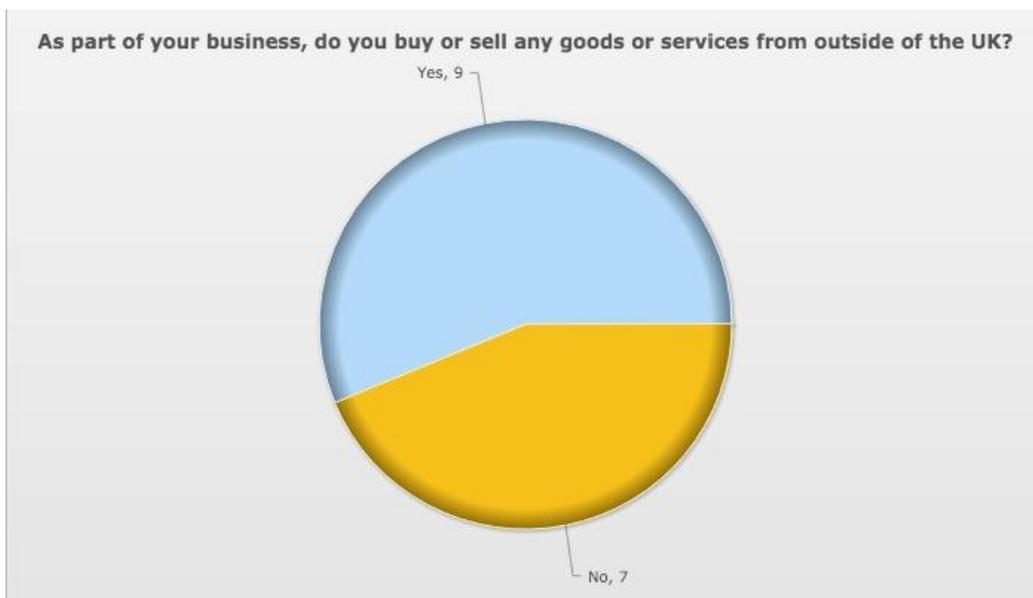


Fig. 5.10. Survey 2 at Halton Mill: Proportion of sample trading internationally

One “exporter” worked remotely for a larger multinational firm headquartered in the EU so he could not provide numbers about employees, income, etc. The following international trade figures therefore do not include his responses and are based on the responses of the eight other independents and microenterprises trading internationally.

Exporters

Of the eight respondents involved in international trade, seven exported. One respondent only imported at the time. Strictly, the firm should not be included in the “exporters” group, but the firm was a start-up that did not yet earn any income, locally or abroad. As the proprietor’s business plan, however, included exports (i.e., international sales partners had been arranged), responses were included with those of “exporters.” Because the other importers also exported, international traders will be referred to as “exporters” for the sake of simplicity. Six of these exporters indicated their trade type with three trading services internationally and three trading in goods and services.

These 8 “exporters” made a considerable share of their income overseas (Fig. 5.11). Their foreign income breakdown was as follows:

- 1 exporter earned no income yet, neither locally nor abroad.
- 1 exporter earned between 1-10% of total income abroad.
- 2 exporters earned between 11-25% of total income abroad.
- 1 exporter earned between 25-50% of total income abroad.
- 1 exporter earned between 50-75% of total income abroad.
- 2 exporters earned over 75% of total income abroad.

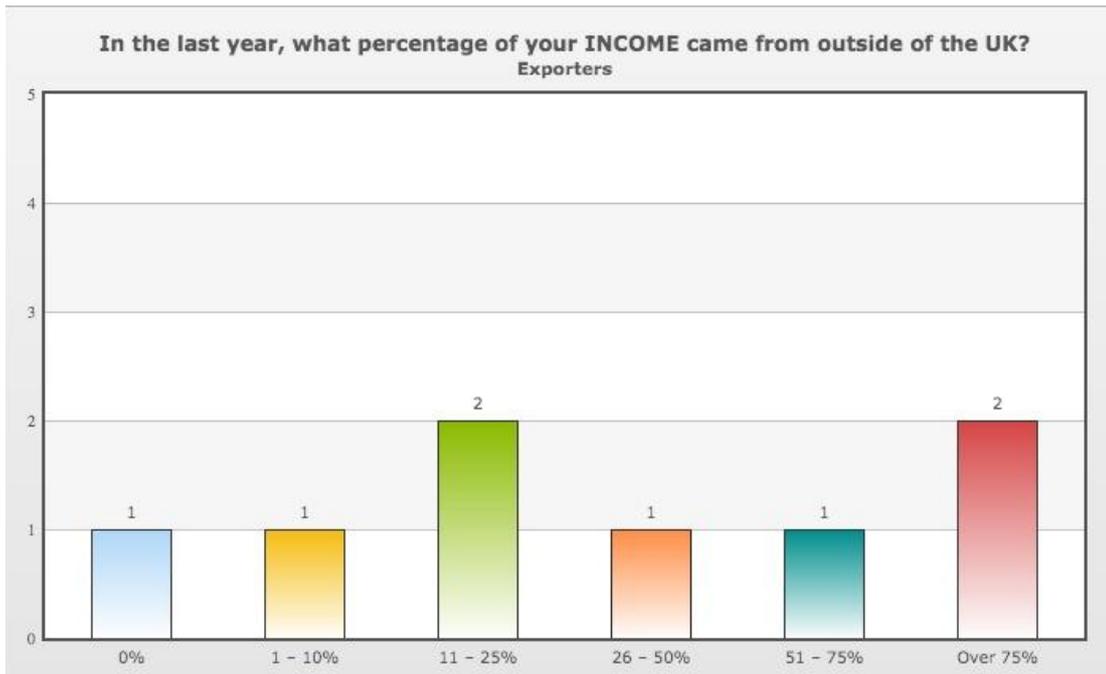


Fig. 5.11. Survey 2 at Halton Mill: Proportion of income exporters generated abroad

Of the seven non-exporters, two wanted to begin exporting in the near future, three did not intend to do so, and two declined to say (Fig. 5.12).

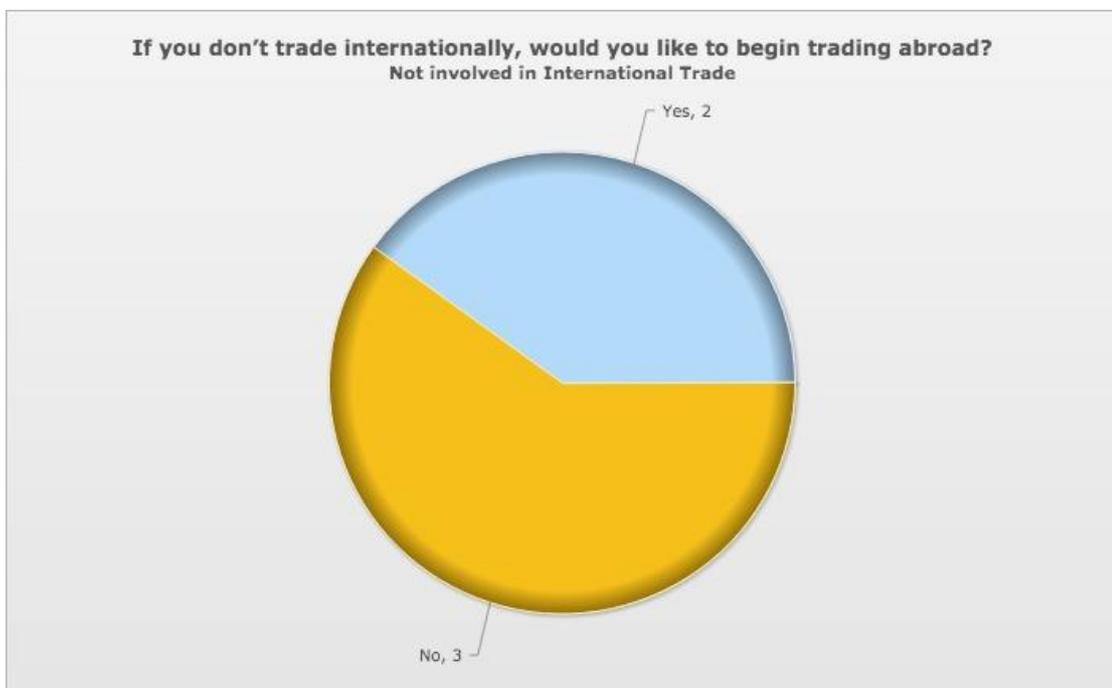


Fig. 5.12. Survey 2 at Halton Mill: Proportion of non-exporters who wanted to begin exporting

Despite their relatively small number, the exporter sample at Halton Mill was involved in truly global trade, spanning all regions of the world (Fig. 5.13). North America was the most common trade partner. This corresponds to national trade patterns: at the time of research, the United States (US) was the UK's largest trading partner for both exports and imports of services (ONS, 22 January 2020). The US was also the UK's biggest export market for goods, but the UK imported more goods from Germany than anywhere else (ONS, 11 February 2020).

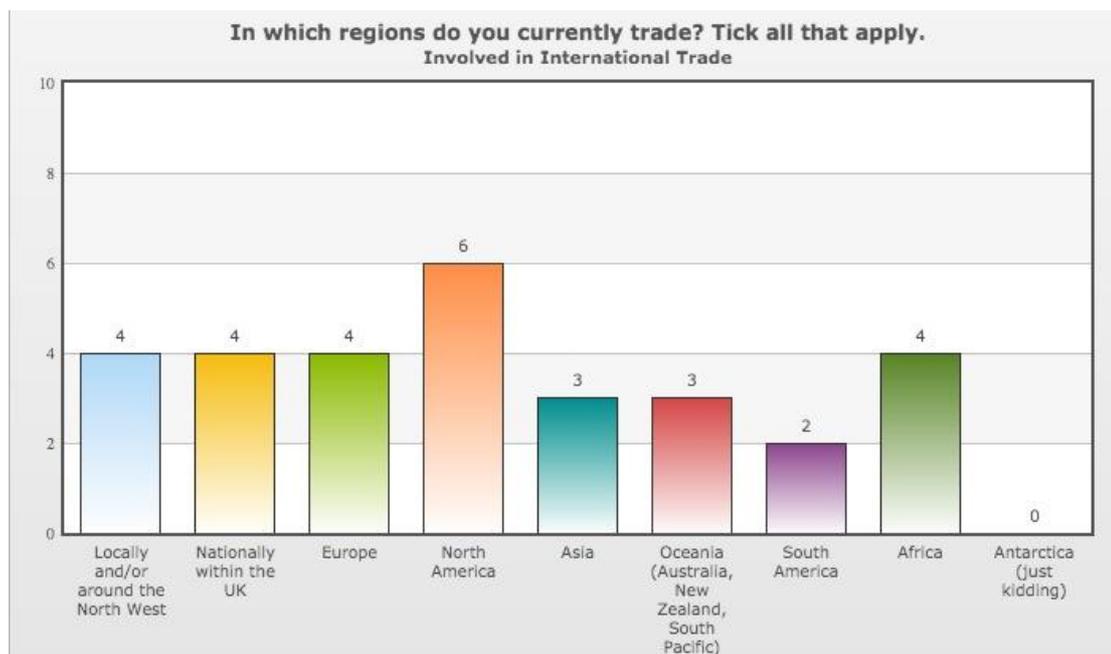


Fig. 5.13. Survey 2 at Halton Mill: Regions where international traders do business

While North America was the most common trade partner, interviews revealed that the greatest volume of export income came from the EU. As one sole trader said, "Twenty per cent of my income is from destinations [i.e., exports], but eighty per cent of that is in Europe." Another independent who made over 75 per cent of income abroad said, "Eighty per cent of my international work is in Europe and twenty per cent is in the US."

Importers

Halton Mill's exporters also imported goods and services to the UK as part of their business (Fig. 5.14). Seven of the 16 sampled tenants imported and their foreign expenditure breakdown was as follows:

- 2 of the 7 importers spent between 1-10% of their total expenditure abroad.
- 1 of the 7 importers spent 11-25% of their total expenditure abroad.
- 3 of the 7 importers spent between 25-50% of their total expenditure abroad.
- 1 of the 7 importers spent over 75% of their total expenditure abroad.

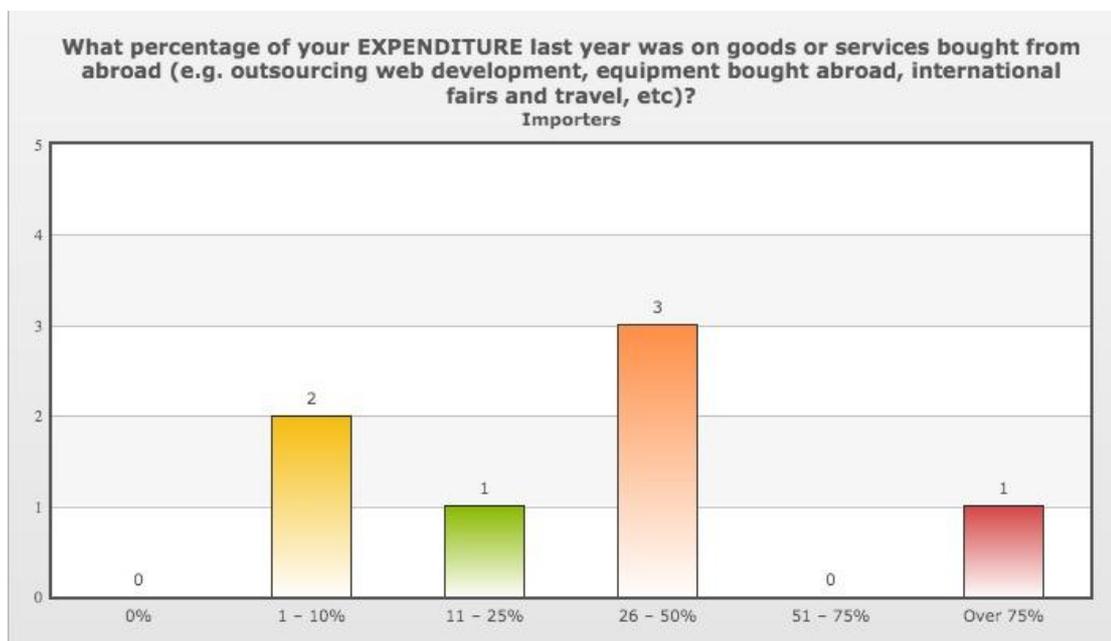


Fig. 5.14. Survey 2 at Halton Mill: Proportion of expenditure importers spent abroad

Those with sizeable outgoings in foreign currencies will have suffered from the sharp devaluation of the British pound after the Brexit referendum in 2016. One exporter explained, "We are at risk of difficulties due to exchange rate fluctuations."

5.2.2 Origins of International Trade

As at Baltic Creative, personal contact with clients was the most common route to launching into international trade, with five of eight exporters citing this route. In three cases, the personal contact was based abroad. Two more exporters previously had been based abroad, bringing foreign clients with them when moving to the UK. Two other respondents initially made international client contacts in the UK, with one reporting that several customers became “international” after starting in the UK and then setting up abroad.

Equally important, however, was a route that did not require extensive travel or personal contact: Internet. Of the eight exporters, three said that online marketing and sales had allowed international customers to approach them while another two proactively sought clients via desk-based research.

None of the exporters had met international clients at trade shows, via trade intermediaries such as the Department of International Trade (DIT), or by participating in a sponsored trade delegation. This may be due to the presence only of independents or microenterprises at Halton Mill and such routes are costly, time-consuming, and typically more effective for larger businesses.

5.2.3 Firm size and exports

As with Baltic Creative, exporters at Halton Mill exhibited the same traits predicted by trade theory: they had a higher turnover and employed more people than the non-exporters sampled at Halton Mill. The median turnover of the total Halton Mill sample was under £30,000 (Fig. 5.9), but the median turnover of sampled exporters was two bands higher at £50-100,000 (Fig. 5.15).

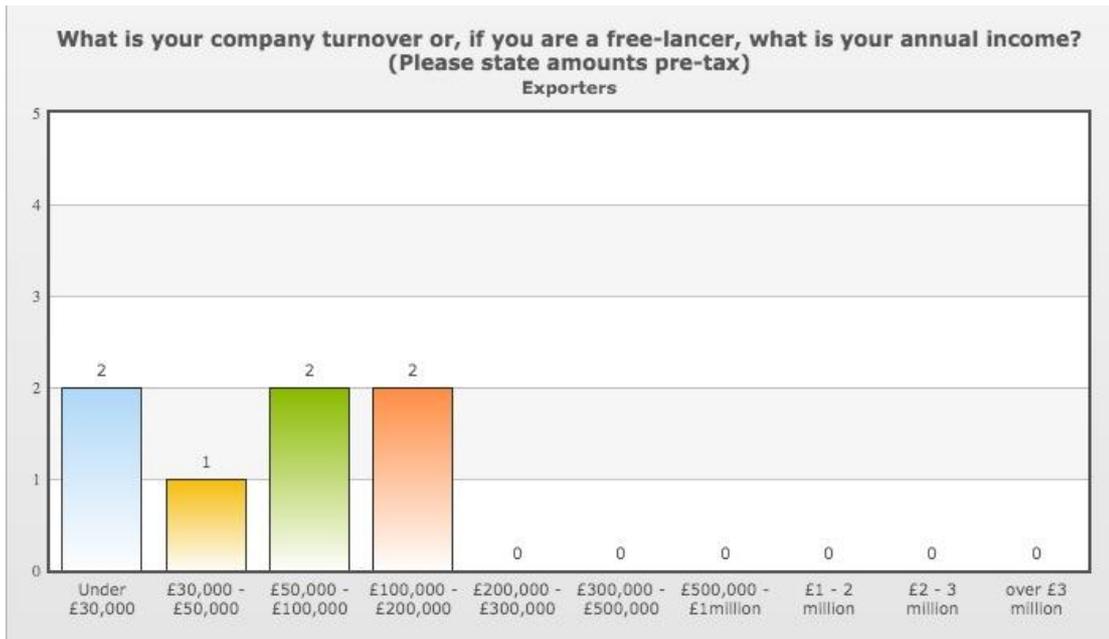


Fig. 5.15. Survey 2 at Halton Mill: Annual turnover of exporters

While the median company size of exporters was the same as the total Halton Mill sample—that is, independents or sole proprietors—all microenterprises with 1-2 employees were exporting (Fig. 5.16).

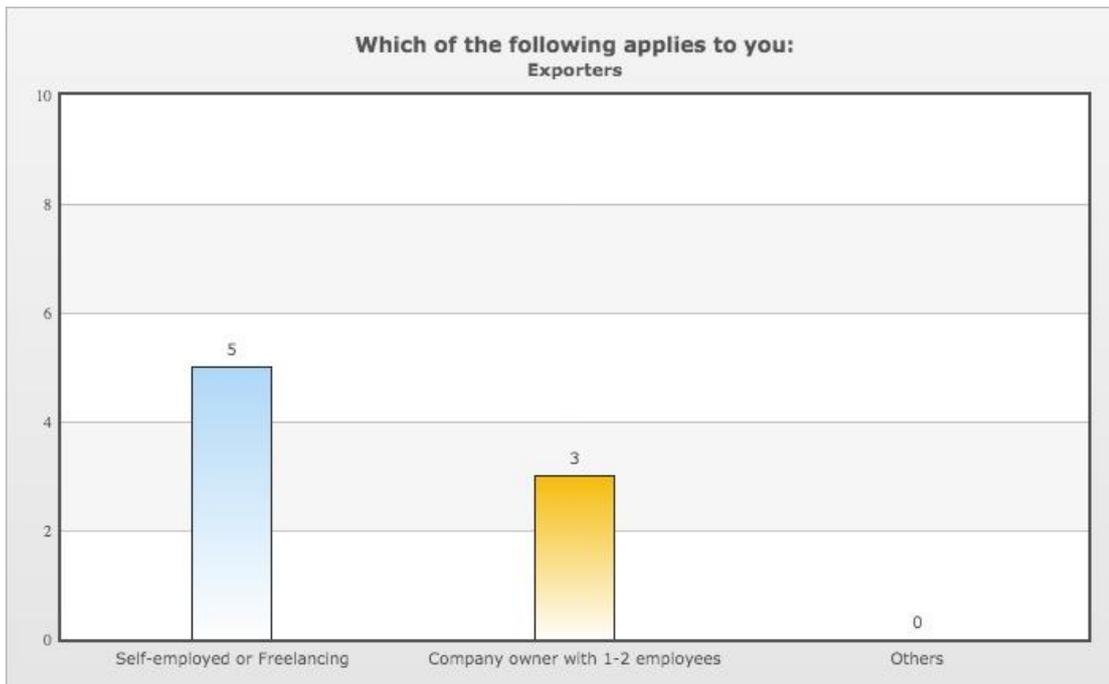


Fig. 5.16. Survey 2 at Halton Mill: Firm size of exporters

In contrast, all sampled non-exporters at Halton Mill were independents or sole traders (Fig. 5.17).

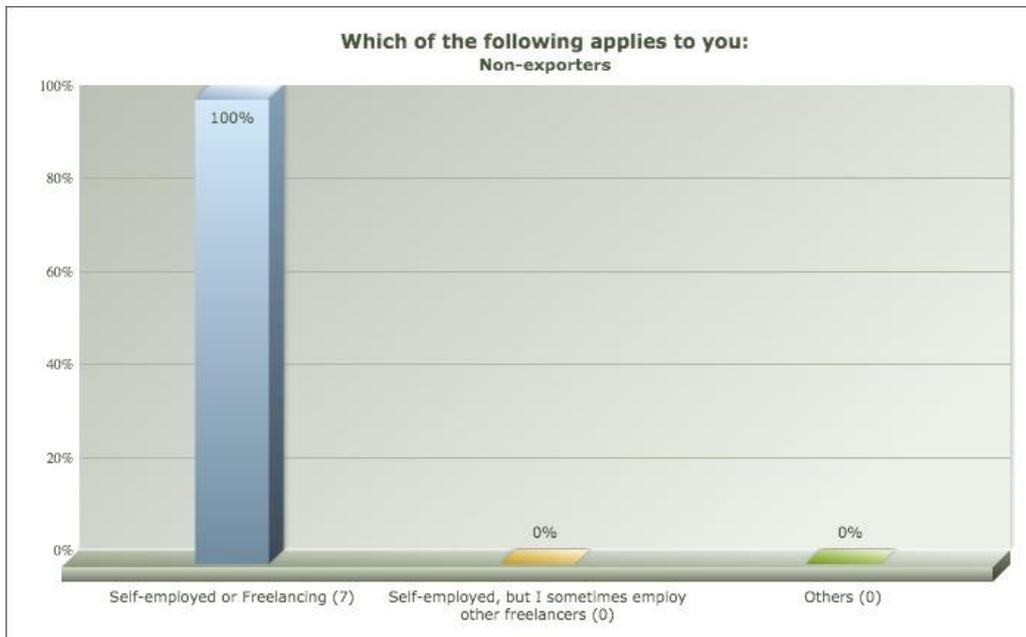


Fig. 5.17. Survey 2 at Halton Mill: Firm size of non-exporters

So, while all microenterprises were trading internationally, only half of the independents were. Nevertheless, more than half of the surveyed independents or sole proprietors at Halton Mill exported, demonstrating that engagement in global trade was available to firms of all size.

5.2.4 Trade Barriers

Trade barriers posed similar challenges for sampled tenants at Halton Mills as those at Baltic Creative. The biggest worry by far, for both exporters and non-exporters, was identifying clients or partners, and building relationships (Fig. 5.18). Whereas concerns about Intellectual Property did not figure highly at Baltic Creative, I.P. ranked as the second biggest worry at Halton Mill, followed by getting paid and enforcing contracts.

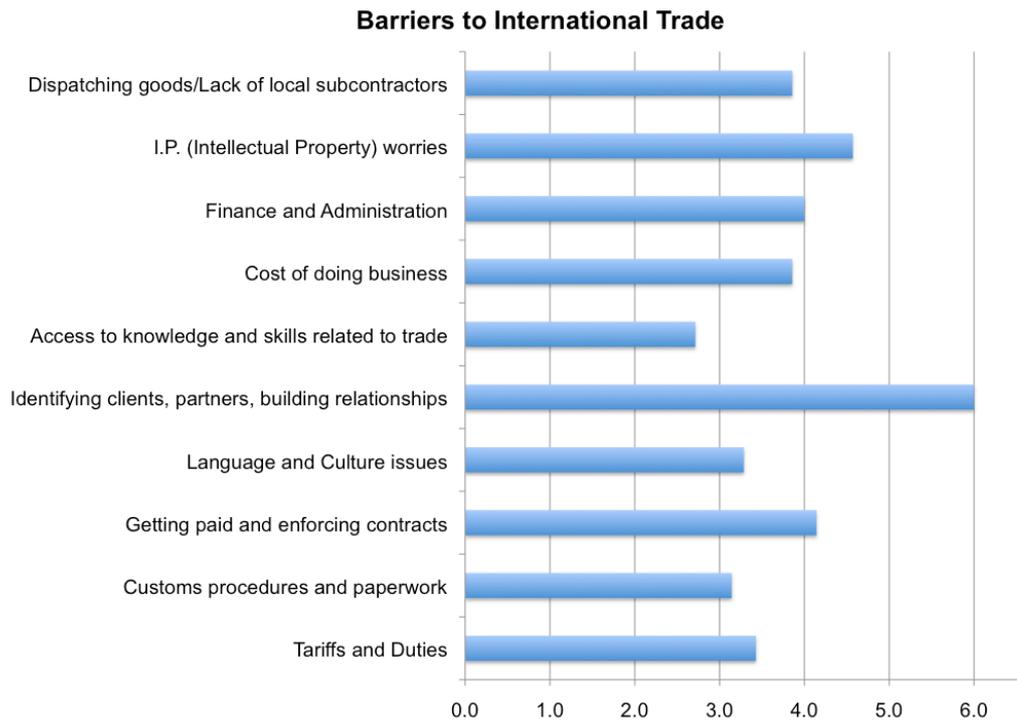


Fig. 5.18. Survey 2 at Halton Mill: Perceived barriers to international trade

5.2.5 Brexit and business confidence

Surveyed and interviewed tenants expressed apprehension about Brexit, even those who did not export. One Survey 2 respondent wrote, “I may not trade internationally, but Brexit will definitely affect me. This is because some of the organisations I work for are impacted by Brexit...eventually this could impact on my getting work or on the type of work I do.” One exporter noted a decrease in business over the past year, putting the apprehension down to Brexit. “Generally, everyone is uneasy and people aren't spending what they were,” he said in an interview. Even those who had benefitted from Brexit expressed concern, with one Survey 2 respondent writing, “It's such a mess. I gave up following it because there was a new development every day. [But] if the pound falls any more it will help me because I get paid in foreign currencies (in Euros and USD).” Others hoped support would be forthcoming once the Brexit negotiations were complete, with one Survey 2 respondent writing, “After Brexit, I'd

like an online course (like I did for GDPR) to know what changes I need to make as a business.”

5.2.6 Significant Findings at Industry Partner 2

Despite its location in a small, rural village in Lancashire, the Halton Mill sample was more involved in international trade than the researcher had expected. More than half of the sample at Halton Mill was involved in international trade. The entire sample consisted of independents and microenterprises. This indicates that neither minimum company size nor cosmopolitan location were a prerequisite for global trade participation at the time of this research.

Furthermore, half of the exporters were making a sizeable proportion of their income overseas, earning over 25 per cent of their annual turnover abroad.

Finally, interviews and written responses to Survey 2 revealed that Brexit uncertainty was a key concern for both international traders and those not trading abroad. This is important because while North America was the most common trade partner, interviews revealed that the EU accounted for the highest volume of trade and foreign income. During interviews, both exporters and non-exporters revealed worries about the impact of the UK's withdrawal from the EU, with one observing a downturn in business due to Brexit uncertainty, but another observing an increase in income due to getting paid in foreign currencies.

5.3 Industry Partner 3: Society1, Preston

Survey 3 and its associated interviews were conducted in Preston at Society1, a small co-working hub with roughly two dozen regular tenants. All were invited to respond to the online questionnaire. A total of ten tenants responded to Survey 3 (of which one was disqualified for not working in the creative industries domain) and nine participated in in-depth interviews. The final sample was too small to present findings as official statistics so results will be presented in numerical form.

The composition of Survey 3 respondents was as follows (Fig. 5.19):

- 3 of the 9 tenants were independents or sole proprietors.
- 4 of the 9 tenants were companies with 1-2 employees or partners. One of these companies, however, regularly subcontracted to numerous independents so the company composition was actually 3 FTE with an additional 4 part-time employees; all these employees were based abroad.
- 2 of the 9 tenants worked remotely for larger firms based elsewhere in the UK. One of these was a company director setting up a Preston branch for a London-based parent company.

The median company size of the total Society1 sample was a firm with 1-2 employees or partners (Fig. 5.19).



Fig. 5.19. Survey 3 at Society1: Company size of total sample

The turnover of the total Survey 3 sample was as follows:

- 1 of the 9 had a turnover of less than £30,000 per annum.
- 2 had a turnover of between £30,000-£50,000 per annum.
- 3 had a turnover of between £50,000-100,000 per annum.
- 1 had a turnover of between £100,000-200,000 per annum.
- 1 was a telecommuter and director of a London-based SME which earned between £500,000-£1 million per annum.
- 1 was a telecommuter to a large UK-based, multi-national group that earned over £3 million per annum.

The median turnover of Survey 3 respondents was £50,000-100,000 per annum (Fig. 5.20).

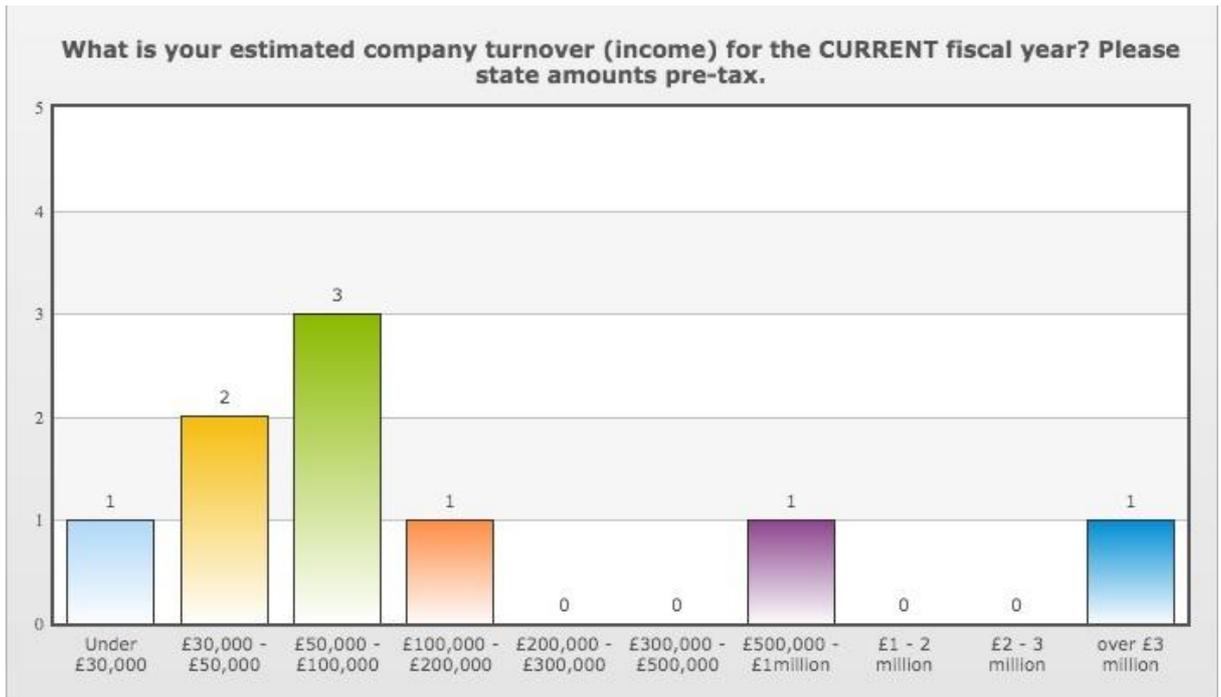


Fig. 5.20. Survey 3 at Society1: Annual turnover of total sample

5.3.1 International Trade Profile

Survey 3 discovered that despite their small company size and turnover, six of the nine tenants worked internationally (Fig. 5.21). Because all international traders derived a proportion of their income abroad, they will henceforth be referred to as Society1's "exporters." The respondent working for the multinational firm was not included in the "exporter" group because he was not a firm owner or senior manager hence his replies would not accurately reflect the international dealings of his firm. His firm was also not an SME.

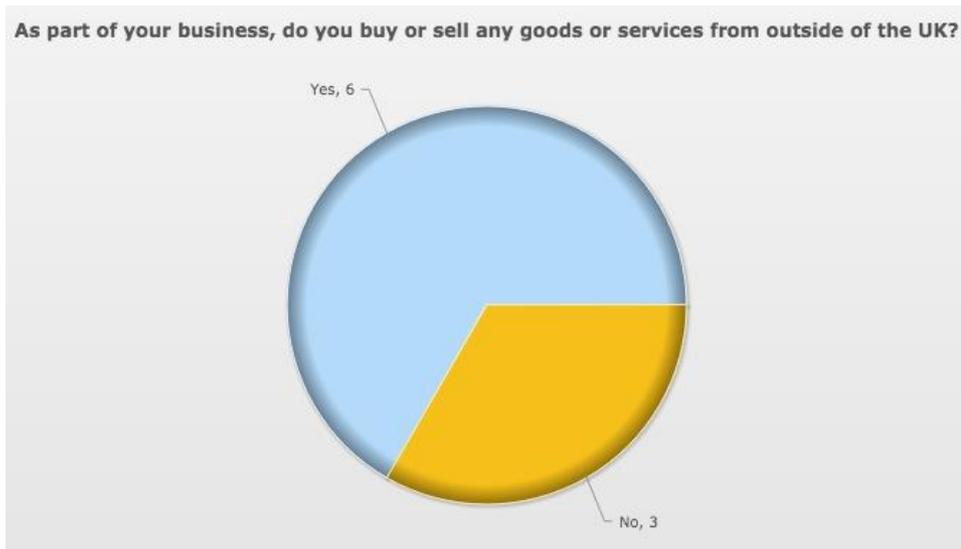


Fig. 5.21. Survey 3 at Society1: Proportion of sample trading internationally

Exporters

Most of the sampled exporters traded exclusively in services, although one traded exclusively in goods (Fig. 5.22).

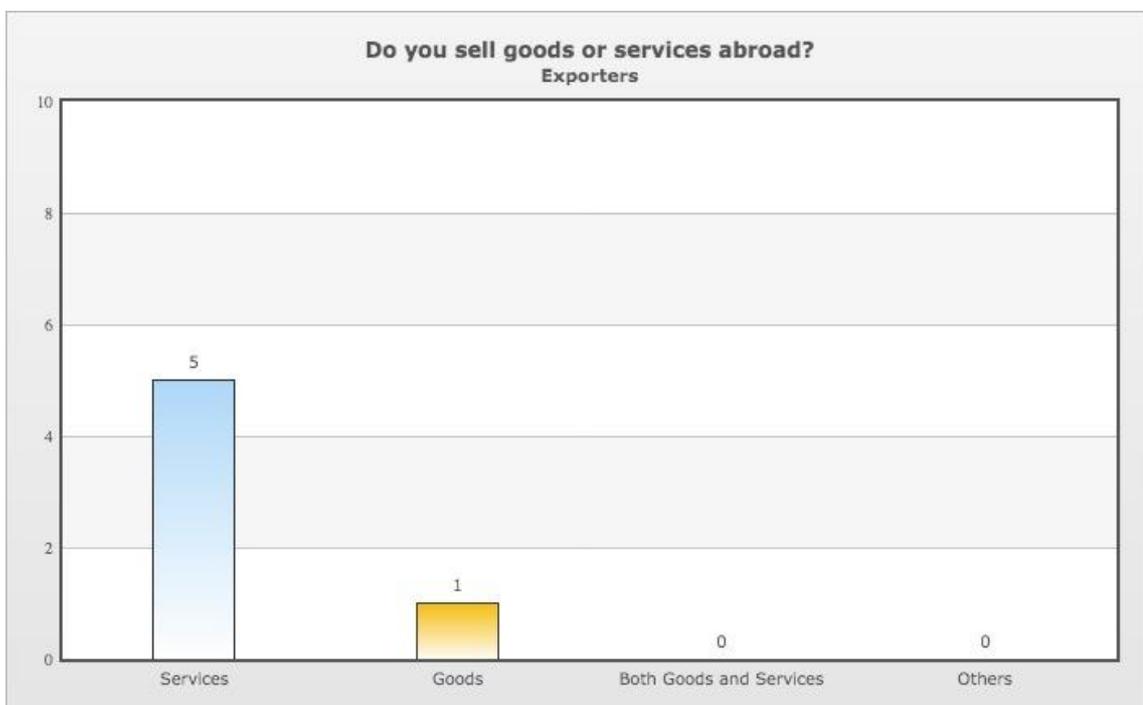


Fig. 5.22. Survey 3 at Society1: Trade composition of exporters

The 6 sampled exporters made a substantial share of their income overseas (Fig. 5.23).

Their foreign income breakdown was as follows:

- 1 exporter earned between 1-10% of total annual income abroad.
- 3 exporters earned between 11-25% of total income abroad.
- 1 exporter earned between 50-75% of total income abroad.
- 1 exporter earned over 75% of total income abroad.

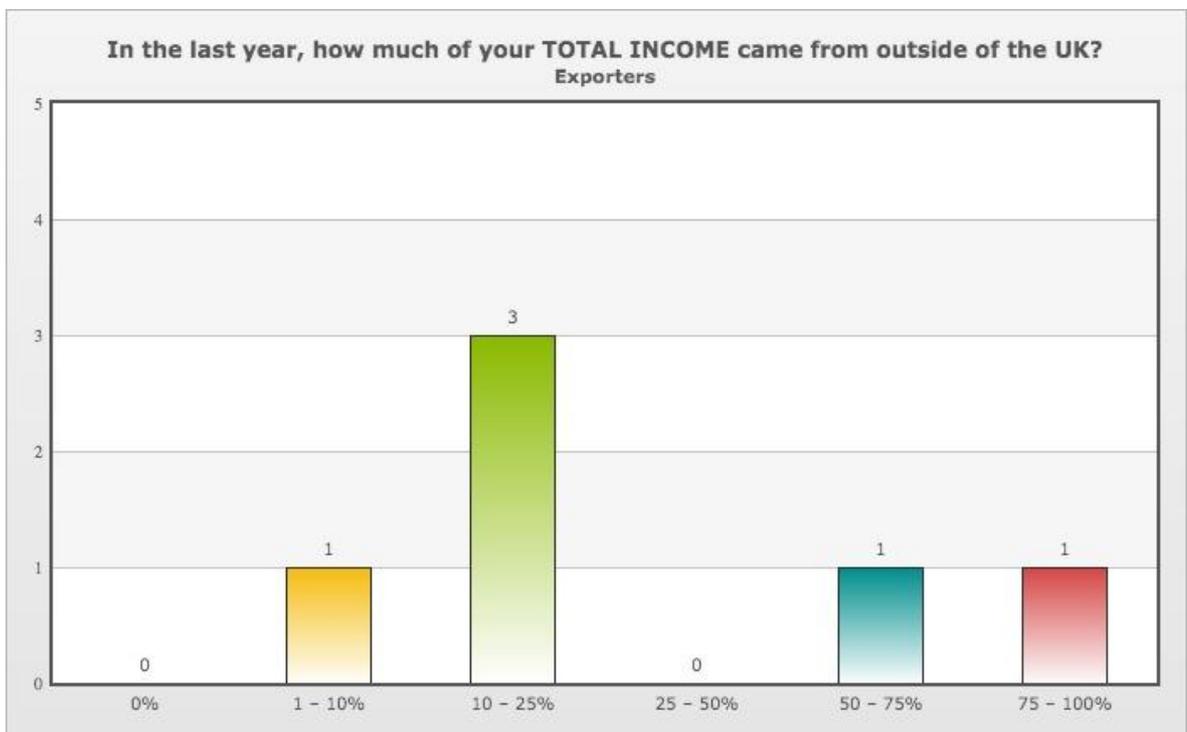


Fig. 5.23. Survey 3 at Society1: Proportion of income exporters generated abroad

Importers

International traders also spent money abroad. Four of the sampled firms imported. They reported almost exclusively importing services, including copywriters and editors in the United States, licensing of American software, attendance of international conferences, and software developers in Europe, Central America and Asia. Their foreign expenditure breakdown was as follows (Fig. 5.24):

- 2 importers spent between 1-10% of their total expenditure abroad.
- 1 importer spent between 25-50% of total expenditure abroad.
- 1 importer spent over 75% of total expenditure abroad.

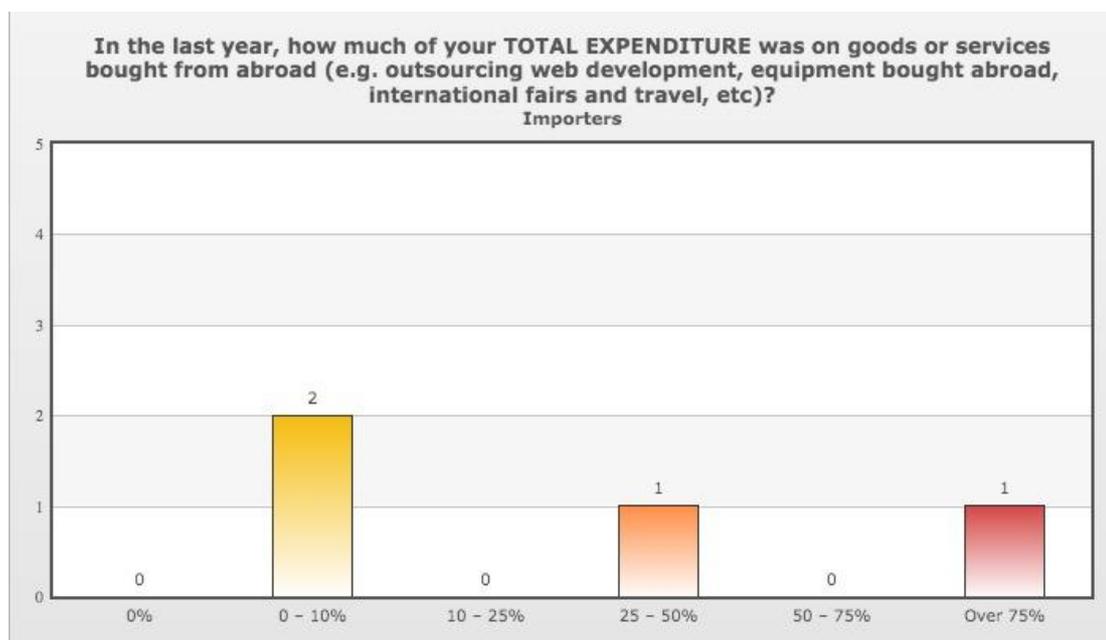


Fig. 5.24. Survey 3 at Society1: Proportion of expenditure importers spent abroad

Between them, the sampled exporters had truly global business reach. While Asia, Africa and Oceania had one trading partner each, almost all the sampled six exporters traded with Europe and half traded with North America (Fig. 5.25).

Several respondents indicated sizeable trade with North America or Australia, but the volume of trade the EU had the highest economic impact in most cases. One exporter and sole proprietor who worked in the US and Europe revealed, "About 60 per cent of my income is from abroad. I have one big client in France who accounts for about 40 to 50 per cent of my income." His income was £50,000 - £100,000 per annum. Another microenterprise owner who made between 10 and 25 per cent of income from exports, earning between £100,000 and £200,000, worked exclusively in the EU. "Just this summer I will be in France, Germany and Lithuania," he said. "I will be in

France five times this summer.” A senior manager of an SME with an income of between £500,000 and £1 million and earning between 1 and 10 per cent of income abroad, said all international business was EU-based: “We work on projects in Denmark, Norway and Belgium.”

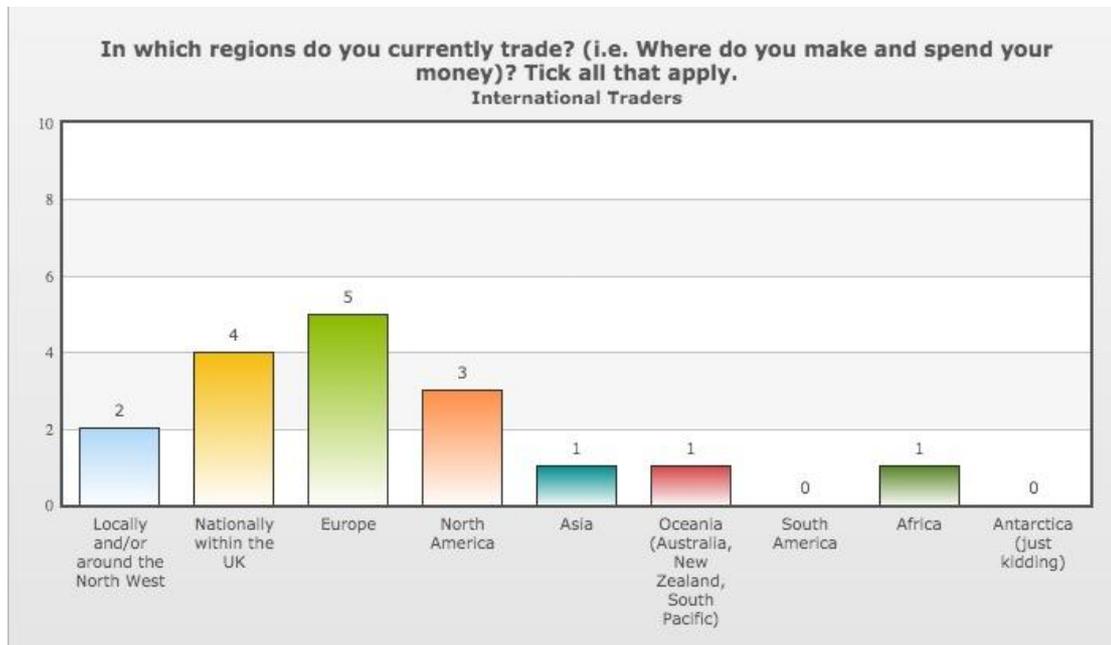


Fig. 5.25. Survey 3 at Society1: Regions where international traders do business

5.3.2 Origins of International Trade

As at Baltic Creative and Halton Mill, most initial international clients or trade partners were found via person contact, with five of six exporters citing this route. In four cases, the initial contact was UK-based, and for one, the client was already abroad. For the one exporter, however, international travel was integral to finding clients: “I went to a training event abroad in the US ... I used to go every quarter and I met several US clients there, including the one who has gone on to be a regular, recurring client.” This micro-firm employed 2-9 FTE, earned £50,000-£100,000 annually, and made 10-25 per cent of income from exports.

Again, as at the two previous creative hubs, the next most common means to stimulating exports was the use of online tools including desk-based research or digital, marketing and sales, with Google AdSense, Instagram and SEO cited as routes. For one, online forums were useful routes to international referrals. These Internet-based channels allowed foreign customers to approach the exporters directly.

Only two exporters had met international customers at trade shows in the UK or abroad. None of the exporters had entered the trade market via official intermediaries such as the Department of International Trade (DIT), by participating in a sponsored trade delegation or by pitching to international tenders. One exporter reported participating in DIT's "Passport to Export" training. She recounted, "they connected me to some people, but none of it resulted directly in sales."

5.3.3 Firm size and exports

As in Baltic Creative and Halton Mill, Survey 3 at Society1 did not find small company size to be a barrier to international trade. In fact, almost all the sampled exporters were independents, sole traders or microenterprises (Fig. 5.26). The median firm size of exporters was between sole proprietor and firms with 1-2 employees or partners (Fig. 5.26), which was the same as the median firm size of the total Society1 sample (Fig. 5.19).

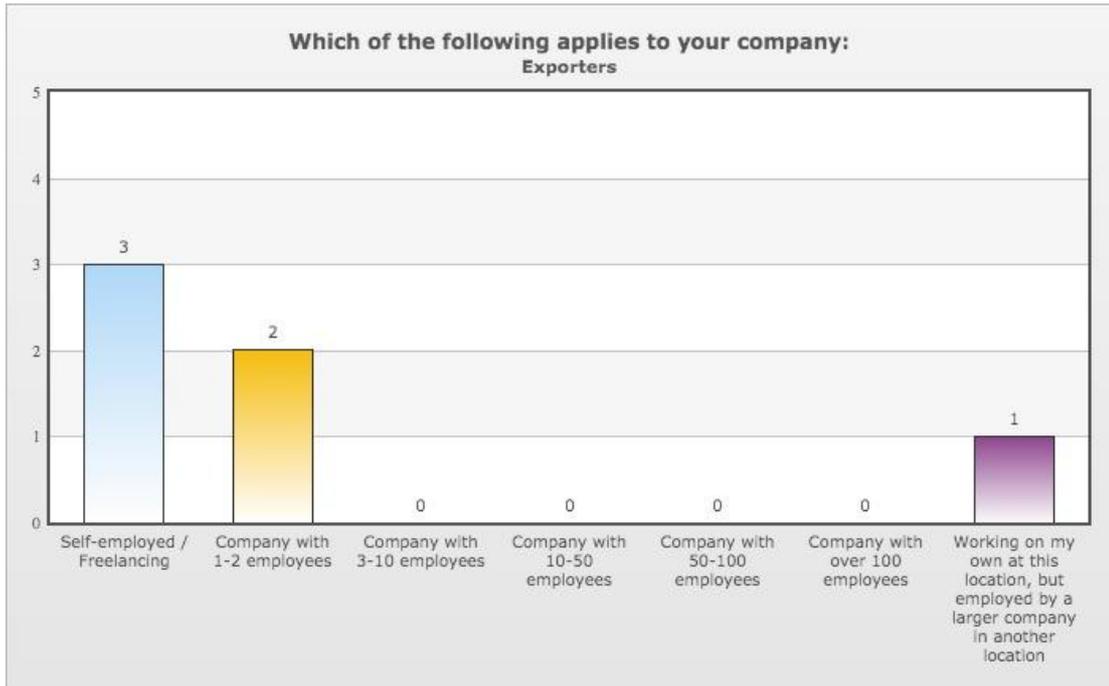


Fig. 5.26. Survey 3 at Society1: Firm size of exporters

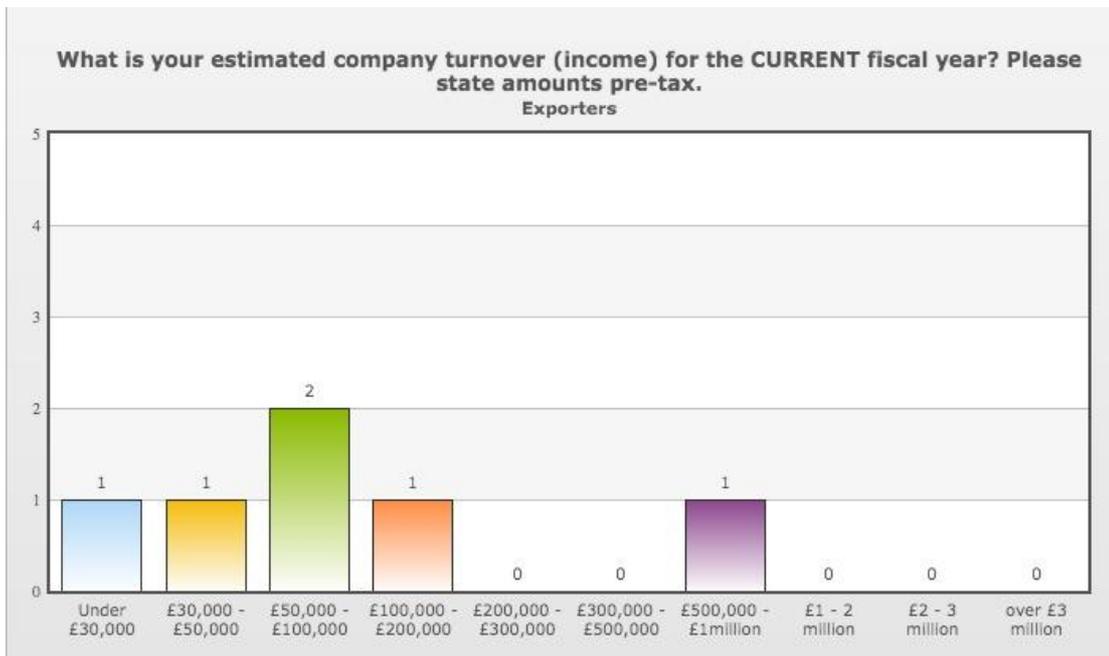


Fig. 5.27. Survey 3 at Society1: Annual turnover of exporters

Even sole proprietor exporters with annual incomes of under £50,000 derived a proportion of their income abroad. The median company income of exporters was £50,000-100,000 (Fig. 5.27), which was the same as the median income of the total Society1 sample.

5.3.4 Trade Barriers

As discussed in Chapter 5: Study Design and Execution, in Survey 3 question 15 regarding trade barriers was slightly modified to include Brexit as one of the multiple-choice responses. Brexit remained high on the list of trade barriers in Survey 3, ranking second. Respondents at Society1, however, expressed the same primary challenge as those at Baltic Creative and Halton Mill: identifying clients or partners, and building relationships abroad (Fig. 5.28). Compared to Baltic Creative and Halton Mill, language and cultural issues were larger concerns, ranking as the third highest barrier to trade.

As one interviewee said, once a new client is acquired, working abroad may not be more challenging than working for clients in other British cities. “I have done design work for clients in London and I've never met them. It's literally like working with someone abroad,” she remarked.



Fig. 5.28. Survey 3 at Society1: Perceived Barriers to trade, total sample

While client acquisition was listed as the biggest trade barrier, during interviews, Brexit remained the most discussed topic of concern. One interviewee saw potential advantages for client acquisition. "Brexit could be an opportunity since the Pound has fallen," he said. "I'm [working on five projects in France]. Other European companies might hire me." All other interviewees, however, were apprehensive and Brexit uncertainty was clearly the biggest worry. One interviewee reported,

"We only have enough work until September [which is 4 months away]. The next Brexit deadline is end of October. There are a lot of clients who are securing planning permission, but are not building yet because they're worried. It's very stop-start right now."

Similarly, another respondent was concerned primarily about policy uncertainty, stating, "The thing that keeps me awake at night is Brexit. Why are we doing this? I just wish it were more clear."

5.3.5 Significant Findings at Industry Partner 3

The Society1 study concurred with previous findings at Baltic Creative and Halton Mill, discovering that more than half of Society1's sample exported. Almost all of the respondents were sole proprietors or microenterprises, with only one SME in the sample. Small firm size did not contradict engagement in international trade.

Furthermore, this trade had a sizeable impact on the firms' annual turnover with most exporters making over 10 per cent of their income abroad. With five of six exporters and importers engaged in trade with the EU, interviews revealed that Brexit uncertainty was a key concern for most exporters at the time.

At Society1, an additional question was posed to the survey respondents: "In the past 12 months, have you collaborated with any other tenants at Society1? This may

include business where you paid/were paid by another tenant, clients referrals, informal discussions that led to new business ideas or practices, etc.” Eight of the nine respondents indicated collaboration with other tenants, some significantly so. One respondent reported a “massive amount of business through Society1,” others indicated several paid-for transactions, and others reported regular informal discussions, which have resulted in business improvements such as faster websites, better graphic design, or moves to different systems. Society1 appeared to foster a positive internal marketplace.

5.4 Industry Partner 4: The Sharp Project, Manchester

Industry Partner 4, The Sharp Project in Manchester, was selected in order to provide a comparison to Baltic Creative, which was roughly similar in size, scope and location. Out of a tenant base of roughly 60, Survey 4 at The Sharp Project garnered 24 responses, which equates to a 40 per cent response rate. Ten in-depth interviews were conducted.

The firm size of the sample was as follows (Fig. 5.29):

- 1 was a contractor or freelancer.
- 3 were microenterprises with 1-2 employees or partners.
- 11 were microenterprises with between 4 and 9 employees.
- 6 were “small” SMEs with between 10 and 50 employees.
- 1 was a “medium” SME with between 51 and 100 employees.
- 2 were “medium” SMEs with over 100 employees (but fewer than 250).
- 1 had recently sold his microenterprise to a large multinational and technically was now an employee; His responses are included because he had in-depth knowledge of the industry and his own firm statistics.

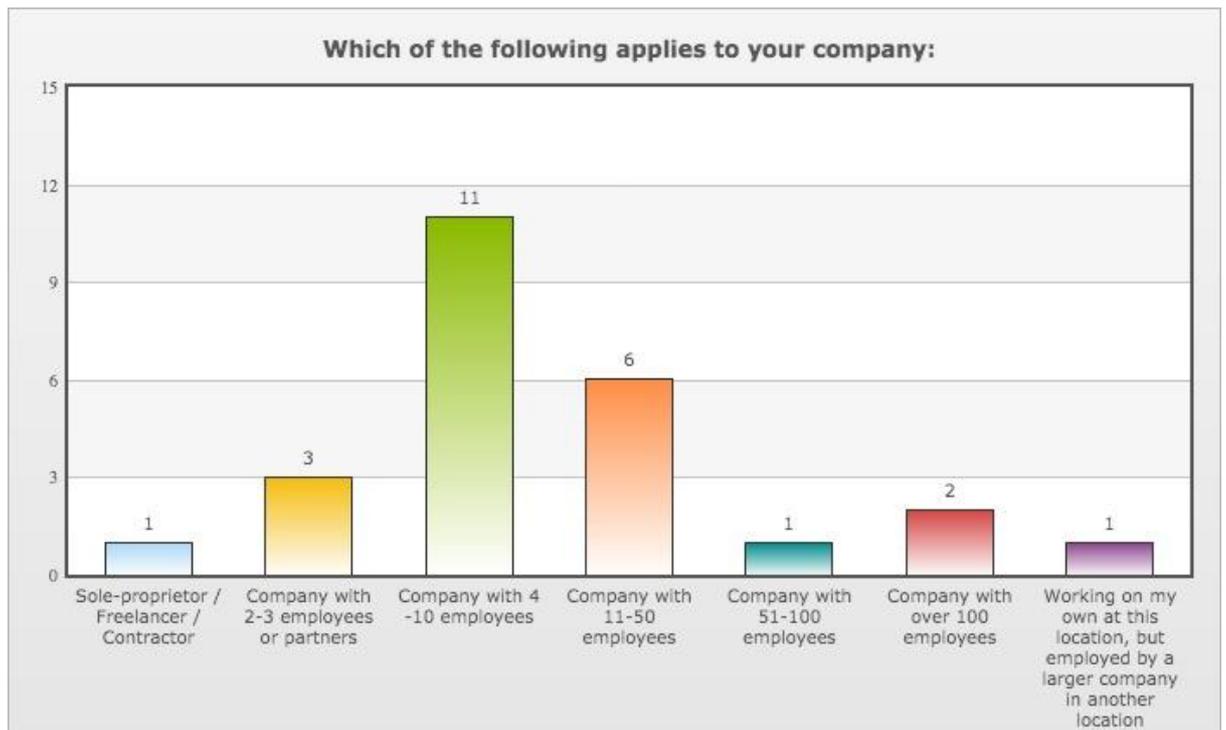


Fig. 5.29. Survey 4 at The Sharp Project: Firm size of total sample

The median company size of the Survey 4 sample was between 4 and 9 FTE (Fig. 5.29), which was larger than with the UK creative industries average of 3.3 FTE.

The Sharp Project sample also had a higher turnover than the average UK creative industries firm. In the UK, 57 per cent of creative industries firms have a turnover of less than £100,000 per annum (Creative Industries Federation, 2019). In The Sharp Project sample, only 4 of the 24 respondents had an annual turnover of less than £100,000. The turnover of the total sample was as follows (Fig. 5.30):

- 1 surveyed tenant had a turnover of under £30,000 per annum.
- 1 had a turnover of between £30,000-£50,000 per annum.
- 2 had a turnover of between £50,000-£100,000 per annum.
- 5 had a turnover of between £100,000-£200,000 per annum.
- 2 had a turnover of between £200,000-£300,000 per annum.
- 2 had a turnover of between £300,000-£500,000 per annum.
- 2 had a turnover of between £500,000-£1 million per annum.

- 2 had a turnover of between £1 – 2 million per annum.
- 1 had a turnover of between £2 – 3 million per annum.
- 4 had a turnover of over £3 million per annum.

The median company turnover of the total Sharp Project sample was between the bands of £200-300,000 and £300-500,000. This was higher than the typical UK creative industries firm where only 12 per cent have a turnover of over £250,000 (Creative Industries Federation, 2018).

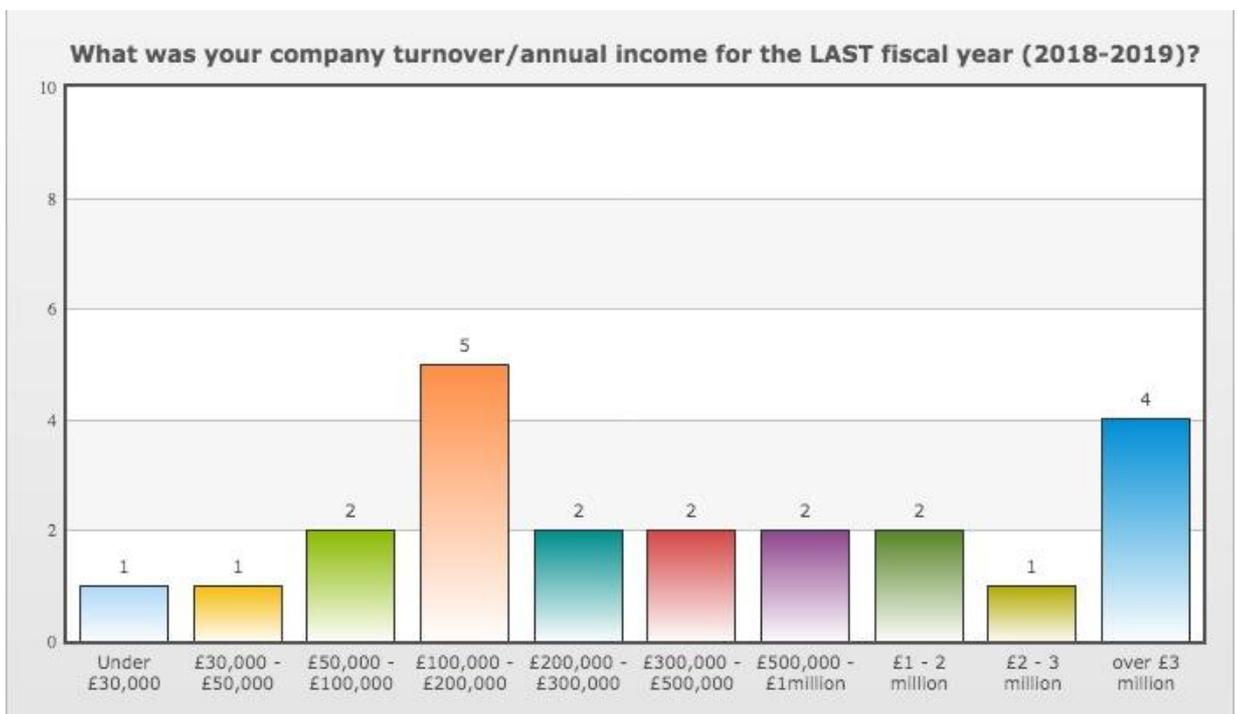


Fig. 5.30. Survey 4 at The Sharp Project: Annual turnover of total sample

5.4.1 International Trade Profile

Of the 24 surveyed tenants, 21 were involved in international trade (Fig. 5.31a).

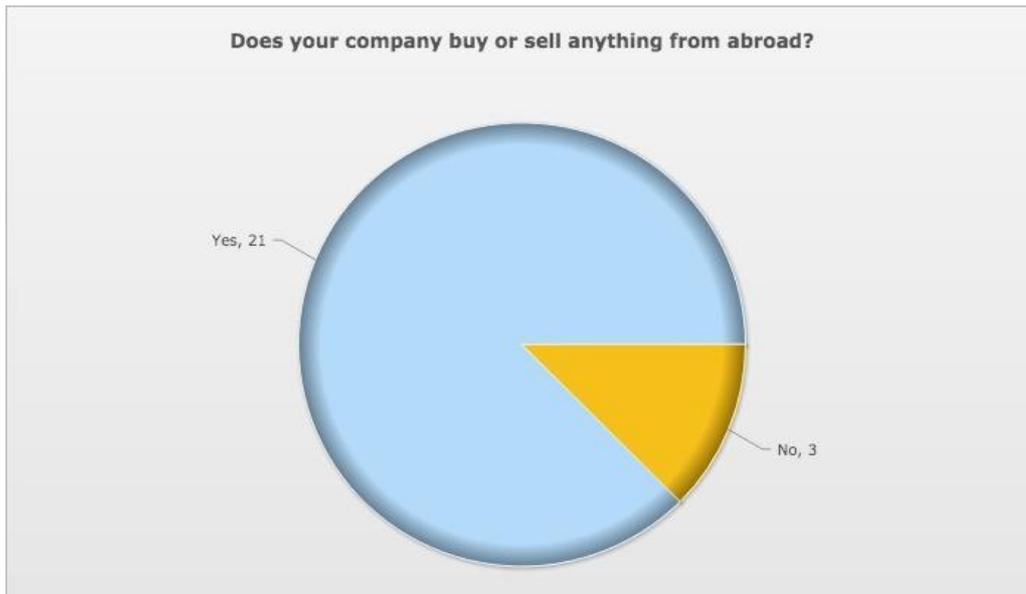


Fig. 5.31a. Survey 4 at The Sharp Project: International trade engagement of total sample

As a proportion, The Sharp Project sample was more engaged in international trade than the other three industry partner samples. The international trade composition of The Sharp Project sample, however, was different and interesting in relation to trade theory.

The Sharp Project's sampled firms had more employees and higher annual turnover than those in the other three samples, so trade theory would predict a higher engagement in international trade, which was the case. However, these larger firms were also much more likely to be *importing* only. At The Sharp Project, 21 respondents were involved in international trade, but only 11 both imported and exported, three only exported, and seven only imported (Fig. 5.31b). Of the seven importers, only four expressed a desire to begin exporting in the near future.

At the other three industry partners, more respondents were exporting than importing. At The Sharp Project, however, the opposite was true. Survey 4 found 18 companies importing as opposed to 14 exporting. As such, at The Sharp Project "international traders" could not be called "exporters" for simplicity's sake. This

discovery indicates that importing is an equally important facet of international trade for this sample of creative industries.

International Trade Profile

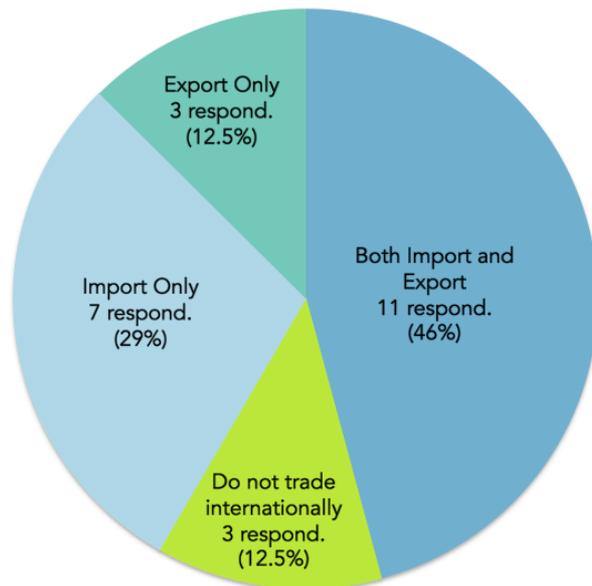


Fig. 5.31b. Survey 4 at The Sharp Project: International trade profile of total sample

Importers

Importers spent money abroad mainly on services (16 respondents) with only 2 respondents importing goods and services (Fig. 5.32). The relatively high number of importers may have been because many firms in The Sharp Project sample were digital companies. Software and licensing were the most common imports. Other typical foreign expenditure was travel, outsourcing of software development, marketing, and hardware.

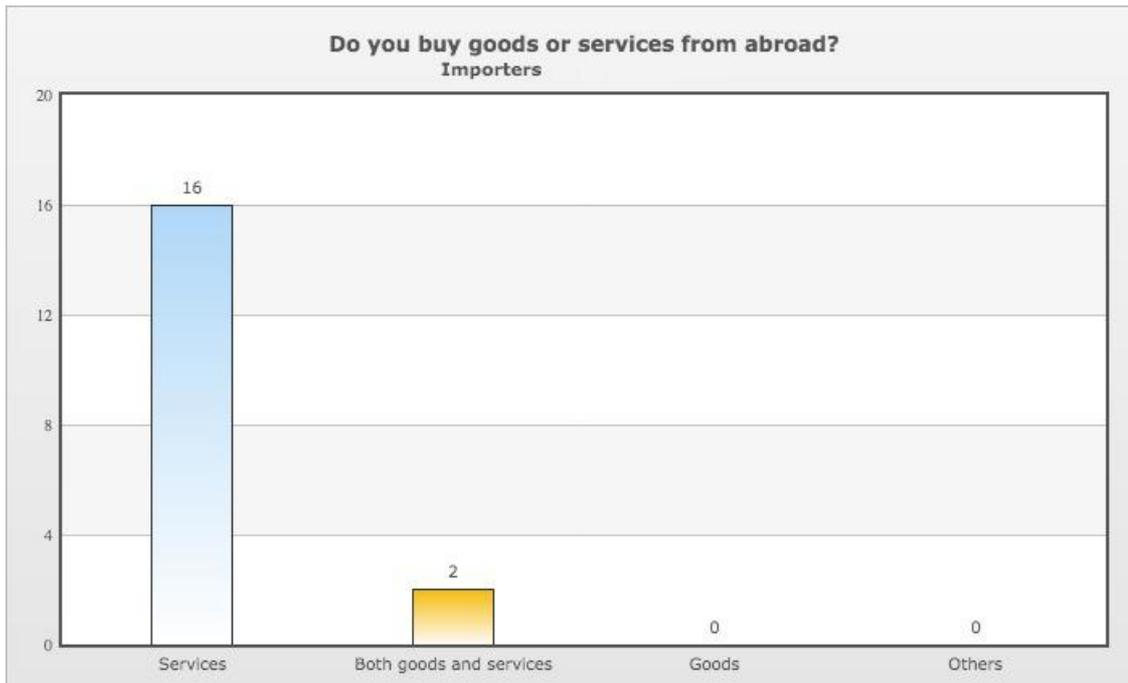


Fig. 5.32. Survey 4 at The Sharp Project: Type of expenditure importers made abroad

The foreign expenditure of importing companies was as follows (Fig. 5.33):

- 17 respondents spent between 1-10% of their total expenditure on foreign purchases.
- 1 respondent spent between 11-25% of total expenditure on foreign purchases.

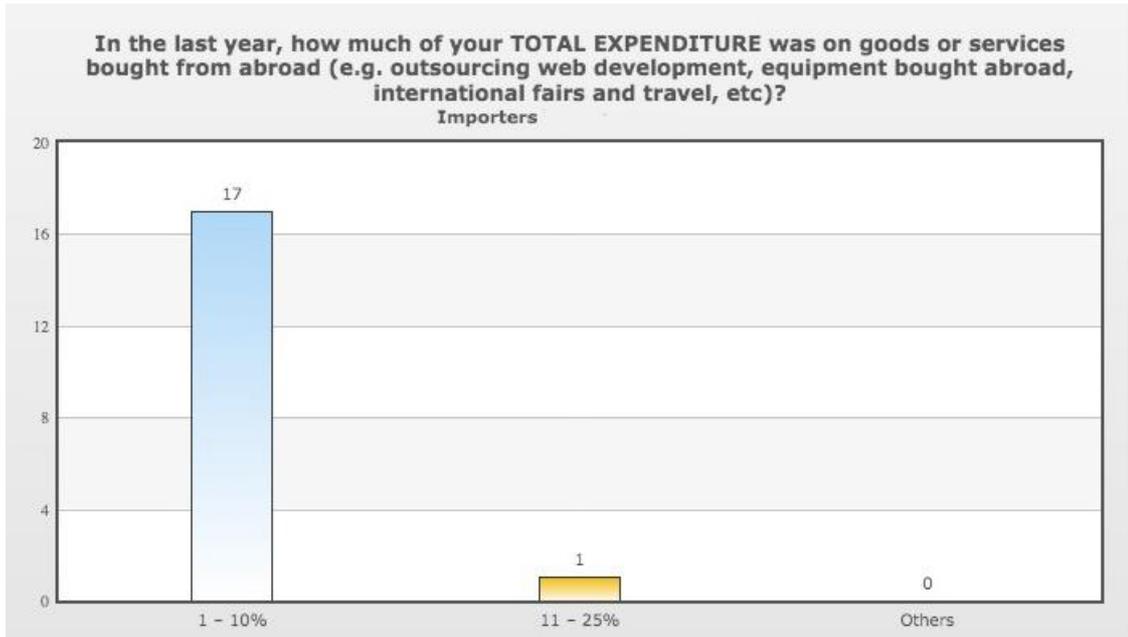


Fig. 5.33. Survey 4 at The Sharp Project: Proportion of expenditure importers spent abroad

Trade Partners

The most common trade location was the UK itself (18 respondents), with those trading in the region following closely behind (15 respondents).

Just behind with 14 respondents, Europe was the most common international trade partner. North America and Asia each claimed 7 trade partners, Oceania counted 4 trade partners, Africa had three trade partners, whilst South America registered two trade partners (Fig. 5.34).

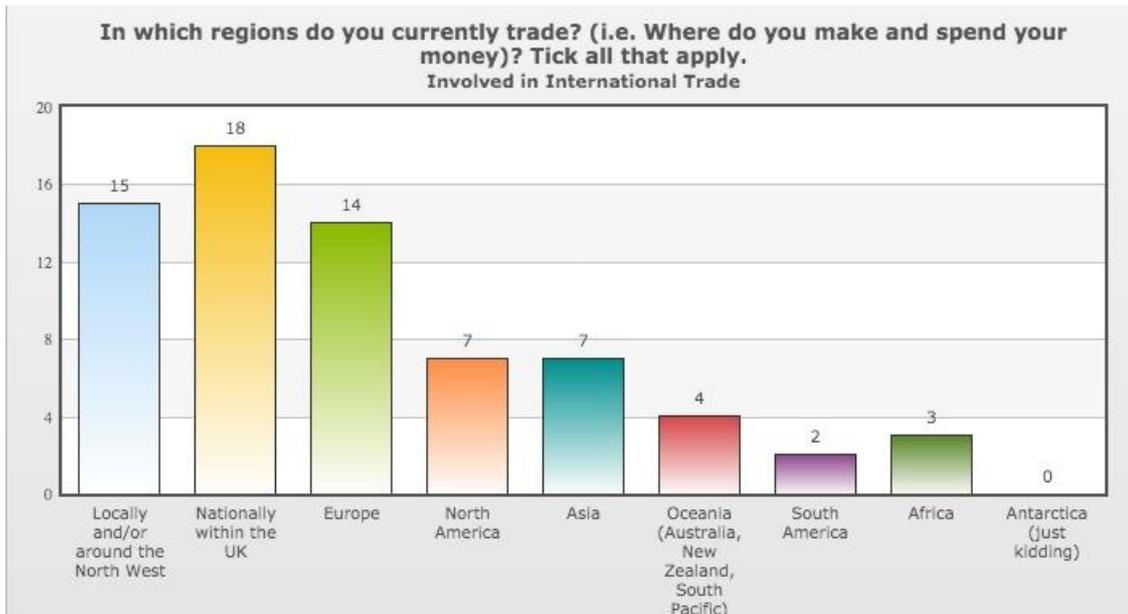


Fig. 5.34. Survey 4 at The Sharp Project: Regions where international traders do business

Exporters

The 14 exporters predominantly sold services abroad, with only one exporting both goods and services (Fig. 5.35).

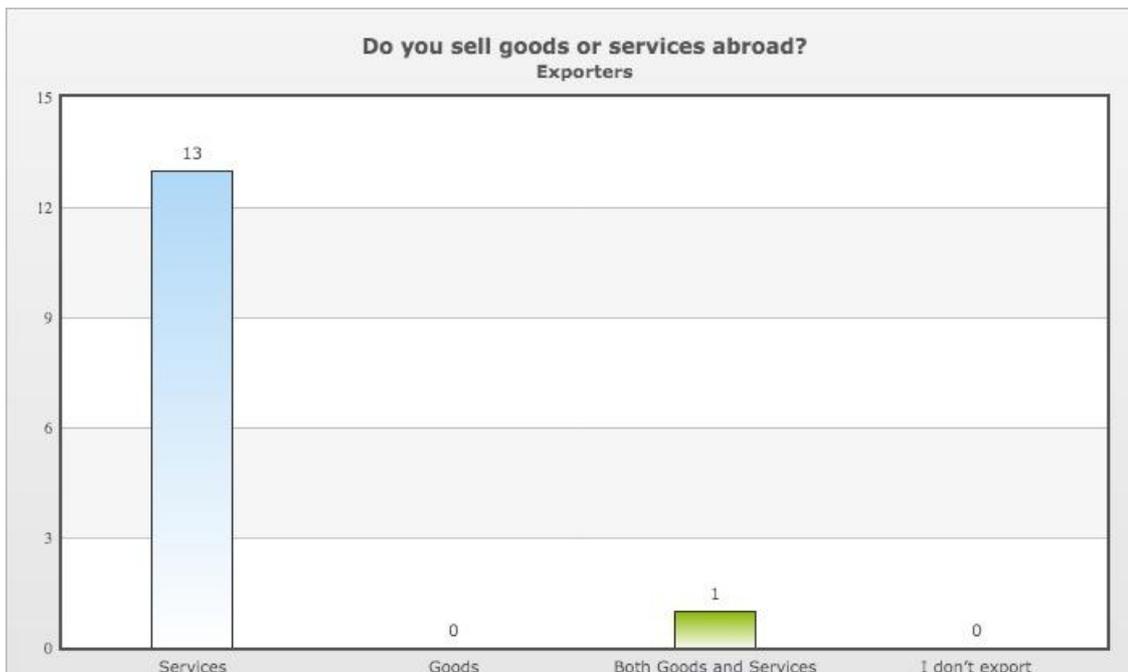


Fig. 5.35. Survey 4 at The Sharp Project: What exporters sell abroad

The Sharp Project's exporters again made a considerable share of their income overseas (Fig. 5.36). The breakdown of foreign income as a percentage of exporters' turnover was as follows:

- 6 earned between 1-10% of total income abroad.
- 5 exporters earned between 11-25% of total income abroad.
- 2 exporters earned between 25-50% of total income abroad.
- 1 exporter earned over 50% of total income abroad.

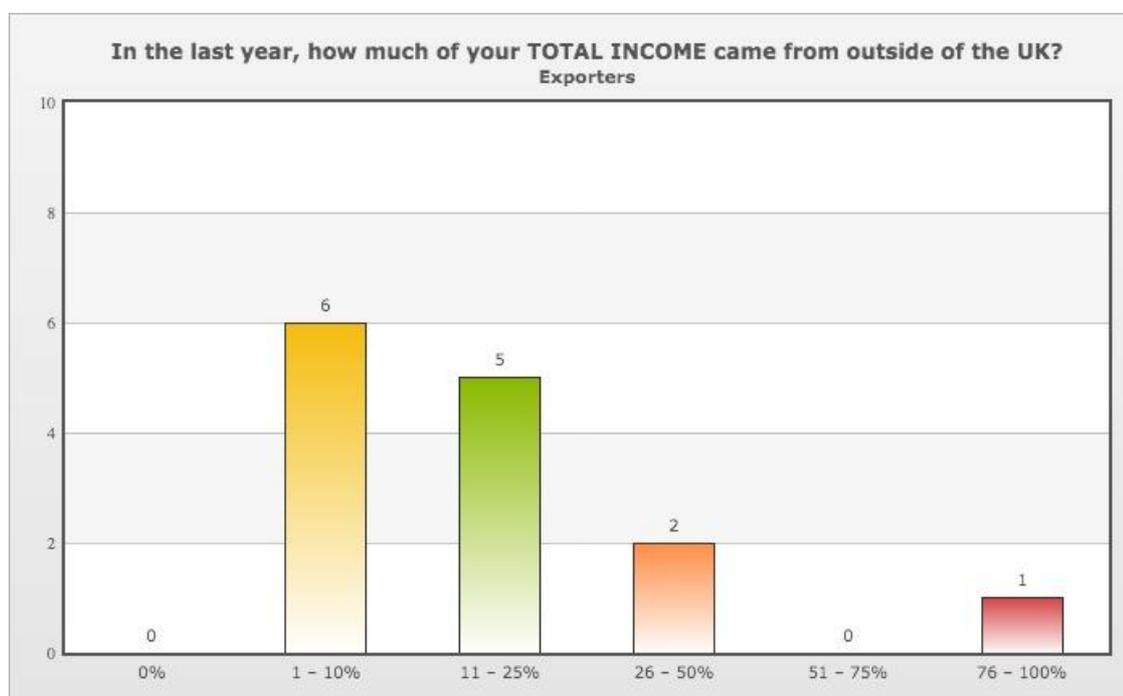


Fig. 5.36. Survey 4 at The Sharp Project: Proportion of income exporters generated abroad

In the sample that both imported and exported, foreign income outweighed foreign expenditure as a percentage of turnover. This finding was consistent with the UK's broader creative industries. The creative industries is one of the few UK sectors that can boast a trade balance surplus, meaning its firms make more money abroad than they spend abroad (DCMS, 26 July 2017). In general, the UK has a trade balance deficit, importing more than it exports (ONS, 31 July 2018).

Of the 24 survey respondents, three did not participate in international trade and none of these intended to begin. One of these company owners expressed concerns about turning his attention to the international field, although he did not rule it out entirely:

"It's easy to have ideas about growth and expansion, but often it's just a distraction. It just creates more work without bringing in more benefits. ...[Our] clients benefit more from us having more offices within the UK. We'd first look to [expanding in] other regions of the UK. We had staff [members] who wanted to move North so we opened in Manchester. If we had a member of staff who was moving abroad to Paris and wanted to set up an office there, we'd be supportive. We have phases where we can look to expand and other phases where we must consolidate...What do overseas offices add to the overheads? Local knowledge is key."

Of the seven respondents who imported only, four indicated a desire to begin exporting. One had concrete plans for moving into foreign markets. "We will be launching the product in the Middle East next year," he said. Another company owner indicated that she intended to work in India and Ireland in the next year or two.

5.4.2 Origins of International Trade

As with the other three samples, initial international clients or trade partners were found via person contacts, with almost half of exporters citing this route. At The Sharp Project, UK-based and internationally based contacts were equally important. In two cases international clients had studied in the UK and then returned abroad, taking their UK-based business partners with them. Another microenterprise owner reported,

"Almost all of our work abroad is through personal contacts. Some are UK contacts who have since moved abroad, and invited us in to work with their

clients within the country they are living. Also, commonly we will be involved with the UK marketing department of a global brand, and we will be recommended to the marketing department in another country and begin work with them.”

As at the other three creative hubs, the next most common means to stimulating exports was the use of digital tools such as online marketing and sales. One microenterprise owner said, “We advertise on Facebook, Instagram, etc. International clients normally approach us. We now have an international reputation. We speak regularly at conferences and we live-stream a lot.”

The third most common route to finding international clients was via trade shows in the UK and abroad, via trade an intermediary such as the DIT, or by responding to international tenders. Exporters were more likely to have met clients via these official channels than at the previous three hubs. This may be due to the business mix and the prevalence of larger firms at The Sharp Project. This approach was, again, far less common than personal contacts and digital tools such as SEO, online marketing and sales.

5.4.3 Firm size and exports

Undertaking an intra-hub analysis reveals that sampled exporters at The Sharp Project again employed more workers and had a higher turnover than the total sample at The Sharp Project. While the median company size of the total sample sat squarely in the 4–9 FTE band, the median company size of the sampled exporters was slightly higher, sitting between the bands of 4–9 FTE and 10–50 FTE (Fig. 5.37).

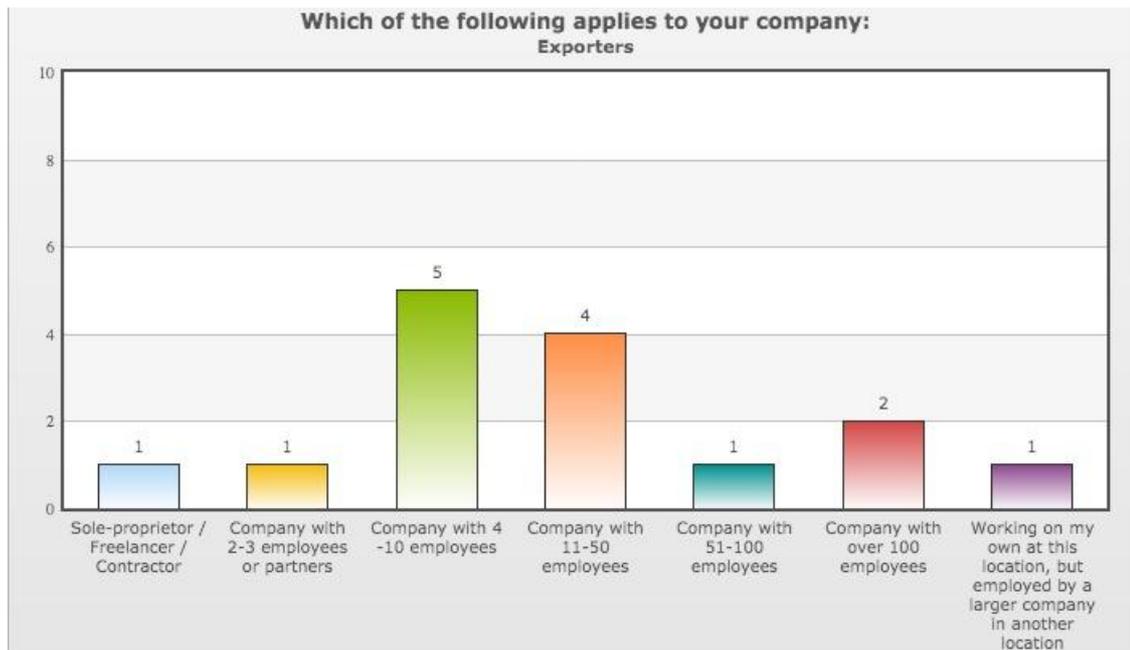


Fig. 5.37. Survey 4 at The Sharp Project: Firm size of exporters

Similarly, the sampled exporters had a higher turnover than the total sample at The Sharp Project. The median income of all firms was between the £200-300,000- and £300-500,000-income bands. The median income of sampled exporters, however, was slightly higher, falling into £300-500,000-income band (Fig. 5.38a). In contrast, sampled non-exporters earned less than The Sharp Project median with an average turnover of only £100-200,000 (Fig. 5.38b).

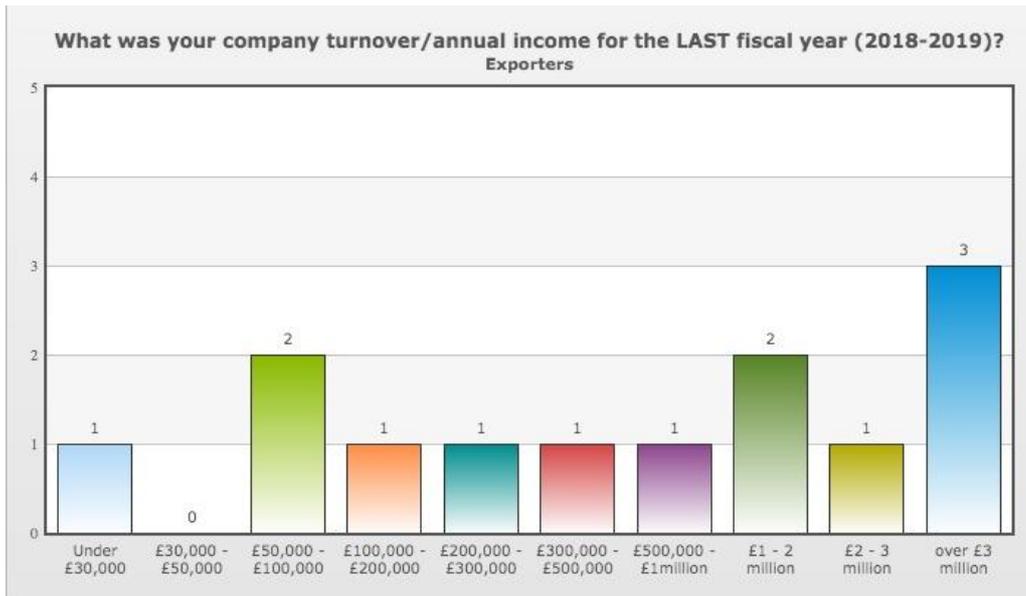


Fig. 5.38a. Survey 4 at The Sharp Project: Income of exporters

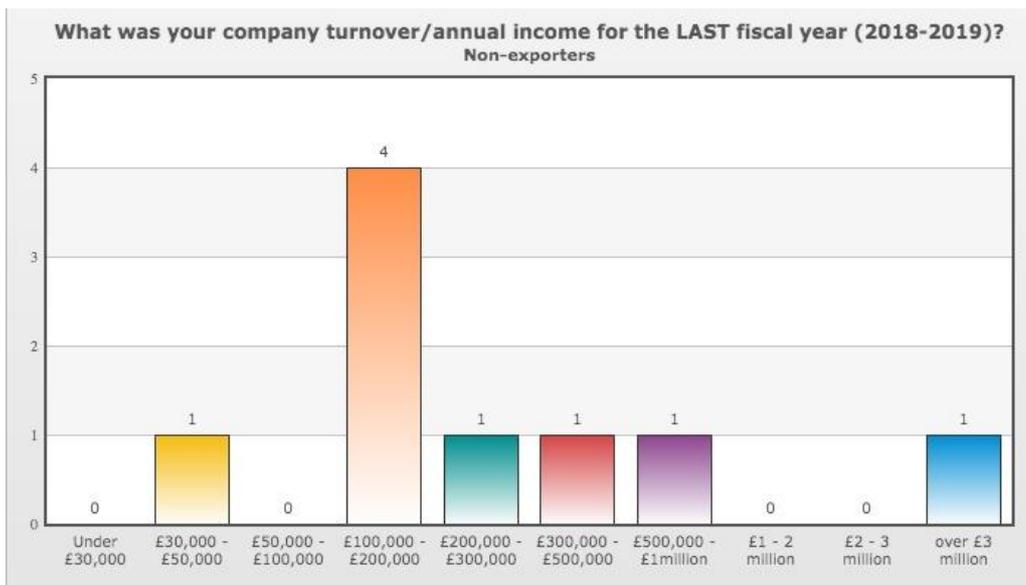


Fig. 5.38b. Survey 4 at The Sharp Project: Income of non-exporters

The EU was an important trade partner for the sampled tenants with 14 of the 24 respondents trading with Europe. In comparison, North America and Asia tallied only 7 traders each. Furthermore, the volume of trade was highest with the EU. As one microenterprise with an export income of 20 per cent, exclusively earned in the EU said, "It's frictionless for us to do that work."

5.4.4 Trade Barriers

As in Survey 3, Survey 4 again included “Brexit uncertainty” as one of the potential barriers to trade in the multiple-choice responses. Again, Brexit was listed at the bottom of the “barriers to trade” list to avoid highlighting it as a possible barrier instead of an opportunity. When asked to rate their barriers to trade, however, respondents put Brexit at the top of the list (Fig. 5.39). The second biggest challenge to international trade, and only by a small margin, was the main challenge identified by respondents to Surveys 1-3: identifying international clients, partners, and building relationships abroad. Third on the list of barriers to trade was an issue specific to importing and exporting: customs procedures and paperwork. As one interviewed senior manager said, “[Because our major clients are foreign], we have to learn what happens within their system. It takes time to learn this.”



Fig. 5.39. Survey 4 at The Sharp Project: Barriers to international trade

Next on the list of barriers to trade were language and cultural issues. As one tenant mentioned, “[One challenge is] awareness in the new markets. For example, how do you get Canadians to understand the product?”

Other notable barriers to trade included tariffs or duties and the cost of doing business abroad. Other issues such as I.P., enforcing contracts, and getting paid were not high on the list of concerns. As one tenant noted, working for international clients is often not more challenging than working for clients in other British cities: “We have barriers to trade within the UK. It took me 4 hours to get to Swindon the other day. I could have been somewhere hot and lovely in 4 hours.”

Once trade barriers had been overcome, those exporting noted other positive externalities to trading internationally. As one exporter said, “The [income from the] international side of the business is disproportionately higher than the local work because [the jobs] usually cover a few days, they might involve more staff, they’re for bigger ticket events... So, although we do fewer of them than local UK [jobs], they account for disproportionately more of the turnover (e.g., if they take 10% of the time, they make up 15% of the income).” So, while “hot and lovely” weather might spur some, hard-boiled business pragmatism was still the primary motivation for other exporters.

5.4.5 Significant Findings at Industry Partner 4

As a proportion of the total surveyed sample, The Sharp Project’s respondents reported more international engagement than at the other three industry partners. Interestingly, more firms reported importing than exporting with 18 respondents importing as opposed to 14 exporting. This was the converse of the other industry partners where more of the sample exported than imported. The Sharp Project sample emphasises the need to take imports into consideration when designing trade policy.

While the sample at The Sharp Project consisted of notably larger firms than that of the other three industry partners, almost all the respondents fell into the category of microenterprise or SME, employing fewer than 250 people and earning under £36 million.

Europe was the dominant trade partner, with Asia and North America claiming half as many trade partners amongst The Sharp Project sample. In both the survey and interviews, internationally trading tenants expressed worries stemming from Brexit, putting it at the top of their barriers to trade.

As at Society1, The Sharp Project survey included the additional question, "In the past 12 months, have you collaborated with any other tenants at The Sharp Project? This includes instances where you hired or were hired by another tenant, informal discussions that led to new business ideas or practices, client referrals, etc." The Sharp Project fostered business or amongst tenants with 68 per cent of the sample (15 of 23 firms) reporting informal or formal business interaction. This, however, was lower than tenant interaction rates Society1 where almost all of the sample indicated collaboration. This may be because The Sharp Project tenants were significantly larger with a median staff size of 4-9 FTE (as compared to a median firm size of 1-2 FTE at Society1) meaning that they may have employed specialised staff instead of outsourcing to or collaborating with other tenants.

5.5 Consolidated results from all industry partners

Combining the results from all four industry partners produced a total of 89 complete survey responses and 33 interviews.⁸ This “combined sample” consisted entirely of self-employed independents/sole proprietors, microenterprises employing 2-9 FTE, and small-to-medium sized enterprises (SMEs) employing 10-250 FTE. Table 5.1 summarises the composition of the consolidated sample.

Table 5.1: Breakdown of consolidated sample

Firm size	Total combined sample	Trading internat'ly (importing and/or exporting)	Exporting	Exporters earning >50% of annual income abroad	Exporters earning 11-50% of annual income abroad	Exporters earning 1-10% of annual income abroad
Independents or sole proprietors (1 FTE)	26 (29 % of total sample)	17 (65% of independents)	15 (58% of independents)	8 (53% of freelance exporters)	5 (33% of freelance exporters)	2 (13% of freelance exporters)
Micro-enterprises (2-9 FTE)	48 (54 % of total sample)	37 (77% of micro-enterprises)	31 (65% of micro-enterprises)	8 (26% of micro-enterprises)	14 (45% of micro-enterprises)	9 (29% of micro-enterprises)
SMEs (10-250 FTE)	15 (17 % of total sample)	14 (93% of SMEs)	13 (87% of SMEs)	1 (7% of SME exporters)	8 (61% of SME exporters)	4 (31% of SME exporters)
Total	89 (100%)	68 trading internat'ly (76% of total sample)	59 exporting (66 % of total sample)	17 (29% of all exporters)	27 (46% of all exporters)	15 (25% of exporters)

5.5.1 International trade patterns of the consolidated sample

The research found many more creative industries firms conducting international trade than official statistics indicate. While official figures report that only 18 per cent of creative industries trade internationally (DCMS, 14 February 2018), this research found that 76 per cent of the combined sample of SMEs, microenterprises and independents

engaged in international trade (see Table 5.1).

In the combined sample, 50 per cent engaged in importing and exporting, 16 per cent only exported, 10 per cent only imported and 24 per cent did not engage in international trade (Fig. 5.40).

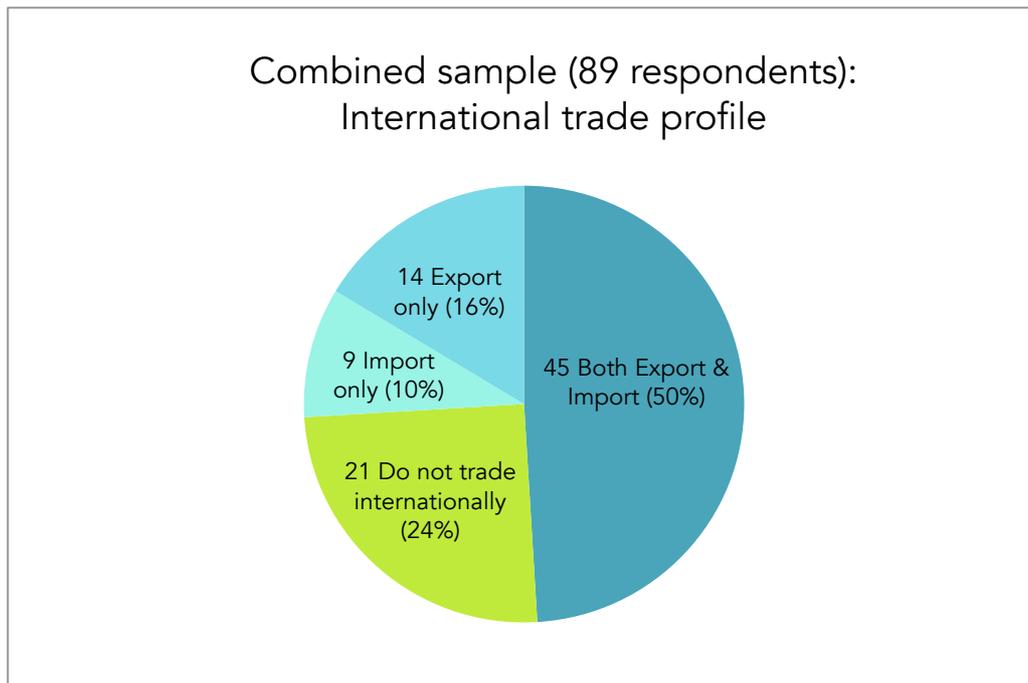


Fig. 5.40. Combined sample: International trade engagement

5.5.2 Importers and Exporters

From the combined sample of 89 firms, 54 firms (60 per cent) imported. This aspect of the creative industries' international trade was not more thoroughly researched because exports were the main concern of the *Industrial Strategy* and *Creative Industries Sector Deal*, and hence this study. Given that so many of the surveyed firms were importing, however, imports merit closer consideration and will be examined in Chapter 6: Discussion.

The 59 firms engaged in exporting (66 per cent) will henceforth be called “exporters.” The research found that exporters generated a substantial proportion of their total annual income (or ‘turnover’) abroad (Fig. 5.41): 17 of the 59 exporters (29 per cent) made over 50 per cent of annual turnover (income) abroad, 27 exporters (46 per cent) made 11-50 per cent, and 15 exporters (25 per cent) made less than 10 per cent of income overseas (Fig. 5.41).



Fig. 5.41. Combined sample: Proportion of income exporters generated abroad

The majority of international traders in the sample bought and sold services. In the combined sample, only 32 international traders indicated their trade type. Of these, however, most sold services with 69 per cent exclusively buying and selling services, 29 per cent trading in goods and services, and 3 per cent involved only in goods trade (Fig. 5.42).

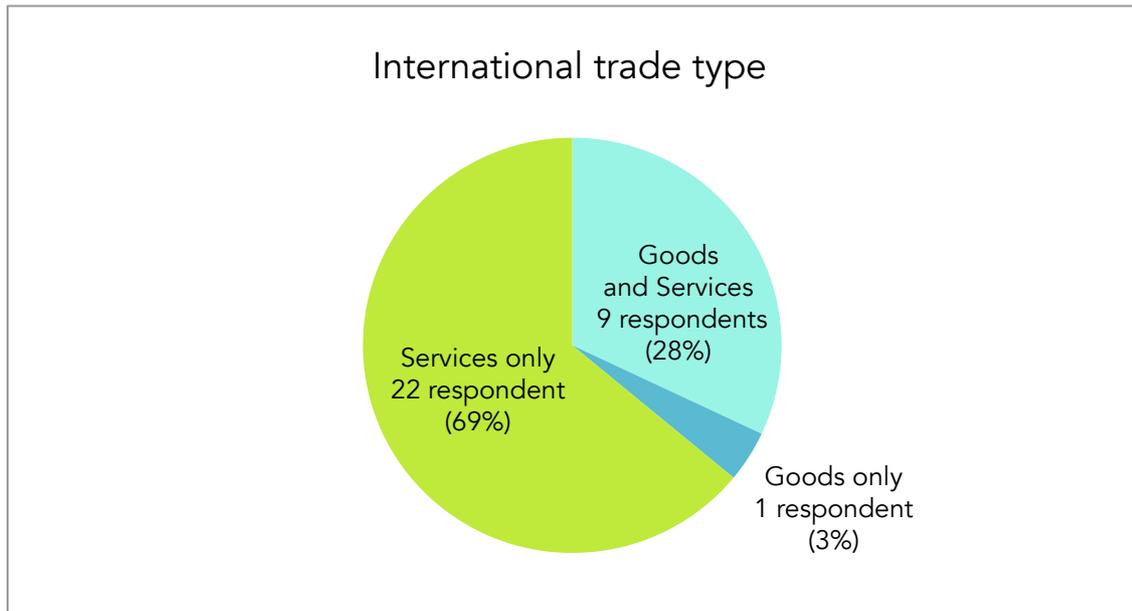


Fig. 5.42. Combined sample: International trade type (goods vs. services)

5.5.3 Trade theory and the combined sample

It is important to note that the independents and firms at the four research sites were a self-selecting sample. None of the creative hubs were charities offering free space to their tenants, nor were they accelerators or incubators giving young companies office space in exchange for company stocks and shares. All study participants were paying market rates for rent. It is possible, therefore, that the sample was more successful than the average creative industry firms or independents. Respondents were able to afford paying rent rather than working from cafés or from home. Then again, working in a creative hub may, in-turn, have made them more productive and economically viable due to the support and potential partners, clients or work atmosphere located therein.

Consequently, it is important to undertake a meta-analysis, measuring all surveyed tenants against each other to see if any of the rules of international trade theory apply. Were these exporting firms "larger, [did they] employ more workers, use more capital,

pay higher wages, use more skilled workers, and are more productive”? (Van Marrewijk, 2017).

Those trading internationally did, in fact, have higher turnover. Those not involved in international trade had a median annual income of between £50,000-£100,000 GBP while those trading internationally had a median turnover of £100,000-£200,000 GBP (Fig. 5.43).

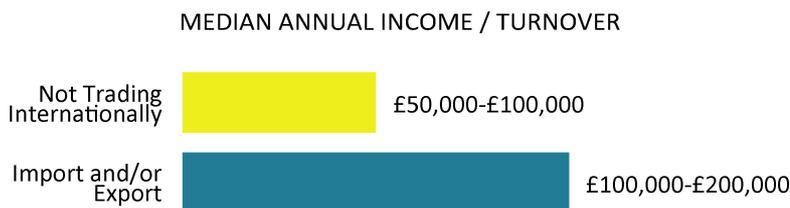


Fig. 5.43. Combined sample: Median annual income

In terms of the theory that exporters “employ more workers,” however, the rule did not hold. Both those trading and not internationally had a median company size of 2-3 FTE (Fig. 5.44). This was slightly lower than the national creative industries average of 3.3 FTE (Bazalgette, September 2017).

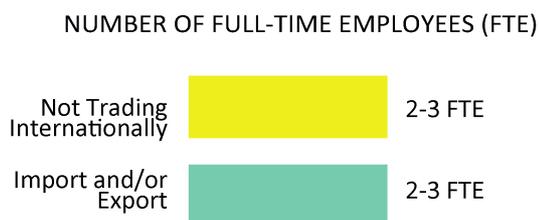


Fig. 5.44. Combined sample: Median firm size

As this does not describe the trading patterns of firms according to their firm size, however, it is useful to disaggregate the findings by firm size according to FTE. The combined sample will be broken down into three “cohorts” by firm size:

- SMEs employing 10-250 FTE.
- Microenterprises employing 2-9 FTE.
- Independents or sole proprietors employing only themselves.

5.5.4 SMEs (employing 10-250 FTE)

As trade theory would predict, almost all the 15 “larger” SME firms in the combined sample were involved in international trade (Fig. 5.45). One did not engage in international trade, one imported only, three exported only, and 10 imported and exported. These “larger” firms, however, were still considered “small” or “medium” SMEs because they employed between 10 and 250 people (Companies Act, 2006b).

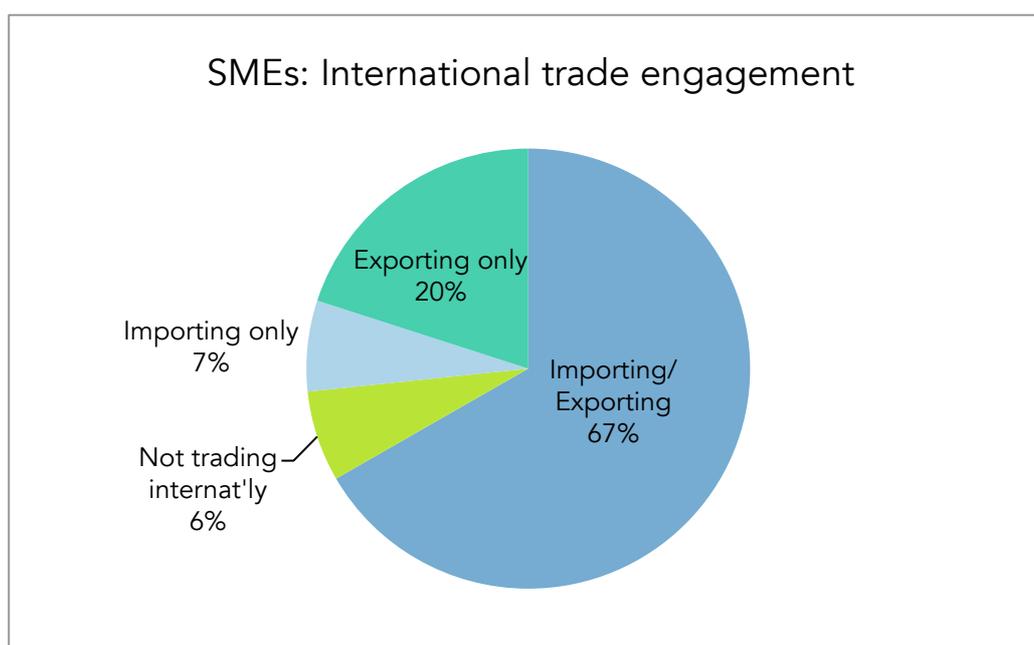


Fig. 5.45. Combined sample: International trade engagement of SMEs

While SMEs were the most likely cohort of the combined sample to engage in international trade, it was also the least likely to be highly reliant on exports for its annual income. Of the 13 exporting SMEs, four made under ten per cent of their

annual income abroad, eight made between 11 and 50 per cent, and only one made over 50 per cent of annual income abroad (Fig. 5.46).

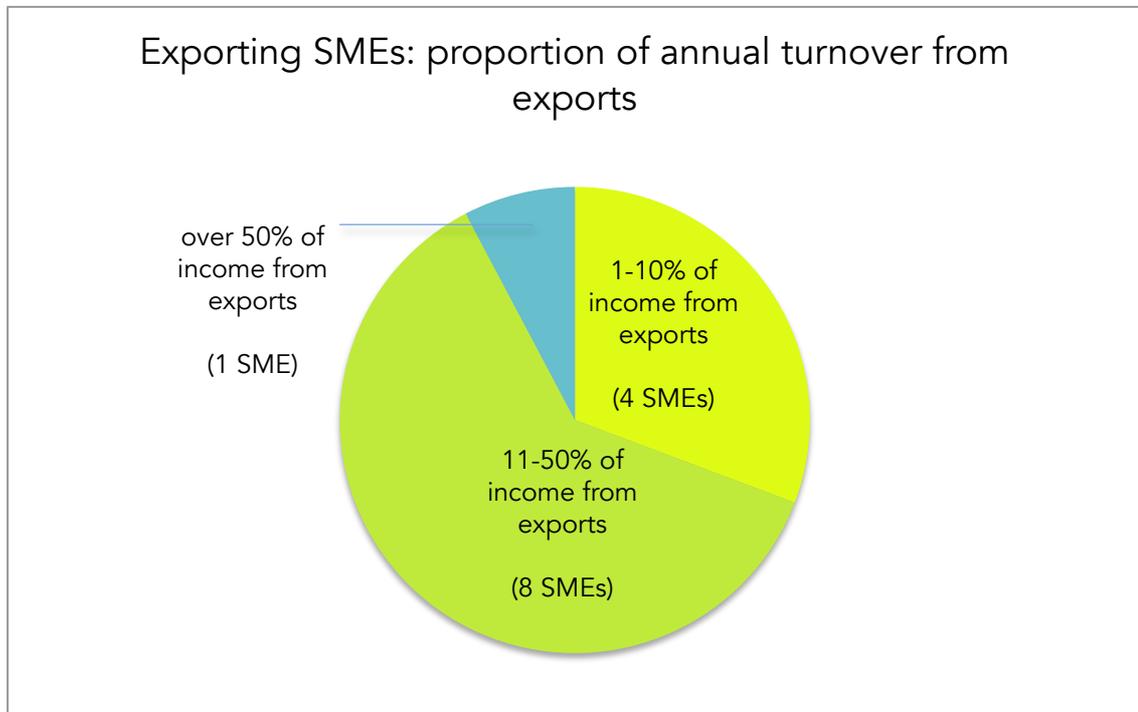


Fig. 5.46. Combined sample: Proportion of income exporters generated abroad (SMEs with 10-250 FTE)

5.5.5 Microenterprises (employing 2-9 FTE)

While indeed “larger” SMEs employing 10 or more people were the segment most likely to be involved in international trade, even the smallest creative industries firms and independents were actively trading internationally. Microenterprises, or firms employing between two and ten people (Companies Act, 2006a), accounted for over half of the combined sample – 48 out of 89 sampled firms. Of these 48 microenterprises, 37 (or 77 per cent) were engaged in international trade (Fig. 5.47).

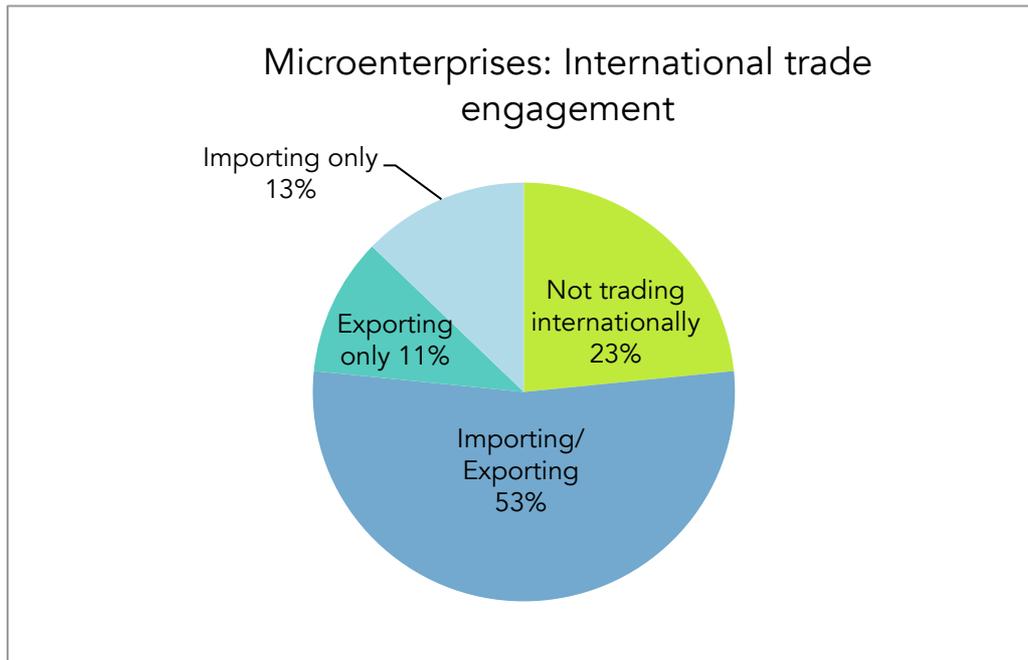


Fig. 5.47. Combined sample: International trade engagement of microenterprises

Exporting microenterprises made a considerable proportion of their annual income abroad, with 42 per cent earning between 11 and 50 per cent internationally and another 26 per cent earning over 50 per cent (Fig. 5.48).



Fig. 5.48. Combined sample: Proportion of income exporters generated abroad (Microenterprises)

5.5.6 Self-employed independents

Over one quarter of study's sample, 26 of the 89 respondents, consisted of self-employed independents. These sole proprietors were the least likely segment of the sample to be involved in international trade. Nevertheless, 58 per cent of independents (15 out of 26) were found to be trading abroad. This is lower than the combined sample, in which 75 per cent were found to be trading internationally (Fig. 5.49, Fig. 5.40).



Fig. 5.49. Combined sample: International trade engagement of independents

Exporting independents, however, were the most likely segment of exporters to rely on international trade for the bulk of their annual income. Most exporting independents (8 of 15 exporters) made more than 50 per cent of their annual income abroad (Fig. 5.50). Another 5 of the 15 exporting independents made a sizeable 11-50 per cent of annual income abroad, and 2 of the 15 made less than 10 per cent of annual income overseas (Fig. 5.50).

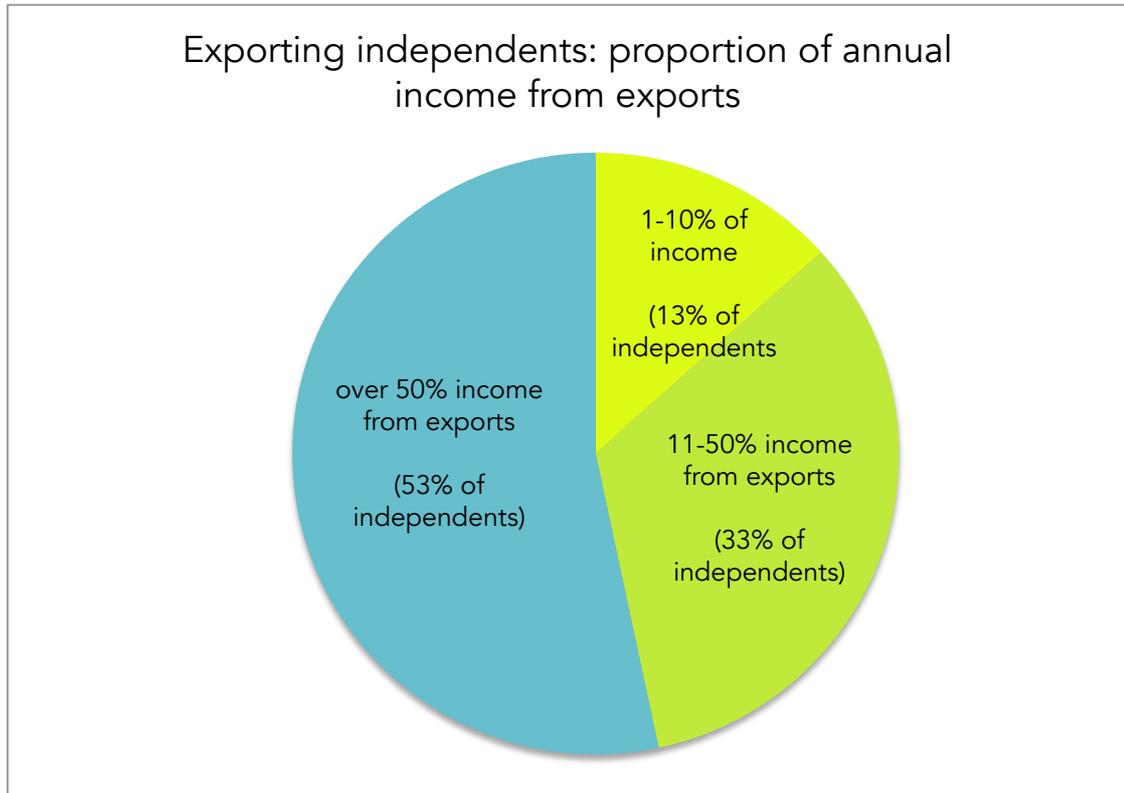


Fig. 5.50. Combined sample: Proportion of income exporters generated abroad (Independents)

In summary, only one of all 15 sampled SMEs employing between 11 and 250 FTE relied on exports for more than 50 per cent of annual income. Conversely, 16 of all 74 surveyed independents or microenterprises (22 per cent) relied on exports for over 50 per cent of annual turnover.

5.5.7 Deeply trade-reliant exporters

In our sample of exporting firms, an inverse relationship was discovered: the cohort of largest exporting SMEs was least likely to rely on exports for its annual income, the cohort of exporting microenterprises was more likely, and exporting independents were the cohort most likely to make over 50 per cent of annual turnover abroad (Table 5.2).

Similarly, the cohort of exporting independents was the least likely to earn less than 10 per cent of annual income abroad while the cohort of largest exporting SMEs was the most likely to make only under 10 per cent of annual turnover abroad (Table 5.2).

Table 5.2 Trade volume: export reliance according to firm size

	1-10% of annual income from exports	11-50% of annual income from exports	Over 50% of annual income from exports
SME exporters with 10-250 FTE	61 %	31%	8%
Exporting microenterprises with 2-9 FTE	36%	42%	26%
Exporting independents or sole proprietors with 1FTE	13%	33%	53%

This relationship may be an anomaly due to the small combined sample size. It would be interesting for future researchers with access to a larger sample size to interrogate this finding.

Of the combined sample, 17 independents, microenterprises and SMEs earned over 50 per cent of their annual income abroad. This is a considerable portion of the combined sample, representing 29 per cent of exporters or 19 per cent of the entire population.

The vast majority of these “deeply trade reliant” exporters (16 of the 17 respondents), were microenterprises and independents (Fig. 5.51).

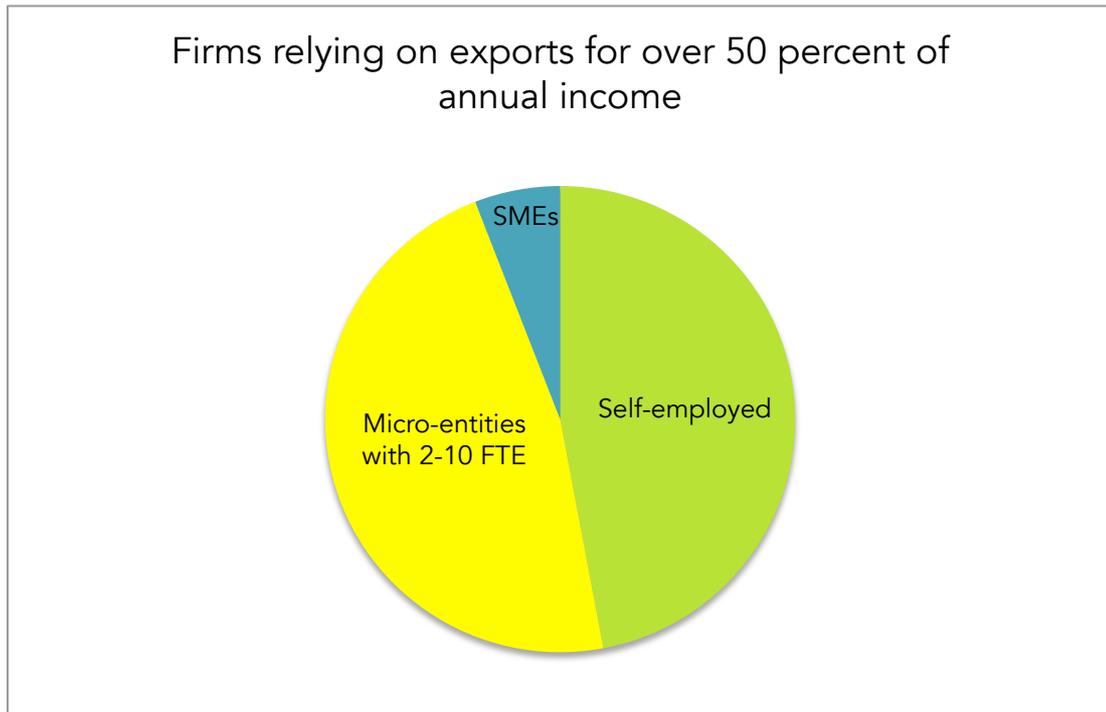


Fig. 5.51. Combined sample: “Deeply reliant” exporters making over 50 per cent of annual income abroad

5.5.8 Origins of International Trade

At all four creative hubs, the most common channel to stimulating international trade was via personal contact. This was the case for all respondents, regardless of firm size. In some cases, the client had been based in the UK and moved abroad, other cases involved personal referrals, and in some instances “personal” contact was of the digital variety—via online forums or other Internet-based referral routes.

The next most common channel to finding international clients was via Internet-based means such as SEO, and online marketing or sales tools such as Google AdSense, Instagram and Facebook. This route was particularly important for the smallest exporters, independents and microenterprises.

For exporters selling goods (or goods and services), sales and distribution were made possible via selling online platforms (e.g., Etsy or foreign Amazon marketplaces and

fulfilment centres), or via the firm's own website, Facebook and Instagram accounts. Payment from international customers was typically taken via PayPal, payment portals, own-payment systems, or digital bank transfers. Fulfilment sometimes involved courier firms with several firm owners describing "walking down to the post office" in the early stages of their business. Established firm owners often recounted the transformation of their business via emerging online digital tools.

The least common route was through official channels such as DIT events, trade fairs or pitching for international tenders. These routes were almost exclusively used by SMEs with 10 or more employees and by microenterprises. Almost no independents took this route.

5.5.9 Trade Barriers

Surveys 3 and 4, which included "Brexit uncertainty" in the multiple-choice responses, revealed that the two biggest export barriers were identifying new international clients and Brexit uncertainty. The latter may be because the EU was the most common international trade partner for the combined sample. Out of 68 international traders, 56 traded with the EU (82 per cent). North America was the second most common trading partner at 51 per cent, and in third place, 41 per cent of international traders reported trading with Asia.

Interviews with 33 firm owners and independents, along with the open-ended replies in the surveys, revealed that most respondents were apprehensive about the UK's forthcoming departure from the EU. Responses to Brexit can be categorised into three groups: those who had already experienced significant losses, those who had increased income or were unconcerned about Brexit, and those who had not experienced losses, but were apprehensive about the future.

In the first group, firms and independents had observed significant slowdowns, non-

renewal of trading relationships, income loss due to the fall in pound sterling, etc. For example, one respondent reported, "I lost out when the pound fell... A large percentage of my costs are in USD (between 25-50%) so my costs have gone up... I've been really affected by the drop in the pound." Another firm owner had to reduce his staff, saying "Because of Brexit, we've lost 7 major contracts in the last 12 months."

In the second group, only one exporter reported an increase in export volumes since the Brexit referendum, but several others paid in foreign currency had higher incomes due to the drop in pound sterling (i.e. when they transferred their foreign earnings into pound sterling, they had higher incomes at the end of the month). Still others remained upbeat about new possibilities, including one respondent who said, "I don't think it will be a major problem. It might slow me down a bit, but it won't be any different to the work I do in Mexico." Another interviewee said, "It might affect the spending of the companies that hire us...but we aren't too worried."

The third group of respondents was the largest cohort—those without significant losses, but had experienced delays, client reluctance or other concerns related to Brexit. One respondent said, "businesses like mine will be the first that are affected. One client says they may not be able to afford me. Brexit has already affected them." Another interviewee said, "Brexit will be difficult for us for tax wise. It may be financially unviable for us to tour [in the EU]...we may have to pay taxes in each country where we play." A third senior manager said, "40% of our employees are [international]...If we start having to look for new talent—40 out of our 150 staff are from the EU—it will be costly and time-consuming."

The effects of Brexit policy uncertainty on the sample, with more views and quotes from interviews, will be examined in the following chapter, Discussion.

5.6 Significant Findings

The results of the research can be grouped into six significant findings.

1. Small firm size did not impede international trade

In the combined sample, even independents and microenterprises were highly involved in international trade. This study corroborated trade theory in one respect: firms involved in international trade had a higher median income than firms not engaged in international trade. However, given that the combined sample's median firm size of 2-3 FTE was the same as that of those trading internationally, small company size *per se* was not a barrier to international trade.

The government's *Creative Industries Sector Deal* considers small company size as "a challenge to creative industries businesses seeking to export," (BEIS, 2018). The Bazalgette Review indicates companies employing more workers have a greater capacity to export because they have higher "absorptive capacity" to engage in "more lucrative ventures, including exports," (Bazalgette, September 2017; Frontier Economics, 2016). This study, however, found that a significant proportion of sampled independents had sufficient "absorptive capacity" to engage in international trade. While independents were the least likely cohort within the combined sample to trade internationally, still 58 per cent (15 out of 26) engaged in importing and exporting. Meanwhile, 77 per cent the sampled microenterprises employing between 2 and 9 FTE traded internationally. This calls into question the recommendation of "scaling-up" the creative industries in order to boost exports.

2. Higher engagement in international trade

The amount of international trade in the sampled creative industries independents, microenterprises and SMEs was considerably higher than predicted by official trade statistics. Of our combined sample, 76 per cent traded internationally with 66 per cent

of the total sample exporting and 60 per cent importing. This contrasts with official figures, which state that only 18 per cent of creative industries are trading internationally (DCMS, 14 February 2018).

3. Deep reliance on exports for annual income

Exporters were heavily reliant on international trade with almost half earning between 11 and 50 per cent of annual income abroad and a surprising one-quarter earning over 50 per cent of annual income abroad. A potentially important inverse relationship was uncovered in the study: the cohort of “larger” exporting SMEs was the group least likely to rely deeply on exports for its annual income, exporting microenterprises were more likely, while exporting independents were the cohort most likely to be “deeply reliant exporters” making over 50 per cent of annual income abroad (Table 5.2).

These “deeply reliant” exporters would be the most at risk of downturn in the case of new tariff and non-tariff barriers associated with Brexit. Firms with high exposure to foreign markets are more vulnerable to large shifts in international trade policy (Brown et al., 2020). Almost all sampled exporters traded with the EU. This finding, then uncovers the potential impact of international trade agreements, currency volatility and Brexit on a sizeable, but overlooked segment of the creative industries.

4. Imports were a noteworthy aspect of international trade

Interviews revealed that the post-referendum pound sterling depreciation caused fiscal losses for several respondents who had noteworthy outgoings in foreign currencies for international staff, travel and other imports or expenses. At The Sharp Project more importing firms were found than exporting firms. This suggests that importing is an important aspect of international trade and should not be overlooked. The *Creative Industries Sector Deal* equates “international trade” with “exporting,” an

omission than may have consequences for the numerous importers encountered in this study.

5. Sampled firms and independents mainly traded in services

Surveys revealed that 31 out of 32 respondents traded in services. Specifically, 69 per cent traded only in services internationally, 29 per cent traded in goods and services, and 3 per cent were involved only in goods trade.

6. Exporters less optimistic about future earnings

Survey 1 at Baltic Creative found that exporting firms were notably more pessimistic about future earnings than non-exporters. The EU was the most common trading partner for the combined sample with 82 per cent of international traders reporting business in Europe. This is an important finding because business confidence plays a role in how much investment a firm is willing to make into activities such as research and development or capital investment, which are key determinants of productivity growth (BEIS, 2017a; Born et al., 2019b; Crowley et al., 2019a; Frontier Economics, 2016).

5.7 Summary

This central research question of this study was, “is small firm size a barrier to international trade in the creative industries?” The research found small firm size not to be a barrier to international trade with sampled SMEs, microenterprises and independents found to be trading internationally with greater propensity and economic impact than indicated by government figures.

Despite falling company sizes over the last decades (Bazalgette, September 2017), this study found that microenterprises and independents were able to take advantage of international trade opportunities. The primary research for this study, however, was

conducted during the “inter-Brexit years” of 2018 and January 2020, i.e., before the UK’s departure from the EU, its major trading partner at the time of this research.

This thesis will now turn to potential explanations for the discrepancy between these research results and official figures. The following Discussion chapter will then explore further implications for this study’s findings.

6. DISCUSSION

The government's 2018 economic policy entitled *Creative Industries Sector Deal* (CISD) aimed to increase creative industries exports by 50 per cent in the following five years (BEIS, 2018). The CISD cited small company size as "a challenge to creative industries businesses seeking to export," (BEIS, 2018). More than any other sector, the creative industries are dominated by small firms: 34 per cent of workers self-employed (more than double the UK average) and 90 per cent of businesses have no more than five employees (Bazalgette, September 2017).

While official ONS figures indicate that only 18 per cent of creative industries trade internationally (DCMS, 14 February 2018), this study found 74 per cent of sampled creative industries trading internationally with 66 per cent exporting. These exports were economically significant with 75 per cent of exporting firms making more than 10 per cent of their annual income abroad.

All surveyed firms were SMEs, microenterprises or independents, with the latter two segments comprising the vast majority of the creative industries. Contrary to the CISD's assertion, this study did not find small firm size a barrier to international trade. Exporters were found amongst all business sizes and turnovers in this study's sample. Three questions arise from the research results:

- A. Why do the study's findings differ from official figures?
- B. What was the effect of Brexit uncertainty on the sample's international trade?
- C. Is government policy aimed at the correct target?

Each of these questions will be examined in the following discussion.

Section A: Why do the study's findings differ from official figures?

This study found significantly higher trade engagement in the sample than expected. Why did tenants in the four surveyed creative hubs export at much higher levels than government statistics would indicate? Were they exceptionally good at international trade? Were they more engaged in international trade than other random samples around the UK? Several factors offer an explanation for the discrepancy and will be discussed below.

6.1 ONS: Small samples in the era of big data?

The statistics mentioned in the *Creative Industries Sector Deal* are provided by the government's Office for National Statistics (ONS). The ONS provides the important service of generating and providing data to all branches of government. What if some of these statistics, however, are inaccurate?

Some economists argue that we are facing a significant gap in our understanding of how exports and other economic activities function in the post-industrial, digital economy of the 21st century and, therefore, how to account for them (Coyle, 2015a). On the one hand, we have more "big data" than ever before. On the other hand, digitisation means many economic indicators simply are not getting factored into national statistics (Coyle, 2015a). How the ONS arrives at its statistics may be at the heart of the discrepancy between figures used by policymakers and those gathered by this research.

6.1.1 ONS survey data collection methods

One might expect the ONS to employ cutting-edge digital strategies and to use data from other government departments such as HM Revenue and Customs (HMRC) to arrive at its statistics. In fact, the ONS arrives at creative industries trade figures in

exactly same manner as this study: via questionnaires. For example, every quarter, the ONS requests 2,200 businesses to complete the *Quarterly Survey of International Trade in Services* (ITIS). ITIS data “are based solely on survey data” (ONS, 2019a). As the creative industries habitually export more services than goods, the ITIS is of particular interest to this research and will be discussed in detail in section 6.1.2 ONS data and microenterprises.

Most of the data presented by the DCMS are derived from ONS surveys such as ITIS and the Annual Business Survey (ABS). Each year the ABS samples 62,000 businesses all of which are included in the Inter-departmental Business Register (DCMS, 2016; ONS, 2020a; ONS, 2020b). The Inter-departmental Business Register (IBDR) itself is a comprehensive list of 2.7 million UK-registered businesses, which is used by the government for statistical purposes. The ABS, therefore, surveys only 2.5 per cent of the total IBDR population, which raises questions about the survey’s quality “due to the volatility in statistics resulting from small sample sizes,” (DCMS, 2016). Sampling only a small proportion of businesses means that the ABS “lacks sufficient granularity” (Bean, 2016).

The ONS recognises these shortcomings and, in an effort to modernise its statistics, it commissioned a report by Professor Sir Charles Bean of the London School of Economics. The 2016 *Independent Review of UK Economic Statistics*, also known as the “Bean report,” pinpoints the extensive use of surveys for generating economic statistics as “expensive and outdated” (Bean, 2016).

Given the use of big data to monitor everything from consumer preferences to physical movements via mobile phones, it is surprising that more technologically advanced approaches are not currently used by the ONS and that anonymised data are not shared across government departments. The Bean report contends that, “relatively little use is made of administrative data, such as that held by HMRC and still less of other (and growing) sources of big data,” (Bean, 2016). The Bean report turns to international examples as a source of inspiration: “Canada and Scandinavia rely far

more heavily on such information in constructing their economic statistics," (Bean, 2016).

In an effort to address these shortcomings, the ONS set up the Economic Statistics Centre of Excellence (ESCoE) in 2017 to address the challenges of measuring today's economy. In the same year, the ONS launched a Data Science Campus in an effort to modernise its methodology by applying innovative techniques from the field of data science. At the time of writing, the ONS was in the midst of a major overhaul in the way it provides statistics, and in its own words, it is "introducing a new framework – utilising international best practice – as well as new surveys...[and] introducing new data sources, such as VAT returns," (Kent-Smith, 3 February 2020).

One may question the need for extensive surveys rather than collecting data from VAT returns (ONS, 2020a). The Digital Economy Act 2017, in fact, established a legal path for HMRC and other government departments to share data with ONS, which hitherto had been prohibited on grounds of privacy (ONS, 2020a). Once these systems are fully functional, the ONS expects a sharp decline in the burden imposed on businesses by statistical surveys (ONS, 2020a). While the ONS still considers these data experimental, one can expect more robust statistics to emerge from the ONS in the coming years (ibid.).

6.1.2 ONS data and microenterprises

The ITIS questionnaire collects information on the imports and exports of 52 different types of services (products) by country of origin and destination (ONS, 2022).

Businesses that receive the ITIS questionnaire regarding international trade in services are legally obliged to complete it. The ITIS increased its sample size in 2017 from approximately 1,100 to 2,200 businesses (ONS, 31 January 2020). In 2019, the ITIS was sent to 2,200 businesses out of the 2.7 million listed on the IBDR (ONS, 31 January 2020; ONS, 2022). "Service" types included financial services, insurance, legal

services, and many other areas including the creative industries. One can assume that only a small segment of the businesses surveyed by the ITIS in 2019 actually fell into the creative industries sector.

While the IBDR includes some 2.7 million firms, it does not include firms whose income falls below the tax threshold of £85,000 (from 1 April 2017 to the time of writing), meaning that very small microenterprises and independents are not at all included in the IBDR or ONS samples (ONS, 2021). The UK's Department for Business and Trade (DBT) estimates that there are roughly 3 million unregistered, active businesses in the UK (DBT, 5 October 2023). Furthermore, for the ITIS, the ONS primarily chooses firms employing more than 100 people because their business is so noteworthy to their specific industry (ONS, 2019b). The ONS also selects "some small and medium businesses," noting that the international trade experience of SMEs is often dissimilar to larger firms (ONS, 2019b). As such, it is likely that ITIS figures hitherto have been over-representing the experience of large firms. This can set policymakers off course because, "large companies make up the bulk of economic activity [and, as such,] a comparatively small number of responses can produce headline figures," (Bean, 2016).

This lack of granularity is a dilemma for the DCMS because microenterprises and independents make up the vast majority of the creative industries. Evidence-based, statistically derived export and growth strategies may be reflecting the requirements of creative industries firms who, ironically, already are exceptionally large by sector standards. Because ONS statistics do not reflect the experience of microenterprises and independents, creative industries policies might not be providing relevant assistance to the smallest economic units whose "trading patterns are often very different to large businesses," (ONS, 2019b).

In its 2016 *Creative Industries Economic Estimates*, the DCMS noted that its GVA estimates for some sectors were "based on the ONS Annual Business Survey (ABS) and therefore do not include micro-businesses," (DCMS, January 2016). This is a

significant omission because these very microenterprises and independents comprise the bulk of the sector.

In fact, the ONS has been working to rectify this problem. In 2015, the ONS expanded its sample population of 2.7 million to include 92,000 new businesses, of which “99.3% were in employment size-band 1 (zero to nine employees – or micro-businesses) and nearly half of them were in the non-financial services sector,” (DCMS, 2019). For clarification, ONS calls companies employing 0-9 people “small businesses” (ONS, 2020a), but we will continue to use the DCMS and EU designation of “micro-business”(DCMS, 2019) or rather “microenterprises”. Still, big business is over-represented since large firms (those with 100 or more employees) always are selected for any relevant ONS business surveys “because their information is so significant” (ONS, 2020a).

As the ONS continues to modernise its methodology, one can expect a significantly larger sample of independents, microenterprises and SMEs to be included in ONS data. This would permit better segmentation of data to produce more accurate and relevant figures for the creative industries. One challenge, however, remains: the organisation and presentation of the data collected via the use of Standard industrial classification (SIC) codes.

6.1.3 SIC codes

The DCMS relies on ONS statistics for its annual *Economic Estimates* (DCMS, 28 November 2018). The ONS produces these statistics employing internationally recognised “standard industrial classification” (SIC) codes (DCMS, 28 November 2018). The United Nations-led SIC classification system, however, has substantial limitations, in particular for the creative sector (DCMS, 2016). As the composition of the economy changes (for example, with new industries springing up as a result of technological advances), SIC codes do not provide the necessary detail for important

elements of the UK economy (DCMS, 2016). Some argue that the framework for economic statistics was developed when manufacturing was the dominant sector, hence “the information available on all services including the digital sectors is lamentable, given the framework for classifying statistics,” (Coyle, 2016).

The UK has been calling for revisions to SIC codes to better reflect the UK economy, but this requires international cooperation at the UN level (DCMS, 2016). Although the government could develop its own-UK classification system, SIC codes have the benefit of enabling international comparisons and acting as a guide for national standardisation (DCMS, 28 November 2018). The DCMS has been concerned that SIC codes do not correctly reflect the creative industries and has been collating views from professionals and the public to determine “how the SIC system should be changed to allow better measurement of the Creative Industries groups,” (DCMS, 2016).

Furthermore, the DCMS has been running regular public consultations since 2016 inviting feedback and suggestions for improving its own methodology (DCMS, 2016; DCMS, January 2016). The DCMS was due to publish a review of its methodologies in late 2021 (DCMS, 14 February 2018).

6.1.4 ONS data and public policy

ONS data makes its way into reports and, eventually, into public policy. The government’s 2017 *Creative Industries Sector Deal* was influenced by Sir Peter Bazalgette’s 2017 *Independent Review of the Creative Industries*, which in turn was informed by the 2016 Frontier Economics report *Absorptive Capacity: Boosting Productivity in the Creative Industries*. Excellently written and argued, the Frontier Economics report derived its industry statistics from the ONS and construed that small company size was holding back the creative industries. The report concluded that microenterprises are “less productive, innovative, and growth-oriented than are larger businesses” (Frontier Economics, 2016). The authors’ solution to increasing productivity in the creative industries sector was to help firms grow, or “scale-up”

(Frontier Economics, 2016). This line of reasoning then made its way into the Bazalgette Review:

Many would-be creative clusters face issues linked to business size. They lack modern leadership, commercial confidence and acumen to realise their growth potential so that they can take on more lucrative ventures, including exports. This capability – absorptive capacity – may be challenged by the structure and nature of the Creative Industries...The growth and/or merging of microenterprises could boost their overall GVA contribution significantly.

(Bazalgette, September 2017)

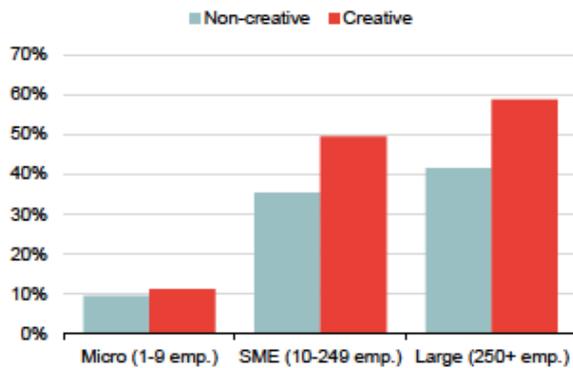
This, in turn, makes its way into the *Creative Industries Sector Deal*:

Size in particular is... a challenge to creative industries businesses seeking to export...The first [key to increasing exports] is size...95 per cent of creative businesses employ fewer than ten people. This means creative businesses often lack 'absorptive capacity', defined by Frontier Economics as 'the ability of a firm to identify and acquire relevant external knowledge, assimilate it, transform existing knowledge and practices, and exploit these new capabilities for commercial ends.'

(BEIS, 2018)

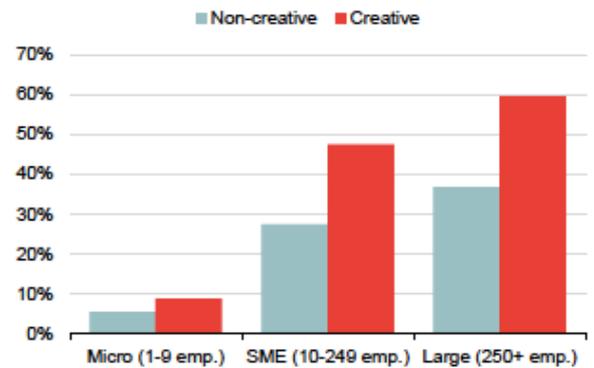
The Frontier Economics report contends that, in terms of innovation and R&D, the prevalence of microenterprises (firms that employ fewer than 10 people) is hampering the creative industries (Frontier Economics, 2016). Large companies outperform both microenterprises and SMEs in terms of innovation and R&D (see Fig. 6.1, source Frontier Economics, 2016).

Exhibit 14. Share of businesses that introduced new goods, services, or processes (2008-2012)



Source: ONS, Community Innovation Survey; Frontier Economics analysis

Exhibit 15. Share of businesses that performed or acquired R&D (2008-2012)



Source: ONS, Community Innovation Survey; Frontier Economics analysis

Fig. 6.1. Non-Creative vs Creative Industries-Microenterprises, SMEs, and Large Firms (Frontier Economics, 2016)

These same figures, however, indicate that while smallest companies are less innovative than the largest ones, as a whole, the creative industries are more productive and more innovative than the rest of the UK economy. In fact, in each category, creative industries outperform the UK average (see Fig. 6.1).

The report acknowledges that many creative companies do not want to scale up, with only half vocalising the intention to grow (Frontier Economics, 2016). Small businesses employing 10-50 people are 50 per cent more likely to have the intention to grow than microenterprises employing under 10 FTE (Frontier Economics, 2016). This will be discussed in greater detail in Section 6.6 What the CISD gets (partially) right: creative clusters.

6.1.5 Summary

Questions surrounding the discrepancy between this study's findings and figures produced by the ONS and DCMS remain open. One proposition for the discrepancy,

as discussed above, is that official statistics do not accurately reflect the international trade of the creative industries, which are more dependent on self-employed workers and microenterprises than any other sector. Because of their small size, their contribution to the UK's export and import economy are getting overlooked by official statistics.

Further explanations for this discrepancy, however, must be explored. This study is not the only one to find significantly different trade figures for the creative industries. *The true value of creative industries digital exports*, a report by the Centre for Economics and Business Research and the Creative Industries Federation, argues that the creative industries export far more than official figures suggest. Using a combination of official DCMS government figures, interviews and survey results, the report determines that the creative industries export £46bn in goods and services, 24 per cent higher than the official ONS figure (Young and Cauldwell-French, 2018). The report's authors put this discrepancy down to the underestimation of digital services in the creative industries by a whopping 40 per cent.

The *Creative Industries Sector Deal* may have insufficiently considered the digital innovations that have facilitated exports of the creative industries, even for the smallest company. By conducting detailed, export-specific surveys and in-depth interviews with SMEs, microenterprises and independents, this study may have uncovered knowledge about export practices—particularly digital practices—that currently are not getting factored into standard statistical calculations. The digital factor will be discussed in greater detail below.

6.2 Exporters in a global, digital age

The *Creative Industries Sector Deal*, the Frontier Economics report and the Bazalgette Review all contend that microenterprises and independents lack the “absorptive capacity” to increase exports. These reports, however, do not deeply examine today's digital economy, which has—in less than two decades—changed the nature of business.

Seemingly incontrovertible, economic calculations such as “productivity” and “gross domestic product (GDP)” are regularly invoked as justification for policies set out by the Industrial Strategy (BEIS, 2017a; BEIS, 2017c). Some economists, however, are beginning to question the relevance of these notions for the digital age. GDP is the internationally recognised standard measure of the size of a country's economy (Coyle, 2015b). GDP calculates the monetary value of the products and services that are sold in an economy in a year (Vollrath and Raworth, 2020). It is a metric that was invented in the 1930s in an era when physical mass production formed a significant part of industrialised countries' economies and when indicators of economic wellbeing, like unemployment and median income, mirrored growth in GDP (Vollrath and Raworth, 2020).

GDP, however, excludes many economic (but unpaid) activities such as work in the home or the environmental costs of goods and activities (Coyle, 2016). Furthermore, it measures the *quantity*, but not the *quality* of economic growth (Lawlor, 2014). Others argue that GDP is no longer a suitable measure for the modern economy of the 21st century, which is driven by intangible digital services and rapid innovation (Coyle, 2015b).

For example, retailers moving out of shops to sell purely online have triggered a decline in commercial property investment, which has resulted in some reduction in GDP (Coyle, 2016). So, while digitisation may be causing a decrease in GDP—which is a measure of how well the economy is doing—it is difficult to argue that consumers (and retailers) are suffering an equivalent decline in well-being instead of enjoying an improved consumer experience (Coyle, 2016). Digital innovations, sometimes known as the fourth industrial revolution, are a “general purpose technology” that do not substantially influence GDP, but are dramatic in impact (Coyle, 2016). In a 2019 address to the Oxford Martin School at Oxford University, economist and policy advisor Diane Coyle explained:

The economic characteristics of digital technology mean that the way we need to think about doing economics has to change. A lot of what we revert to as our instinct about how markets operate, doesn't apply in these [new] markets... We don't know what prices people are paying for things. The price of a digital camera is still recorded...but nowhere are we putting the zero price that we're all paying for taking photographs and looking at them on our smartphone. So the price indices that we use to calculate real GDP and real productivity are completely wrong.

(Coyle, 6 June, 2019)

Productivity and GDP growth has stalled in the UK and many other advanced economies including the US, where the economy grew at 3.5 per cent between 1950-2000 and at 2 per cent thereafter (Vollrath and Raworth, 2020). Compared to quickly growing economies such as China, this "stagnation" is often seen as a disappointment, but many economists are beginning to question this orthodoxy. On the subject of productivity, Coyle had this to say:

We need a new concept...because in a service-based economy (never mind digital and intangible) you either want something to happen really quickly—you've got to have a blood test done—you want that to be done as quickly as possible - or you want the opposite. You want it to be as long as it needs to be and really high quality. So if you're in the ICU you want to have the devoted attention of a skilled nurse for 24 hours a day. Those would be examples of productivity not at all captured by the current productivity metrics.

(Coyle, 6 June, 2019)

Services and digital goods inherently have low productivity growth compared to manufacturing. Factories are increasingly efficient as they are mechanised and digitised, but services have a limit on efficiency because, as economist Dietrich Vollrath puts it, "you can't get a one-hour massage in less than one hour" (Vollrath, 21 September, 2016). Similarly, Coyle calls for a shift in economic metrics, arguing that

the critical unit of measure in an economy dominated by services is actually *time* (Coyle, 6 June, 2019). Vollrath, conversely, argues that measuring productivity growth is still valid, but our understanding of it needs to change:

Productivity growth is the thing that we don't want to get rid of [but] there's two ways to respond to that productivity. One, the way we've been pursuing for a very long time, is to use the existing inputs, have higher productivity and have higher growth, higher GDP. An equally valid response to higher productivity is to use fewer inputs, work fewer hours, use fewer resources, take a longer vacation.

(Vollrath and Raworth, 2020).

Whichever solution economists finally adopt, it is clear that the foundational concepts of GDP, productivity and growth need refurbishing for today's service-based, global digital economy. By not deeply interrogating the nature of recent innovations in the digital and global economy, the CISD may be setting policies that are out of date.

6.2.1 The true value of digital and services trade flows in the creative industries

The CISD relies on international trade flow data to set its targets. This data, however, is difficult to gather in the service-based, digital economy of the 21st century. This is particularly true for the creative industries where, by ONS estimates, service-based exports exceeded that of goods, by a ratio of roughly 3:2 (DCMS, 26 July 2017).

Economist Diane Coyle says that economists need to rethink international trade calculations—particularly where non-tangible exports are concerned. In her Oxford lecture, Coyle says,

We have no idea about cross border flows. If a manufacturer in this country emails a blueprint to a contract manufacturer in Malaysia, we don't know what

the value of that is....we don't know what their transfer of pricing is, we don't know how much data is crossing borders. If a company here uses the cloud computing service, we don't know if there's any export or import involved because we don't know which data centre it goes to—it could be here in the UK or it could be in Belgium, (Coyle, 6 June, 2019).

Given that 69 per cent of the exporters in this study sold only services abroad and another 24 per cent traded in both goods and services, part of the discrepancy between official ONS figures and this thesis may be related to such measurement difficulties.

For an increasing number of creative industries firms, international business is not extra business; it is just business. The growth of the Internet, digital networks and global supply chains have opened new distribution channels for small producers to serve markets abroad (Leadbeater and Oakley, 2005). One interviewed microenterprise owner said, "You don't feel like you're a global business necessarily because you don't kind of go out there." The business hosted a YouTube channel, employed 2.5 FTE and had an income of between £100,000-200,000. While the content was initially designed for a local UK audience, at the time of interview, over 75 per cent of income was earned through overseas viewers and the associated advertising sales. The company owner continued, "YouTube is a global platform. We never set out to export. It is just the nature of the Internet to unlock that kind of potential without thinking you're starting a global business." The owner had initially started the YouTube channel as a side project. "The videos took-off and then last year, I focused on it full time. Now it is my full-time [job]," he said.

This business was part of a growing trend. According to a major study conducted by the Centre for Economics and Business Research (Cebr), the Creative Industries Federation (CIF) and the Creative Industries Council (CIC), YouTube is one of the UK's biggest content exports (Young and Cauldwell-French, 2018). The vast majority of all videos uploaded in the UK—78 per cent—are watched by viewers in foreign countries

(Young and Cauldwell-French, 2018). A creative digital service, such as a tutorial on YouTube from a crafts maker or design firm, may not be registered as a services export owing to “difficulties capturing data for business models such as those offering free content and based on advertising revenue,” (Young and Cauldwell-French, 2018). Even in the case of saleable digital products, such as apps, it may be difficult for digital intermediaries to track down the origin of sale or purchase (Young and Cauldwell-French, 2018). The study’s authors argue, “We live in an era where the methods we currently use to trace trade flows are losing their relevance and ability to depict an accurate picture of trading realities” (Young and Cauldwell-French, 2018). The current methods for measuring trade are becoming obsolete because the digital environment is rapidly and spectacularly transforming the way we do business.

This implies that creative industries service-oriented firms, at the time of this primary research, likely were exporting at higher rates than indicated by official ONS statistics. Other research also suggests this may be the case. A thorough firm-level matching study of the UK’s export performance before and after the 2008 economic crisis, found that firm export propensity remained constant across the whole period—except younger firms in services industries, whose export propensity increased (Douch et al., 2020b). The predominance of small service-oriented firms in this study’s sample may be implicated in the high export rate of the study’s cohort.

6.2.2 Summary

Several features of today’s economic and technological landscape may help to explain the sample’s relatively high international trade engagement as compared to ONS statistics. These factors may have been captured in this study, but overlooked by other data collection methods used by the ONS.

The study’s sample was operating in a barrier-free, single-market trading environment with other members of the European Union. The impact of leaving the EU on the

sample was due to be the subject of this research. As it became evident that the UK would not leave the EU customs union within the expected two-year timeframe, another valuable topic of consideration availed itself, namely the impact of international trade policy uncertainty on the study's sample. This will be discussed in the following section.

Section B. What was the effect of Brexit uncertainty on the sample's international trade?

This study found that the sample of creative industries SMEs was more involved in international trade than official figures would indicate and that small firm size was not a barrier to international trade.

This study originally set out to survey a cohort of creative industries independents, microenterprises and SMEs prior to and after Brexit, which had been set for March 2019. On 29 March 2017, Prime Minister Theresa May had invoked Article 50 of the Treaty on European Union (TEU), which triggered the UK's withdrawal from the EU within the Treaty's 2-year timeframe. As such, the UK was due to leave the EU by March 2019. The Brexit negotiations in 2018 and 2019, however, continued to extend the 2-year timeframe for leaving the EU. The research instead spanned the "inter-Brexit years" of May 2018, two years after UK voters elected to leave the EU, to January 2020 when the UK ratified the withdrawal agreement, which would come into force on 1 January 2021.

These inter-Brexit years were marked by exceptionally high trade policy uncertainty and political turmoil. This era witnessed the UK parliament reject a deal agreed between the Prime Minister Theresa May and the EU, the resignation of Theresa May, the election of Prime Minister Boris Johnson, and regular ministerial resignations and reshuffles. Throughout the course of this research, it was unclear whether the UK would stay in the EU customs union (which would have meant very few changes), or if it would exit with "no deal" (implying a complete cut from the EU and all hitherto

agreed treaties), or something in between. Was leaving the EU going to stem the free flow of migrants and add costs to the creative industries employing EU citizens (Todnem et al., 2017)? Could UK businesses still sell goods and services into the EU's single market without tariffs and other trade barriers? These questions and many others remained open during the course of this study.

During this time, no policy change had been implemented so theoretically firms could have continued to trade in the EU as before and the economy need not have been affected (Douch et al., 2020a; Douch et al., 2018b). This is not, however, what economists and researchers observed (ibid.). This interim, "inter-Brexit" period between the referendum and actual policy implementation provides a fascinating and rare glimpse into the effect of policy uncertainty on international trade. Scientists call this situation a "natural field experiment" in which researchers are able to implement research techniques to calculate anticipation effects against the actual effects of implementing trade barriers (Douch and Edwards, 2021; List, 2007).

Despite no actual change in policy, this historically high and prolonged level of policy uncertainty became a significant feature of the research (as an "interaction of history effect"). Did this Brexit policy uncertainty impact the international trade performance of the study's cohort? If yes, to what extent? The following section will examine the UK's international trade and policy uncertainty during the inter-Brexit years, assessing its potential impact on business confidence in this study's sample of creative industries independents and SMEs.

6.3 International Trade and the inter-Brexit years

6.3.1 Brexit and pound sterling devaluation

In June 2018, the Department of International Trade (DIT) announced that UK exports were at a record high (DIT, June 2018). This was true, but misleading as these results were reported in pound sterling (GBP) terms.

In relation to all major trading-partner currencies, GBP slumped after the Brexit referendum in June 2016, depreciating by 10 per cent (Breinlich et al., 2020). This was the sharpest exchange rate depreciation witnessed by any of the world's four major trading currencies since 1971 with the end of the Bretton Woods agreement, which had fixed exchange rates after World War II (Breinlich et al., 2020). In March 2019, just prior to the onset of the COVID-19 crisis, pound sterling was still noticeably lower than the Euro (Fig. 6.2).

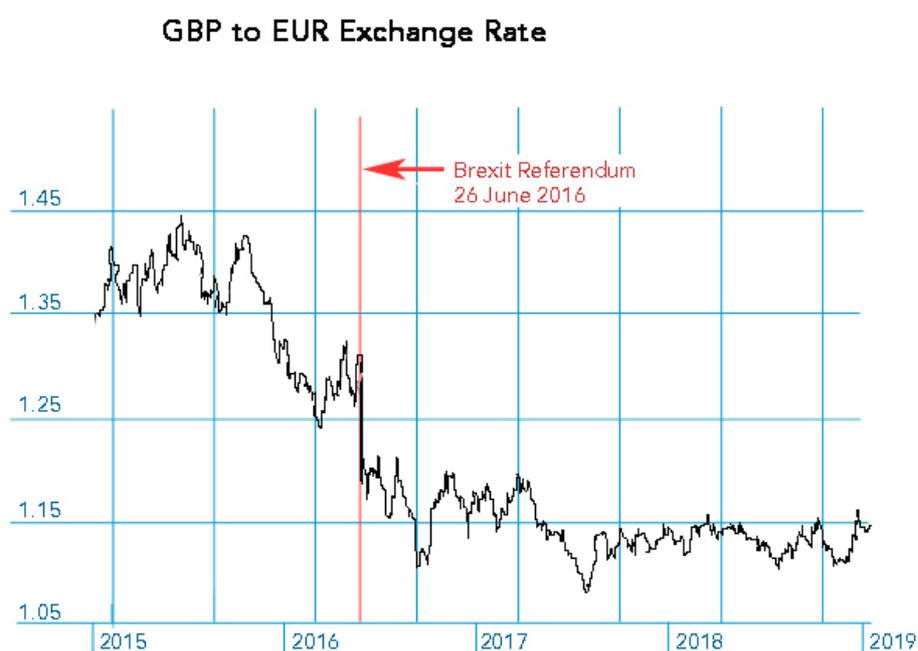


Fig. 6.2 GBP to EUR trading pre- and post-Brexit (author's own)

With the pound sterling so far below pre-June 2016 levels, textbook economic theory would predict that UK export volumes should increase (Breinlich et al., 2020). As pound sterling falls, British goods and services gain a "competitive advantage." This means that customers around the world can buy the same British product for a lower price than before the Brexit referendum making British products more appealing than say, similar French, American or local products (Sampson, 2018).

So was the DIT's announcement accurate? Were the UK's exports at an all-time high in June 2018? When sterling declines, the value of the UK's exports measured in pounds

automatically rises (Sampson, 2018). As such, UK companies charging in foreign currencies were indeed making more income in pound sterling-terms (when they converted their foreign currencies to sterling). There was no evidence, however, for an increase in the *volume* of British exports (Sampson, 2018). In effect, the UK was selling its exports at a lower price (in relation to other currencies), but without selling more products and services (Douch et al., 2018b).

This study also found that the devaluation of sterling after June 2016 had not led to an increase in sales for most of the sample. One self-employed independent with an income of between £50,000 and £100,000 recounted, "My European [clients] aren't booking UK talent...the pound fell, but it didn't improve my foreign sales. Generally, everyone is uneasy and people aren't spending what they were." Prior to the Brexit referendum, he made roughly 20 per cent of his income from the EU.

Even those without foreign income often reported a decline in income due to spending reluctance on the part of local clients. One microenterprise co-owner recounted, "[We saw a] big dip after the referendum. Then it evened out, but now it's gone down...off a cliff, because people are waiting to see what happens," she said. "Clients do not want to spend or invest whilst things are so uncertain. People who would spend aren't investing." Her firm had an annual turnover of between £100,000 and £200,000, employed 4-9 FTE and made no income from exports.

Only one firm had managed to leverage a lower pound to attract more clients:

So far, Brexit has been good to us because the pound has weakened to the dollar and 65% of our income comes to us in US dollars. We've consciously spent more aggressively to acquire more US customers while the pound is weaker.

This firm had an annual turnover of £350,000, employed 4 FTE, and made 51-75% of its income from abroad. This firm, however, was a digital platform and had very low

marginal costs from adding new clients (i.e., a new client cost almost nothing, except for the marketing costs of acquiring new clients).

While no other sampled firms saw an increase in foreign sales, several of the interviewed firm owners had increased their UK income because they were paid in foreign currencies. An SME owner recounted, "As soon as the pound crashed, because we get paid in dollars...we ended up, overnight, kind of getting more bankrupt, but backwards." In other words, their UK costs stayed the same in GBP, but their income increased because once they exchanged their dollars, their income in GBP was higher. This SME was a content creation company with a dedicated YouTube channel. Its annual turnover was between £100,000 and £200,00, it employed 2.5 FTE and made 76-100 per cent of its income from abroad. Another independent said, "if the pound [sterling] falls any more it will help me because I get paid in foreign currencies...in Euros and US dollars." This independent made 76–100 per cent of income from abroad. Like the DIT had reported, these firms' exports were at a "record high" because their income was in foreign currencies, but they were not selling more products abroad than previously.

Some SMEs were hopeful that a lower pound sterling would eventually lead to more foreign sales. One SME owner saw potential benefits from a lower exchange rate: "Brexit could be an opportunity since the pound has fallen. I'm [working on five projects in France]. Other European companies might hire me." This firm proprietor employed 2 FTE (4 part-time independents), had an annual turnover of £100,000-£200,000 and made 10-25% of annual income abroad in Europe. Most of those who saw potential upsides from the GBP depreciation, however, had not yet witnessed a translation to higher sales. As one SME senior manager said,

The exchange rate can be a benefit – we [in the UK] are cheaper to commission now. We invoice in sterling and are paying in sterling. But the money coming in now was already committed 3 years ago so the exchange rate [drop] hasn't

helped us yet. And we haven't seen any exchange rate benefits yet because people are hesitant to commission in the UK now.

This SME was one of the largest firms interviewed, with an annual turnover of over £3 million pounds, employed over 100 FTE and made 25-50% of income from exports.

While pound sterling's devaluation, theoretically, should have made British products and services more appealing in international markets, instead many interviewed firms and independents reported loss of export business after the referendum. For example, one SME owner said, "We are retrenching all international business and making teams redundant to increase productivity. Because of Brexit, we've lost 7 major contracts in the last 12 months, a risk we cannot afford to make again." The owner did not indicate the firm's annual income, but had 11 employees and had made 51-75% of turnover overseas.

This study indicates that pound sterling's devaluation had a chequered effect on the studied cohort of SMEs. Some had gained income from the lower pound, while others had higher costs and had lost international business after the Brexit referendum. The macroeconomic impact on the UK as a whole, however, was less ambiguous. Since the UK is a net importer (i.e., it imports more than it exports), any increases in export earnings were offset by a higher cost of living because imports to the UK became more expensive (Breinlich et al., 2020). Depreciation of the pound sterling meant higher prices for imported goods and services, which between the June 2016 referendum and 2020, amounted to an increase of £870 in the annual cost of living for the average UK household (Breinlich et al., 2020).

6.3.2 Imports

The *Industrial Strategy* mentions that, in 2016, UK exports were valued at £547.5bn (BEIS, 2017c; ONS, 3 January 2019). It fails to mention, however, that in the same year the UK's imports were valued at £590bn—leaving a net trade deficit of £42.5b (ONS, 3

January 2019). Since WWII, the UK often has posted an annual trade deficit, particularly in the last two decades (see Fig. 6.3 and Fig 6.4).

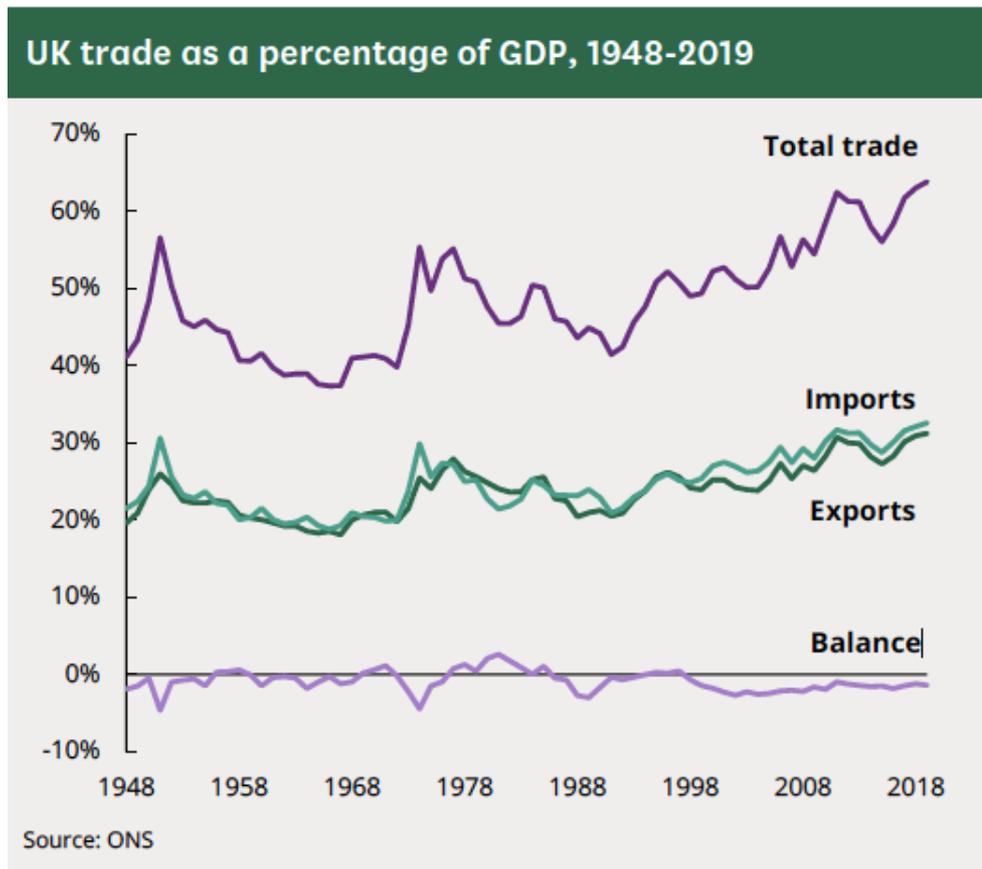


Fig. 6.3 UK trade as a percentage of GDP, 1948-2019 (Ward, 2020)

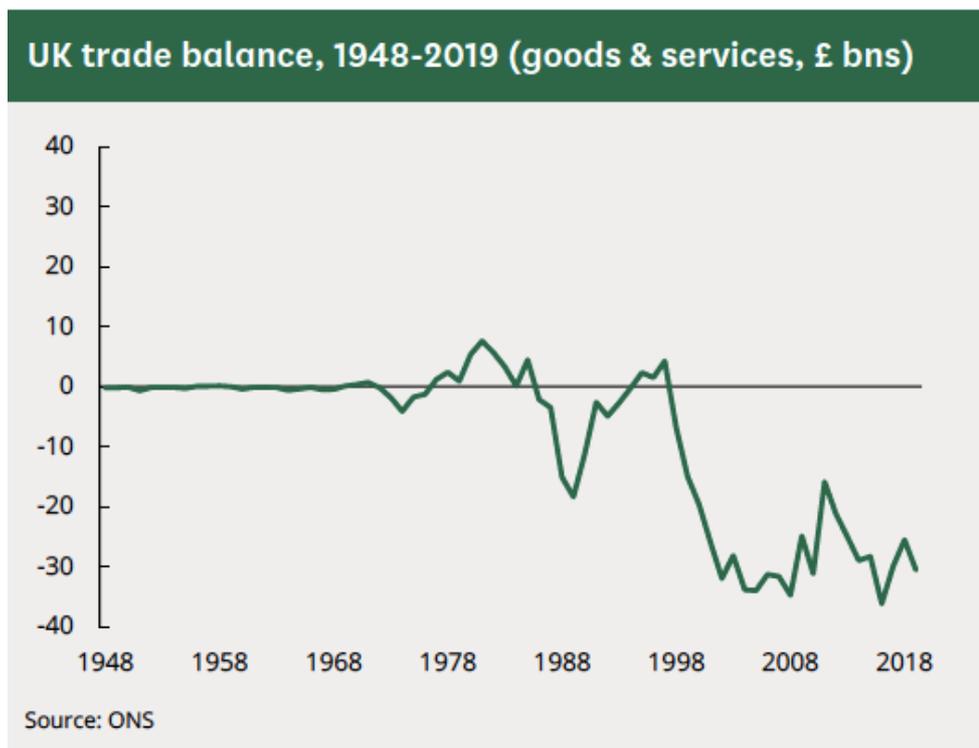


Fig. 6.4 UK trade balance, 1948-2019 (Ward, 2020)

The devaluation of pound sterling after June 2016 meant that these imports became more expensive after the Brexit referendum (Douch et al., 2018a). Given the UK's trade imbalance, it is concerning that the *Industrial Strategy* does not give due consideration to this side of the trade equation.

This study found that 60 per cent of survey respondents imported goods or services from abroad. Common overseas expenditure included travel and trade fairs, software such as video and webhosting, web services such as Google and Facebook advertising, overseas contractors, printing and design. Some of this expenditure was directly related to the investment required for exporting. Others had ongoing contracts with foreign firms that were paid in foreign currencies. All of these imports would have been impacted by the devaluation of the UK pound. One firm senior SME manager recounted, "On the day of Brexit, it cost us £13,000 because the value of transactions changed [overnight]. It has cost us more since then because of exchange

rates and on-going commitments.” This SME traded in services, employed 10-50 FTE and had a turnover of between £1.5m and 2m.

Setting steep export targets while overlooking imports may have consequences for the creative industries. As Douch, Edwards and Soegaard argue,

Since a significant amount of Britain's exports are used to buy imports, what really matters is the value in terms of the currencies of our trading partners. If British exports sold can buy fewer imports, that translates to falling living standards at home as imported goods rise faster in price than wages. Hence...Britain is already poorer as a result (Douch et al., 2018a).

Endeavouring to increase creative industries exports by 50 per cent while curtailing imports via new trade barriers neglects the fact that international trade is a reciprocal system. Stemming the inflow of foreign goods or services into Britain equally has consequences on the export of British goods and services.

6.3.3 Services exports and the Creative Industries

Compared to other countries, the UK is unusual in that a significant portion of its international trade is in services (Douch et al., 2018c). For the past four decades the UK has posted a growing trade deficit in goods, but it has consistently posted a trade surplus in services, which, since 1966, has been increasing (Ward, 2020). This is good news for the UK because by 2016, 48 per cent of the UK's exports were in services (Department for International Trade, 2022). In the creative industries, this is even higher. In 2015, 59 per cent of creative industries exports were in services with £21.2bn in services exports versus £14.7bn in goods exports (DCMS, 6 June 2017). As with this study, some suggest the figure may be even higher with one report finding 67 per cent of all creative industries exports to be in services (Young and Cauldwell-French, 2018).

Without the prospect of direct tariffs (as it the case for goods exporters), services exporters theoretically could face fewer barriers to trade after Brexit. Nevertheless, interviewed company owners and European clients still were worried. The primary concerns centred on non-tariff barriers such as permits, licences, and other compliance standards. As one sole proprietor with an annual turnover of between £50,000 and £100,000 and who made 25-50% of income from exports said, “[Tariffs don’t affect me since I provide a service, but] I need a work visa for any work I do in the U.S. I can’t just enter on a tourist visa. My insurance would be void if I didn't get a work visa for the United States. In Europe, I can just get up and go. I worry how Brexit will affect my work in Europe.” He was not alone. Across the board, both exporting and non-exporting firms in the UK expected the eventual impact of Brexit to cost them between -2 and- 2.5 per cent on company sales (Bloom, 2018).

One Managing Director of a service-providing firm noted, “Brexit will be difficult for us for tax-wise. It's frictionless for us to work [in the EU now, but it] may become a logistical burden if we may have to pay taxes in each country. The EU has been a free pass to the nearest continent to us.” This enterprise had a turnover of between £50,000 and £100,000 and made between 25-50% of its annual turnover from exports. “Europe [has been] the biggest market for our business,” he said.

Others were not hopeful that UK policy remediation would be implemented sufficiently or in time, although the CISD had already been released at the time of interviews. One senior manager of a large SME said, “The creative industries is the last thing the government will look at. Many years ago, I worked [in] animation and we didn't have a tax credit. It killed the animation industry because it's expensive and labour-intensive to produce. Post-Brexit we could be in a decline for 3-5 years again.” The same senior manager indicated that outward flows of exports were not the only concern: “30% of our employees are [from the] EU... If we start having to look for new talent, if we'll begin to have visa restrictions and points systems, it will be costly and time-consuming,” she said. This SME had an annual turnover of over £3 million

pounds, employed over 100 FTE and made between 25-50% of income from exports. "The UK universities haven't reacted quickly enough [to the needs of the digital industries]," she added.

Interestingly, some goods providers were less concerned about Brexit than service providers, possibly because of prior experience with exports and trade barriers to non-EU countries. The co-owner of a goods-producing firm said, "I don't think [Brexit] will necessarily influence sales, but we are worried about the extra paperwork that might mean to complete per order. 95 per cent of our income is via direct sales [to consumers] online." The firm had an annual turnover of £500,000-£600,000, employed 4-9 FTE, and made 51-75% of income from international sales. Another goods producer was also worried about potential barriers, saying, "The biggest problem for us is tariffs. If they introduce tariffs...it would affect our margins." He reported that the company was prepared to reduce its income, however, to protect sales. "We are trying to make things as frictionless as possible for the customers from the website experience and customer experience. So we will swallow the margin hit," he said. Nevertheless, he worried about the psychological effect of Brexit on foreign buyer confidence and whether that in itself would reduce sales. "Something that's a bit more intangible," he said, "is how customers [will] perceive us. Whether they'll think, 'Oh it's a pain in the neck to buy from the UK. Am I going to get taxed at the border?'" This SME produced goods only, had an annual turnover of £3 - £4 million, employed between 10-50 FTE, and made 51-75% of income from exports. "It's a disruption that we could do without," he concluded.

In this research sample, foreign consumer confidence seemed to have affected services providers as much as goods producers. In the case of services, one reason may be that contracts often extend several months or years into the future and Brexit uncertainty was making forward planning difficult. One service provider testified that while no policy barriers had been put into place, psychological barriers had already taken their toll. The firm co-owner said, "We tried to secure transport to France, but were told by a UK-based hire company they are not hiring out vans to be used in

Europe due to the current uncertainty.” This was in 2019 when the UK had not left the EU and no deal had been reached so theoretically all business could continue as usual. International partners, however, were wary. “[We have] been told by a promoter in Germany that they will not be using British acts next year,” she said. This microenterprise had an annual turnover of between £300,000 and £500,000, employed 4-9 FTE, and made 25-50% of income from exports.

While creative industries services providers should, theoretically, have had fewer concerns because intangible services don’t face the same physical barriers such as border checks or customs clearance, the interviews revealed that they were as affected as goods providers, sometimes more, by Brexit uncertainty.

6.3.4 Exports and policy uncertainty

Several research projects corroborate this study’s findings, arguing that uncertainty during the inter-Brexit years resulted in lower export sales. Douch, Edwards and Soegaard undertook an extensive Synthetic Control Analysis (SCA) of the UK’s actual trade after the Brexit “leave” results in June 2016 as compared to the UK’s expected trade volume had voters instead chosen to “remain” in the EU (the so-called “doppelganger”). In an era that saw a dramatic increase in global trade, the SCA doppelganger analysis showed that UK exports performed subpar in 2017 and 2018. Taking into account exchange rates, global trade patterns, and comparing the UK to a range of EU and non-EU countries, the 18-month study found that UK trade volumes were far below where they should have been given the expansion of global trade between 2016 and 2018 (Douch et al., 2018b). Exports were below expected volumes both with the EU (Fig. 6.5) and also with non-EU trade partners (Fig. 6.6). Theoretically, non-EU exports should have remained unaffected by Brexit.

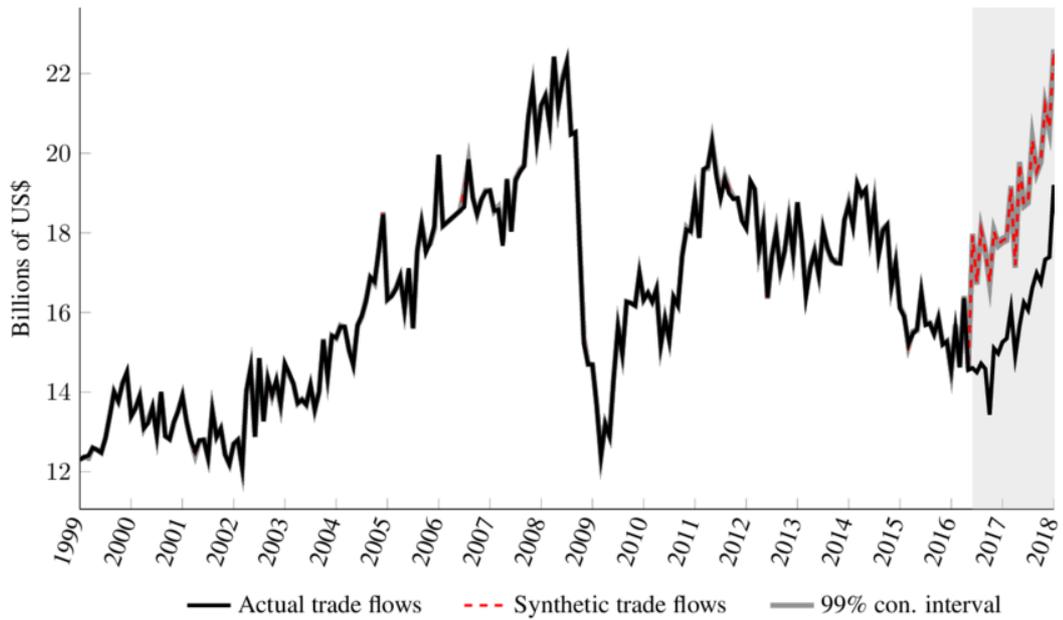


Fig. 6.5 UK exports to EU (source: Douch, Edwards and Soegaard, 2018b)

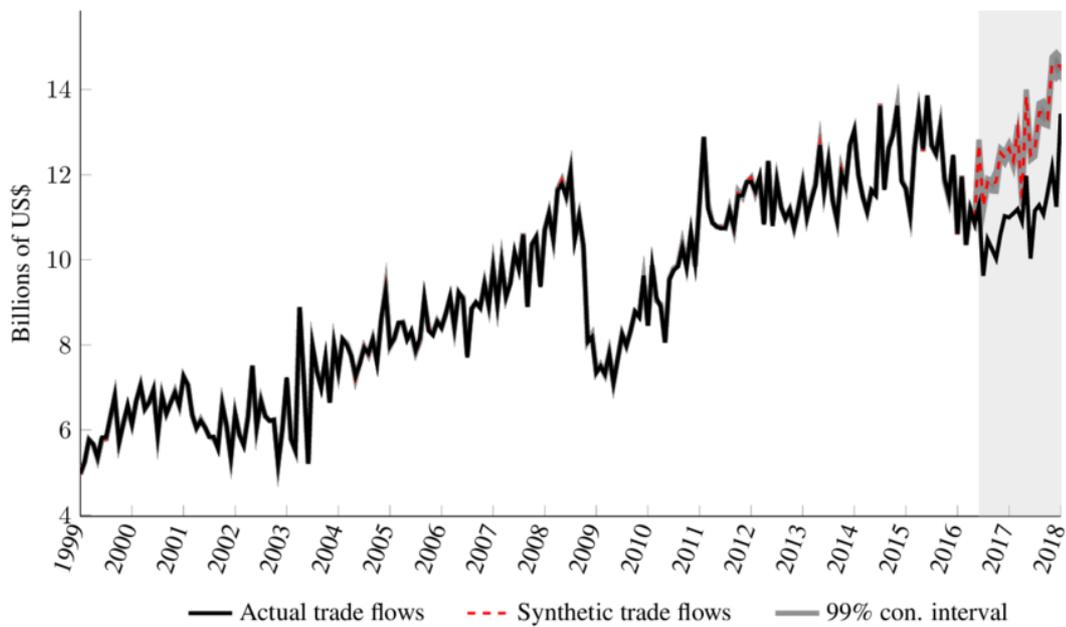


Fig. 6.6 UK exports to non-EU countries (source: Douch, Edwards and Soegaard, 2018b)

In 2014, 52 per cent of UK service exports went to EU countries as opposed to 57 per cent of goods (Douch et al., 2018c). Theoretically, the export of services should not be as extensively affected by Brexit as the export of goods, where monetary tariffs are applied at the point-of-entry (ibid.). Nevertheless, Douch, Edwards and Soegaard

found that UK services exports underperformed after the Brexit referendum in 2016 (ibid.). Services exports to the EU in mid-2018 were almost 8 per cent below expected volumes (ibid.). The economists attributed the relative weakness of the UK's exports on uncertainty: "the main negative shock seems to be related to uncertainty and fears about the negative productivity/cost consequences of Brexit, which affects exports to all destinations," (Douch et al., 2018b). In a report to the House of Lords in 2021, Douch and Edwards reported that, "Brexit worries affected UK exports, not just to the EU, but also to non-EU countries," with exports falling by 15% to non-EU countries and 25% to the EU, in dollar terms," by 2021 (Douch and Edwards, 2021). UK Imports were equally impacted. Imports from Europe declined by 3.6 per cent as compared to the "remain" doppelganger synthetic trade flows while imports from non-EU countries fell even more—by 10 per cent (Douch et al., 2018b).

Other studies have reached a similar conclusion. Cambridge economist Meredith Crowley and her co-researchers found that export transactions at the firm and product level in 2016 would have been 5 per cent higher if, "firms exporting from the UK to the EU had not faced increased trade policy uncertainty after June 2016," (Crowley et al., 2019a). By their estimation, this reduced the value of exports by between £394 million and £3.0 billion in 2016 (Crowley et al., 2019b). The study concluded that Parliament's rejection of Teresa May's withdrawal agreement in 2019, which risked the UK's departure from the EU with 'no deal,' was extremely costly for UK firms (Crowley et al., 2019b). Uncertainty was the biggest threat to the UK economy and, in fact, sparked fears of a global economic slowdown (Crowley et al., 2019b). This is because, "firms respond to trade policy uncertainty by deferring investment and choosing not to enter into new markets or to exit from existing markets," (Crowley et al., 2019b).

The *Vote Leave* campaign promise of reallocating £350 million from the government's EU weekly funding to the National Health Service oversimplified the complexities of national economic performance in an interconnected global economic system (Born et al., 2019a). Using the traditional measure of GDP, economists Born, Mueller, Schularick and Sedlacek found that, in the two years following the Brexit 2016

referendum, the UK's economy had contracted by 2.1 per cent as compared to equivalent economies and the UK's pre-referendum growth path (Born et al., 2019a). This was equivalent to losing £350 million per week (Born et al., 2019a). This group of economists again attributed this "output loss" to economic policy uncertainty and its toll on business performance during the protracted Brexit negotiations between the UK and the EU (Born et al., 2019a; Born et al., 2019b). The UK's economy, pre-COVID-19, was forecasted to contract by 4 per cent in 2020, losing more than what it gained back by not paying into the EU's budget (Born et al., 2019a; Born et al., 2019b).

6.3.5 SMEs and Brexit uncertainty

SMEs (including microenterprises and independents) form a core constitutive part of the UK economy, but some contend that they have been overlooked by post-Brexit policymakers (Brown et al., 2019). A parliamentary review of 20 policy areas affected by Brexit (Briefing Paper No. 07213), failed "to mention SMEs, despite their pivotal role within the UK economy" (Brown et al., 2019). Yet, SMEs face different (and often greater) challenges than larger firms, particularly in areas such as access to EU markets, access to finance (which had been provided by EU regional and industrial funding schemes); access to labour, and new regulations (Brown et al., 2019).

Brown, Liñares-Zegarra and Wilson conducted a broad study of SMEs employing data from the 2016 and 2017 *Longitudinal Small Business Survey* (LSBS) collected by the BEIS. The LSBS is one of the biggest attitudinal surveys of SMEs conducted in the UK with almost 16,000 responses (Brown et al., 2019). The study found that, across the UK as a whole board, 16 per cent of SMEs reported Brexit as a major obstacle to the success of the business in general in 2016, but by 2017 the number had gone up to 23 per cent (ibid.). Disaggregating the data, however, exporters expressed much higher Brexit concerns at 33 per cent in 2016 and 40 per cent in 2017 (ibid.). Exporters with EU trading exposure were the most concerned with 37 per cent seeing Brexit as a major obstacle in 2016, rising to 47 per cent by 2017 (ibid.). As data regarding the

actual effect of the UK's departure from the EU on SMEs was not available at the time of this research, it is important to note that *beliefs* are enough to affect business decisions. Particular types of SMEs—innovators and exporters—were disproportionately anxious about Brexit (Brown et al., 2020). They were also the most likely cohort to have witnessed reductions in employment, exports and innovation (Brown et al., 2020). SMEs with growth-related plans were scaling down capital investments, innovation and, in particular, exports in the two years following the Brexit referendum (Brown et al., 2019). In contrast, domestically focussed, less innovative SMEs were “much less concerned and less negatively affected” (Brown et al., 2020).

This research made a similar discovery. In the surveyed sample at Baltic Creative, although some business owners had suffered setbacks due to Brexit, almost all remain optimistic. They expect their companies' income to grow, perhaps owing to the intrinsically optimistic nature of entrepreneurs (Liang and Dunn, 2010). Baltic Creative's exporters, however, were far less optimistic about the coming financial year with Brexit on the horizon. Exporters expected their turnover to grow by 25 per cent in the following financial year, while all firms at Baltic Creative expected their turnover to grow by 40 per cent (Fig. 6.7).

BALTIC CREATIVE SURVEY RESULTS

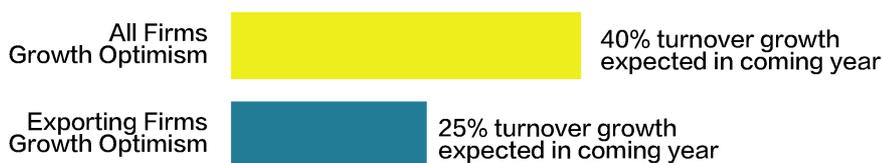


Fig. 6.7 Baltic Creative tenants: Growth optimism of exporters vs. total population

One firm owner specified why uncertainty and client reluctance to commission was a setback: “The problem is [that] cash flow is paramount in our business. You don't want to just let go of staff when your client's project is on hold.” This firm had a turnover of £500,000-£1 million, employed 10-50 FTE and didn't make any turnover from exports. Nevertheless, he said that the firm's income had been affected by uncertainty. “Our

project with [a major UK retailer] has been delayed for nine months because they have had their own issues because of Brexit," he said during the interview. He indicated that this was not an isolated case. "It's not just them," he said. "We've also seen a slow down with other [major] clients."

One director of a firm employing 50-100 FTE indicated that the elevated levels of indecision and client reluctance were unusual for his sector. He said,

There's an air of uncertainty. Nobody wants to commit. We have enough new clients and commitments on large projects to tick us over, but sometimes you're full steam on a project and then it goes on hold...for reasons we don't know. There's never been a time like it since I started in the industry 12 years ago."

Despite the firm making less than 10 per cent of annual turnover from international projects, its domestic projects, sales and income were affected by Brexit policy uncertainty. While the exact reasons for project delays were unknown, the director speculated these UK-based clients had international exposure or were affected otherwise by Brexit uncertainty.

Not all interviewed business owners and managers, however, were concerned about Brexit uncertainty. Several indicated that they were, above all, staying abreast of any new developments. One business owner said, "It hasn't affected our business thus far, but we'll be making sure we're informed enough to make good decisions for the future of the company." This firm had an annual turnover of £200,000-£300,000, employed 4-9 FTE, and made under 10 per cent of annual turnover abroad. Another firm owner said, "We're up to date on how Brexit might affect our business. It might affect the spending of the companies that hire us...but maybe we will decide to re-focus our European business elsewhere like America. We aren't too worried." This firm had an annual turnover of £2-£3 million, employed 10-50 FTE, and made between 10-25% of turnover abroad.

The majority of those interviewed, however, had reservations. A senior manager of a larger SME explained why uncertainty was a problem for the firm. "People are more restrained about commissioning in the UK because they don't know what's going to happen," she explained. When asked how, concretely, policy uncertainty could cause concerns for this service provider, the manager responded:

[When we work] within the USA, we have to learn what happens within their system. [It also] takes time to learn what we've got to do to abide by Canadian tax credits. The USA doesn't have tax credits so if a client decides suddenly to do something in LA, they don't realise that will impact the cost because they don't have a tax credit system... We're producing EU content. What will happen with that? Will there be new legislation? Will we have to make something in the UK and then remake it in the EU? What will happen with our tax credit - will it go up?

This level of policy uncertainty made it difficult for foreign clients to commission or to purchase services from the UK. This SME had an annual turnover of over £3 million, employed over 100 FTE and made 25-50% of its annual turnover from exports. Firms and sole proprietors have built businesses on a pre-existing economic and policy framework. With that model under potential disruption, forward planning became difficult.

Interestingly, even those without heavy exposure in the commercial sector also indicated a slowdown. One firm owner of an educational microenterprise that made between 11-25% from international institutions said, "We find that...those with spending powers are cautious and are often waiting. They also have a perception that funding is uncertain from central, government sources."

Other firm owners were playing out worst-case scenarios to prepare for Brexit and, potentially, to prevent major pitfalls. One SME co-owner shared his contingency plans:

“My business partners and I applied for EU residency in Estonia 2 years ago, and we renewed it this year (you have to renew it every year). We haven’t formed a company there yet, but...in under an hour you can set up a company there. We got EU residency in Estonia in case there's an issue for international clients to do business in UK after Brexit. I’m not worried about the 10-15% of our business (that's about how much of our income directly come from exports), but a lot of our big clients are European multinationals based in the UK. For example, we work for [a large European company] ... and they might relocate operations to Europe. It might be easier for them if we have a company based in Europe.”

The owner also explained that Brexit had impacted turnover because, while the firm had relatively few international assignments, they brought proportionally higher returns than local engagements. This firm had a turnover of £1-£2 million and employed 10-50 FTE. While the firm was preparing itself for the UK’s departure from the EU, these investments were diverting fiscal resources and time from business development or innovation to bureaucracy (known as resource misallocation).

This “Brexit Distraction Effect” was putting further downward pressure on productivity due to extra hours spent on preparing for Brexit (Bloom, 2018; Bloom et al., 2020). One business owner echoed this observation saying, “A big impact is the time lost to people talking about Brexit in the office.” This distraction resulted in productivity losses both within and between firms (Bloom, 2018; Bloom et al., 2020).

Another exporter shared his contingency plans: “We've not felt any effect yet. If [Brexit] does happen, then I have a plan to keep myself going for these European tenders. I can get an Irish passport. I may have to open an office in Ireland or The Netherlands. In the last 2 years [EU tenders] have helped grow the business.” This plan, however, was going to involve substantial investments of capital, time and effort that hitherto were free of charge. This firm was a service provider with an annual

turnover of between £2 and 3 million, employing 10-50 FTE, and making 20 per cent of income from EU contracts.

One SME owner said that Brexit uncertainty had not yet cost the firm existing business relationships, but it had dampened business income:

Some of our existing international clients would have spent more money with us if Brexit had been decided, either way, 3 years ago." Our second-largest client [German firm X] said to us, 'We don't want to expand the team because we don't know if you're in or out. We just don't know what the dynamic will be. It doesn't mean we won't expand our services with you if you leave the EU, but we just want to know what it will mean.'

This SME had an annual turnover of over £3 million, employed between 10 and 50 FTE, and made 10 per cent of its annual turnover from exports due to foreign trade deceleration.

Uncertainty in periods of transition, such as the inter-Brexit years, can have a profound impact on growth. Nobel Prize-winning economists Banerjee and Duflo argue:

...transitions are an important yet underemphasized part of the growth story. One of the central tenets of traditional [economic] growth theory was that transitions were unimportant, because market forces ensured that resources were smoothly and speedily delivered to their most productive use. But this assumption is often false. In a given economy, productive and nonproductive firms coexist, and resources do not always flow to their best use. Some companies have more employees than they need, while others are unable to hire. Some firms use the latest technology, while others never do. Some entrepreneurs with great ideas may not be able to finance them, while others who are not particularly talented continue operating.

(Banerjee and Duflo, 2020)

Quantifying intangible variables such as transitions or uncertainty is challenging, but economists increasingly are working on methods for integrating these variables. For example, Ellington and Milas show that moments of increased policy uncertainty during the Brexit negotiation period in 2018 and 2019 were mirrored by depreciation of sterling against the US dollar (Ellington and Milas, 2018; Milas, 2019). This is because foreign investors had lower confidence in, and therefore were less disposed to invest, in the UK (Ellington and Milas, 2018; Milas, 2019). The twin concerns of unclear policy directions and considerable exchange rate fluctuations meant that UK exporters faced uncertainty about future earnings and were therefore themselves less prepared to invest in more employees, new technologies, training, etc (Milas, 2019).

Policy uncertainty delays exporting firms from entering new markets and makes them less responsive to actual tariff reductions (Handley, 2014). The opposite is also true: policies that diminish uncertainty, such as trade agreements, increase the entry of new players into international trade (Handley, 2014). *Predictable* market access is vital for exporters (Handley, 2014), a key point that was ignored in the Brexit referendum preparations and in the *Industrial Strategy*.

6.3.6 The particular case of microenterprises and independents

Consistent with the creative sector composition as a whole, this research was heavily populated by microenterprises, which formed 83 per cent of the combined SME sample. Microenterprises and independents may face particular disproportionate challenges stemming from policy uncertainty (Brown et al., 2019; Brown et al., 2018). In one study, microenterprises expressed the highest level of concern with 48 per cent perceiving Brexit as a major obstacle to their business' success (Brown et al., 2019).

One sole proprietor reflected this sentiment: “The thing that keeps me awake at night is Brexit. Why are we doing this? I just don't know what's going to happen” he confided. “I just wish it were more clear,” he said. Despite no exports, he still was concerned about Brexit. “I'm lucky in that I can work remotely or elsewhere outside the UK. But I'm working for UK start-ups right now. They might be the first to die. They don't have loads of cash behind them. I get funding from investors and the government, but I worry [my clients] will be affected.” This sole proprietor earned between £30,000 and £50,000 annually.

Very few of the microenterprises were worried about the traditional barriers associated with trade, such as the movement of goods across borders. One sole proprietor, however, voiced a concern because she had already experienced red tape with goods exports outside of the EU. “I'm worried about the customs issues with Brexit,” she said. “I've had a few orders that have been rejected by customs in Australia. With Brexit no one knows what will happen.” This independent had an annual income under £30,000, and made over 75 per cent of income from exports.

Those who hadn't witnessed any noticeable effect of Brexit on their business, were sometimes still wary due to prior experience. One sole proprietor with a turnover of £50,000 - £100,000 and 50–75 per cent of annual income from exports reported:

I don't think Brexit has affected my business. It's been busier, [but]...will Brexit impact my customers because it will affect their contractors? The Carillion failure⁹ impacted one of my clients so they weren't paying me. They were in arrears for a long time.

This research is not alone in finding Brexit-related unease amongst independents and small firms in the creative sector. One 2019 study found that 80 per cent of Welsh creative industries firms were concerned about the impact of Brexit on their

⁹ Carillion had been the UK's second largest construction and building maintenance company employing 20,000 in the UK and 23,000 abroad. In 2016, it had sales of £5.2 billion. (Thomas, 2018)

businesses with a quarter of those expressing very strong concerns, indicating that Brexit could potentially be a “disaster” for their business (Komorowski and Lewis, 2020). One in five indicated they had already been affected by Brexit with impacts ranging from a decline in projects and orders since 2016 due to Brexit uncertainty and higher costs for materials, products and services due to a decrease in the value of the pound (Komorowski and Lewis, 2020).

While Brexit uncertainty affected the UK economy as a whole, evidence from this study and others suggest that the smallest players may have been disproportionately affected.

6.3.7 Summary

The original aim of this research was to follow-up with the cohort of creative industries firms and independents after exit from the EU to examine their expectations against the actual outcome of Brexit. Because Brexit was delayed and postponed several times, the researcher was unable to pursue the original aim of the research. This research timeframe ended in January 2020 just before the UK exited the EU and just as the one-year transition period was beginning. As such, the project pivoted to examining the effect of policy uncertainty on the studied cohort. The results suggest that policy uncertainty during the inter-Brexit years of 2018 to January 2020 dampened the export potential of the sampled creative industries SMEs.

Despite elevated policy uncertainty during the inter-Brexit years of 2018 and 2019, the research sample nevertheless displayed a remarkably high level of international trade engagement. While a considerable number of respondents indicated loss of international business due to Brexit uncertainty, respondents still reported significantly more international trade than ONS figures would have predicated for the cohort.

The following section will examine the Creative Industries Sector Deal (CISD) and its aim to increase creative industries exports by 50%. It will also examine features that may have buffered the sample from the worst of policy uncertainty and how these were or were not factored into the CISD. This examination will add further insight into potential explanations for the sample's relative international trade success.

Section C. Is government policy aimed at the correct target?

Designed at a time when the UK was preparing to leave the EU, a key concern of the Industrial Strategy and the CISD was the export of British goods and services because the UK economy is highly dependent on international trade. In 2016, the year of the Brexit referendum, exports and imports amounted to 58 per cent of the UK's GDP (BEIS, 2017c). Of this, over 50 per cent of the UK's imports and exports were with the EU (Douch et al., 2018c).

This section will examine the CISD and ask, was the it attuned to helping creative industries firms increase trade in the face of potential business deficits stemming from Brexit?

6.4 What the CISD gets (partially) wrong: To scale-up or to not scale-up?

A key policy goal of the CISD was the scaling up of creative industries in order to increase international trade, calling for a "ladder of growth" to meet the "scale-up needs of the creative industries," (BEIS, 2018). The CISD seeks to "unlock growth for creative businesses," providing "growth funding" with the aim of "improving the productivity and growth of small and medium-sized businesses," (BEIS, 2018).

At the same time, by the CISD's own account, "the creative industries currently account for 9.4 per cent of UK service exports, almost twice their share of the economy," (BEIS, 2018). In fact, creative industries firms are shrinking in size while their

contribution to UK exports is growing (Bazalgette, September 2017). Why is that? The CISD does not query or examine this contradiction. Either staying small must have some advantages, or something in the political economy had allowed these firms to stay compact and still export to a high degree. Some of the possible explanations for this success will be discussed in Section 6.5 (What the CISD fails to address entirely: Born Globals).

The CISD is concerned that, in the creative sector, more than nine in ten enterprises employ fewer than ten people (BEIS, 2018). Are the independents and microenterprises in question, however, worried by this figure? Are the microenterprises and independents that make up the body of the creative industries, by and large, looking to grow? This question was asked of the interviewed firm owners and independents. The following section will discuss their replies.

6.4.1 Do creative firms want to grow?

When policymakers set targets for growing the creative industries, this growth typically is measured by annual turnover or headcount (Chung et al., 2018). The CISD particularly focuses on firm size stating that, “the priority for the sector is scale: helping the SMEs and entrepreneurs that overwhelmingly make up the sector to grow, in order to raise productivity,” (BEIS, 2018). In interview after interview, firm owners and independents were ambivalent about increasing firm size (though all wanted to ‘scale-up’ revenue). As one SME owner said, “It’s easy to have ideas about growth and expansion, but...one plus one can equal one-and-a-half.” His firm was already relatively large for the sector with a turnover of over £3m and employing between 10 and 50 FTE. He was not exporting and did not actively intend to do so unless opportunities readily presented themselves.

“I want to grow my network, not my employees,” said another firm co-owner said. For this respondent, today’s economic reality was the main driver for her decision to not

expand. "I've worked in agencies before and they are having to make redundancies. It's not a model that's flexible enough for clients." The microenterprise had two FTE (both partners in the business) with an annual turnover of between £50,000 and £100,000.

Scaling-up offers some advantages, but also poses risks. Hiring more full-time staff required certainty of increased turnover. In an era of instability marked by Brexit, several microenterprise owners expressed reluctance to take that risk and preferred to hire independents on a case-by-case basis. As one sole proprietor said, "I'd like to have a team of 3-4 people...but taking people on is a big commitment and the world is changing. There's this world of independents you can tap into." At the time of the interview, he hired one independent for an hour per day and three or four other independents when required. Upon reflection he added, "I would hire people for consistency and more control, for ensuring the business runs when you're not there...and for succession if I ever want to sell the business." Nevertheless, he was not intending to hire staff in the coming year or near future. The sole proprietor had a turnover of £100,000-£200,000 with exports accounting for 10-25% of annual turnover.

During interviews, the topic of staff growth was often met with scepticism, with many pointing to independents and networks as alternatives. These findings are not unique. The Creative Industries Federation surveyed over 1000 creative enterprises and hosted four focus groups (in London, Glasgow, Manchester and Cardiff) for its 2018 report *Growing the UK's Creative Industries*. Although 81 per cent of creative industries reported ambitions to grow over the next 3 years, firm headcount was not a primary measure of growth—or success (Chung et al., 2018). Independents are a common—and unique—feature of the creative sector so firms intending to grow considered other avenues vital for growth:

...collaboration and partnering with others was perceived to be particularly important for those with the ambition to grow, and this is a sentiment that is

shared across the creative industries. Many participants explained that working creatively can naturally foster a desire to collaborate, which has become common practice across the sector. This was particularly the case for those working as independents or in micro businesses, where partnering or working together on projects is fairly common, and indeed vital to their success.

(Chung et al., 2018)

Collaboration will be discussed in greater detail in Section 6.6.2 *Growing networks rather than staff numbers*.

Growing the UK's Creative Industries also found that while increased turnover was an important factor for creative enterprises, most interviewees stressed that other factors such as social impact or increased profile were also vital (Chung et al., 2018).

One must not ignore the social and emotional determinants of remaining small. In this study, well-being was often mentioned as a key determinant of not scaling up, despite some economic disadvantages. One independent said, "Despite losing the stability of a full-time job...people are happier when they are more in control of their day, their career and their life. They don't want to be micro-managed; they want to take a couple of hours out of their day to do something else other than work." Lifestyle choices were more important than growth for a substantial number of interviewees. Another independent said, "I can go on holiday when I want. [The firms I work for] are cool with remote working. I don't like commuting on crowded trains."

Several sole proprietors interviewed differentiated between "freelancing" and "working as a contractor," the latter considered less precarious while still offering the same level of autonomy. Freelancers typically are engaged on a project-by-project basis and do not have the bandwidth to engage in forward planning (Chung et al., 2018). This contractor explained:

"I am paid for and hired as a contractor for 5 days a week by 2 companies. I stopped being a classic independent where I had to fight for contracts and getting underpaid for the number of hours I did. It was like doing odd jobs... scope creep. I now work with other teams. The two companies I'm working with take people on board when they need."

This sole proprietor had a turnover of £30,000-£50,000, but did not intend to grow because of lifestyle and personal choice. He said, "I'm happy as is. I'm not the personality type to start a business. I'm not a leader. I don't want the stress of running a business. I'm in my comfort zone. But I am turning work down."

While ambitious, many creative independents want their businesses to stay small because they want to retain creative freedom (Leadbeater and Oakley, 2005). In this study, several interviewees focussed on the pleasure of their work. One software developer said, "I've seen contracts in the US that are double the pay compared to here. If the economy here tanks, then I'll definitely be looking outside [of the UK]. But I enjoy my work...I know I could get paid more doing other work, but I do love what I'm doing. I believe in it."

Another exporter said, "I'm quite happy to keep it as me, but I tell Boost I want to grow." It was unclear whether by "Boost" he meant the government-funded Lancashire business growth hub or the private sector seed-stage investor. In both cases, however, the support or investment seemingly was intended for firms aiming to grow. The sole proprietor explained further, "I have a full video and production studio in my pocket and laptop... I do everything by myself, but I've had feedback that it looks really professional. You can build an illusion of being a really professional outfit, but I do it all myself." This exporter was a start-up with an annual turnover of £30-50,000, had the intention of increasing revenue to £50,000-£70,000 in the following year, and earned 10-25% of income from exports.

Naturally, some of the sampled firms were intending to increase staff numbers. Independents typically did not indicate plans to increase firm size. Most growth plans were found in slightly larger SMEs and the growth was stepwise, not exponential. For example, one SME employing 50 staff anticipated growing staff to 53 FTE in the following year and another microenterprise employing 5.5 staff FTE anticipated expanding to 6.5 FTE. Amongst those intending to hire more employees, staying relatively small (i.e., a microenterprise) was still often the intention. One firm owner put a cap on expansion plans. "I don't intend to grow to more than 10-12 people to focus on customer service and quality control," she explained. The firm had an annual turnover of £200,000-£300,000 with 4-9 FTE and 1-10 per cent of income from exports.

Incidentally, interviews often revealed international staffing solutions, such as full-time staff members and programmers based in Ukraine, accountants and assistants living in India, or freelancers working and living part-time in Liverpool, and part-time in Bali. The truly global nature of work was evident in this small snapshot of creative industries.

The CISD states that the size of creative firms is falling even while their contribution to UK exports is growing. Interestingly it doesn't question why this might be the case. It only goes on to say, "there remains a great deal of untapped potential in the sector, with many businesses not yet exporting at all," (BEIS, 2018). As noted in *Growing the UK's Creative Industries*, despite atypical, flexible workforce solutions "the creative industries are still creating jobs at twice the rate of the UK's average job growth," (Chung et al., 2018).

Without querying potential factors for the creative sector's success in exports and job creation, the CISD may have reverted to policy mechanisms ill-suited to the prevailing political economy. The following section will explore a feature of today's business landscape that may partially explain the study sample's international trade success: the "Born Global" phenomenon.

6.5 What the CISD fails to address entirely: Born Globals

This study's sample was comprised entirely of firms that were founded while the UK was part of the EU, hitherto the UK's biggest and most proximate barrier-free trade partner. A major challenge for the sample was the possible end to this era without a clear roadmap for the UK's international trade framework after Brexit. Since the 1990s, the digital economy combined with the increasingly free movement of people and products across borders had dramatically reduced trade barriers for these small firms (Knight and Cavusgil, 2004).

Throughout the late 20th Century, the influential Uppsala model dominated the understanding of foreign market penetration (Johanson and Vahlne, 2009). The Uppsala model proposed that, by first establishing a solid footing in the domestic market, internationalising firms progressively acquired, integrated and used knowledge about foreign markets to gradually increase their participation in foreign markets (Coudounaris, 2018). Firms were seen as internationalising step-by-step, "incrementally increasing commitments to foreign markets," (Johanson and Vahlne, 1977).

By the 1990s, however, economists and business scholars were recognising a new trend. Young, innovative firms were leveraging globalisation and advanced technologies to achieve international success from their founding (Knight and Cavusgil, 1996; Knight and Cavusgil, 2004). The digital economy and the growing predominance of SMEs had begun to erode the demarcation between larger, older, international firms and young, local companies (Gabrielsson et al., 2008). Uppsala model critics argued that it was not suitable to the services sector, that it did not explain why some firms export from the outset (Coudounaris, 2018). They argued that the speed of internationalisation had been increasing since the model was first developed (Coudounaris, 2018).

One interviewed company owner described how technological advancements had changed the business he had founded in the early 2000s. "In 2005, or whenever it was, Google came up with this thing called AdSense. Overnight [my website] went from just [sitting on] the Internet somewhere to making more money than I made working full-time in the NHS," he said. Recognising the growing potential of the Internet, this entrepreneur left his job and started a home-study business in 2008. The company sold self-produced educational DVDs with its website serving as a marketing tool. "We started off essentially as an exporter," he said. "We chose to price in dollars very early on because it's [the main] currency in the world. People in the UK are more comfortable paying US dollars than people in the US... paying in British pounds," he said. When the UK post-office privatized in 2013, postal prices increased so the firm decided to stop selling physical DVDs, restricting sales to online streaming. The daring move to a purely digital service paid off and international sales increased. At the time of the interview, this company made approximately 70 per cent of its annual income from exports and spent 25-50% of its expenditure abroad on imports. The company had an income of between £300,000 and £400,000. In a few years, the Internet transformed the market potential and delivery methods of this small business. The firm owner said,

If you are an online business and you are selling digital products, I think it's fairly standard that you are more of an exporter than...a domestic company because the cost of delivery is not there and the cost of fulfilment doesn't exist. So it makes sense to open your borders from day one.

This firm's experience was not unique. The growing phenomenon was first identified by consultancy firm McKinsey in the early 1990s and the effected firms were coined "Born Globals" (Ferguson et al., 2021). Born Globals (BGs) are firms that quickly and successfully engage in international trade, typically within 3 years or less from inception (Ferguson et al., 2021; Knight and Cavusgil, 2004). BGs overcome the traditional "initial barriers to trade" by establishing a solid international presence

without first building up a strong home base (Ferguson et al., 2021; Knight and Cavusgil, 2004).

While many associated the BG trend with IT and technology, economists pointed out that both high-tech and low-tech firms could be BGs: both Blackberry/Research in Motion and Spanish clothing firm Zara started as BGs (Gabrielsson et al., 2008). Some scholars identified uniqueness or “differentiation” as a key ingredient to BG firms’ success. Goods and services with either “unique technology and/or superior design or unique product/service, or know-how...or other highly specialized competence” were the most successful entrants to global markets (Gabrielsson et al., 2008).

The BG trend was identified when technological developments, such as video conferencing, were still in their infancy. This author, however, witnessed many examples of successful creative industry exporters and BGs who were offering services that were *not* highly differentiated. This included firms such as the design microenterprise with a client in Canada, the marketing firm with clients in the USA and Mexico, or the writer and translator working exclusively for foreign clients in the EU and US. As digital technology develops, the decisive role of differentiation may be decreasing in relation to other ingredients such as mobility, international contacts or simply online presence and good SEO (Search Engine Optimisation) management and marketing.

Technology, however, is only one of the two key ingredients that have reduced the transaction costs of expansion to foreign markets and to the making of BGs (Knight and Cavusgil, 2004). The second key ingredient has been the globalization of markets (ibid.). The technological and socio-political developments allowing firms seamlessly to access and monetise global supply chains and clients might account for the high number of Born Global microenterprises encountered in this study’s sample. Several respondents indicated they were “accidental internationalists,” selling to spatially dispersed customers, which scholars attribute to due to low communication, transportation and adaptation costs (Hennart, 2014). How Brexit and the increase in

trade barriers affects BGs' birth and growth in the UK would be an interesting matter for future study.

Leadbeater and Oakley argue that independents and microenterprises not only participate in global markets, but actively drive their growth (Leadbeater and Oakley, 2005). This bodes well for the UK's creative industries because, in and of themselves, they hold a unique selling point (USP) in global markets.

6.5.1 Born Globals and the UK's unique selling point (USP)

The UK's Born Globals have a unique and significant advantage over those working in other nations: their national language is the lingua franca of international business and the UK's cultural outputs are readily accepted by consumers in foreign countries (Leadbeater and Oakley, 2005). Leadbeater and Oakley argue that rising incomes and literacy levels around the world mean a growing global audience for English language services and content (Leadbeater and Oakley, 2005). This is of particular significance to the creative industries sector.

One YouTube Channel owner and content creator said: "The UK is only a small marketplace in terms of the world and I think there's something about British content. I think the Americans see it as, maybe, it is going to make their kids cleverer than ever." On a recent trade visit to China, the firm owner noticed a desire for his content although YouTube is not available in China. "They were really receptive to our content because lot of parent wants their children to learn English as a second language," he said. "They paid quite a lot of money to send their kids, not only to nursery, but then to a 2-hour English kindergarten afterwards. So, they're looking for English-language learning content, but with the proper accents and done in the right way. This cultural capital is unique to the UK and only a handful of other countries." It also may indicate why the creative industries in the study's sample are such successful exporters as compared to other sectors of the UK economy.

Other firms similarly were able to expand abroad because English is the international language of business. One microenterprise owner said,

When we launch a product, we press release it [around the world]. As a result, it gets picked up by press and blogs in the US, UK and Europe. Our products are about film, music or literature...popular culture...that's why our customer base is so international.

This microenterprise sold goods abroad and was mainly consumer-facing with almost all sales direct to the customer. Between 50 and 75 per cent of income was from foreign sales and the business had a total annual turnover of £500,000-£1,000,000. This firm had not translated its website into foreign languages nor had it priced goods in foreign currencies, although the owner indicated that it was currently looking to do so. Charging for products in US Dollars or Euros may have increased sales, but apparently charging for products in GBP and hosting an English-speaking website still resulted in significant foreign sales. This would not be possible for German or Lithuanian creative industries firms where at least translating websites or products would be a basic, necessary extra delay and cost to exporting (although automatic translation software is, yet again, changing this playing field).

Other BGs expanded first to English-speaking countries before investing in foreign-language marketing. One SME owner reported,

We expanded into the U.S. first because it was just English-speaking. But now we've got people [whose mother tongue is] Italian, French, Spanish, and German in our in-house marketing team. So we're going to have a big push into those markets. We expect those to end up well bigger than the U.S.

At the time of the interview, 25 per cent of the firm's sales were to the EU and roughly 40 per cent to the U.S. The owner indicated that staffing could become an issue for the business after Brexit. This firm was a goods exporter for whom home market

saturation acted as a catapult into foreign markets. "We reached the limits of the UK market so we were sort of having diminishing returns on the asset," he said. The firm's annual turnover was between £3 and £4 million, it employed between 10-50 FTE, and exports comprised 51-75% of annual turnover.

6.5.2 BGs: Digital and single-market "natives"

In the case study above, the firm owner built his firm in the mid 2010s, fluently expanding his exports to foreign language markets in the EU and staffed by EU citizens. In the same way millennials are described as "digital natives," the firm owners sampled in this research were "single-market natives." This term was coined for this study and will be discussed again below.

Despite the prevalence of digital and online tools, the study found that the most common route to initiating and establishing international trade was via personal contacts. This was the case regardless of firm size. These personal contacts were made via a variety of channels including existing clients moving abroad, non-Brits or Brits moving (or moving back) to the UK and retaining foreign clients, international travel to conferences or other events, referrals made within larger international groups, or "personal" contacts made via digital channels such as online forums and other Internet-based referral routes.

These personal contacts, however, would not have stimulated exports without the second most common route to finding international clients: a strong online presence that included SEO and web-based tools. Particularly for microenterprises and sole proprietors, online marketing tools (such as Instagram, Google AdSense, Facebook, international Amazon Marketplaces), global fulfilment channels, as well as a plethora of other web or cloud-based tools were key to their export business. Digital tools and innovations were integral to all of the exporters, and for many—in particular

independents and microenterprises—these were the sole international marketing and sales channel.

Higher investment routes such as trade fairs, pitching for international tenders and Department of Trade and Investment (DTI) trade events or programmes were the least common routes to international trade, used almost solely by the larger microenterprises or SMEs in the study's sample.

The study found that all of the creative industries firms and independents were also "single market natives," or firms founded while the UK was a member of the EU. The independents and firms in this study, seemingly, had been confidently navigating markets outside of the UK until the Brexit referendum. For many, this confidence—combined with an existing international clientele—may have buffered them from the worst effects of policy uncertainty during the inter-Brexit years and may have been a factor in their relative export success at the time of this study. While almost all Born Global firms in this study continued to trade internationally, some faced a significant slowdown in their business.

Neither these aspects of international trade, nor the "Born Global" phenomenon, were addressed by the CSID. Telling BGs that new state-led programmes would support their exports after withdrawal from the EU was akin to telling digital natives that the government would support the building of new telephone masts for making phone calls, but (likely) it was going to suspend all mobile communications beyond 2G.

The owner of one SME explained how he and his firm were "single-market natives." "I'm a product of the European Union," he said. "I've done very interesting things because of European funding...EPSRC projects, Horizon 2020...they've all been collaborations between universities around Europe." While other UK programmes potentially could replace this funding, in the short-to-medium term, Brexit would cause disruption to his business and funding streams. His firm employed 10-50 staff

members and had a turnover of between £500,000-£1 million. This Born Global, “digital native” and “single market native” would need to re-develop his business model to fit a substantially different policy environment, which would cost his business time and money.

The BGs in this study had built their firms to be successful in the prevailing political economy, which included EU single-market policies that had been in place for decades. This included tariff-free movement of goods or services across the EU and investment programmes such as the Erasmus student-exchange programme (Corbett, 2021; Jones, 2021). At least one microenterprise owner in this study had benefitted significantly from the Erasmus student exchange programme. He reported, “Erasmus students [used to come] to us for 6 months out of the year. [Ending the programme] would be a big blow,” he said. These students were coming to the UK to improve their English language skills and for cultural exchange. Rather than a burden, the company reported that Erasmus students were, in fact, subsidising the business: “By the time [the Erasmus students] come to us, they already have great skills. Someone needs to sit with them and train them, but they definitely contributed to alleviating the workload. We'll have to hire more independents, which will be another cost,” the owner said. Arts organisations in particular mourned Erasmus and other such European-wide projects that had provided indirect benefits to the creative industries in the UK (Corbett, 2021; Jones, 2021).

The CISD did not it does not address the phenomenon of Born Globals. Instead, it set a number of top-down programmes such as new funding routes via the British Business Bank or introducing a new bank guarantee for UK Export Finance. At the same time, the CISD admitted that the creative industries rarely embraced such initiatives, stating “barriers are exacerbated by weaknesses in uptake of business support for the sector” (Bazalgette, September 2017; BEIS, 2018). The researcher witnessed one instance of this when she participated in a panel discussion and presentation by an export finance specialist brought in by the local chamber of commerce to the creative hub. Only a handful of firms attended the event and

participants were unenthusiastic. The information and proffered export support had not been targeted to the hub's microenterprises or sole proprietors, who were not trading at a level that required (or allowed) them to access such financing. In such instances, it is understandable that there is "weak uptake" of business support. Nevertheless, the microenterprises at this creative hub were exporting successfully—at a level that was commensurate to their business size.

One CISD policy, however, may be heading in the right direction, namely that of supporting creative clusters. Given that the entire research sample was located in four creative hubs, this factor must be given due consideration as a potential influence on the relative export success of the study' sample.

6.6 What the CISD gets (partially) right: creative clusters

6.6.1 Did creative hubs help the sample export?

Leadbeater and Oakley wrote about creative industry independents saying they often work from home, or from "nondescript and often run-down workshops" (Leadbeater and Oakley, 2005). This was at the turn of the millennium, before the coworking revolution. Small and decreasing company size, however, has made creative hubs and coworking spaces ideal for creative industries SMEs and independents (Virani et al., 2016). The entire research sample of this study was located in creative hubs; they were not atomized independents and microenterprises working from their basements or kitchen tables. Hubs offer creative entrepreneurs services and facilities to which they may not have access were they simply part of a broader creative cluster or working on their own (Van Heur, 2009; Virani et al., 2016).

Many interviewees cited incidences of inadvertent and beneficial "knowledge spill-over" from location in their hubs. For example, one microenterprise owner recounted, "We co-habit with another company, and they asked, "Why don't you claim for R&D tax credits? We do." The microenterprise owner had been unaware of the UK's Research & Development Tax Credit scheme. His unplanned, serendipitous

conversation, along with the help his neighbour provided, ended up saving his company thousands of pounds. "They even gave me their narrative for claiming R&D," he shared. This microenterprise had four employees with turnover of £350,000 of which exports accounted for 51-75% of income and imports amounted to 25-50% of expenditure. Whether or not this indirect support in the form of advice about R&D tax credits had a beneficial impact on his firm's international trade is not possible to surmise. Such chance encounters, however, are an important benefit of co-location and clustering (Storper and Venables, 2004).

Even in the two creative hubs not located within a larger creative cluster, the respondents reported a high level of interaction with other tenants. At Society1, for example, almost all of the respondents, eight of nine, had significant interaction with one another. Some tenants described a positive impact on earnings: "I've had a massive amount of business through Society1," one business owner said. "I wanted to expand my network and to inject new ideas into my business. I used to work from home, but I wanted to grow my business so I came here to Society1," she explained. The additional cost of an office seems to have paid off. "I've had referrals and developed partnerships. One tenant is now an on-going client," she said. This firm had an annual turnover of £50,000-£100,000, with 10-25% of income from exports. Between 25 and 50 per cent of annual expenditure was spent on imports, including the salaries of 5.5 FTE "subcontractors," almost all of who were based outside of the UK.

The Sharp Project, located within the major creative cluster of Manchester, also fostered a lively micro-economy. Of the 22 respondents who replied to a question about collaboration, 15 (or 68 per cent) indicated significant interaction with other tenant firms. One firm owner in The Sharp Project said, "We hired [company X] and they've also hired us. We have collaborated with several tenants at The Sharp Project: camera operators, copywriters, CGI companies, hire companies, marketing agencies. We've hired and been hired. Often the relationship is two-way." This firm had 4-9 FTE with a turnover of between £500,000 and £1 million, but was not exporting though it

intended to do so in the near future. Another tenant described The Sharp Project's red container section as a "mini high street." In the past year, the tenant said, "I have done work for [Company X] and we've used them [for] SEO for some of our clients. We've used photographers based here. We also [outsource to neighbouring] designers when our workload gets too much." Most tenants did not report working together on a daily basis, but they often turned first to their neighbours when in need. One tenant who regularly sent work to another tenant and vice-versa said, "It's a good community. I've been here five years now. It has phases when it goes through a really good community feel and sometimes it falls back."

Co-location, however, likely is not enough for exchanges to occur. Innovation may spring from chance encounters afforded by co-location or it may result from active, intentional planning by company managers (Fitjar and Rodríguez-Pose, 2017). The ability of the landlord (or "host") to coordinate appropriate activities and to curate the composition of occupants to ensure "complementary diversity" impacts the development of the tenant community (Brown, 2017). Some stress the importance of "navigating the balance between the organic and the intentional," which is heavily reliant on the "skills and experience of the [hub] manager," (Brown, 2017).

Creative hubs are changing the nature of the landlord-tenant relationship. In the creative hubs where this research took place, the management team took an active part in coordinating events and acting as an information hub for tenants. The senior managers of all four hubs were on a first-name basis with almost all of their tenants. All four of the hubs regularly hosted events to foster interaction and a sense of community amongst tenants. Two hubs regularly offered free business advice seminars to tenants, on-site and at convenient times. All of the hubs actively distributed local, regional and national business and industry information that could be of use to tenants. Baltic Creative's community interest company (CIC) status meant that it was legally required to re-invest any profits back into the local neighbourhood or its tenants.

The owner of a goods producing firm said, "We have been to some of the events that Baltic have put on, got ideas from that and integrated it into what we do. So yeah, ideas and insights from events and from people in Baltic, which we've used. Definitely." This business was one of the largest SMEs interviewed with an annual turnover of £3 - £4 million, employed between 10-50 FTE, and made 51-75% of income from exports. While creative hubs might be particularly useful for microenterprises and independents, even owners of "larger" SMEs cited instances of intra-hub collaboration.

Co-director of Halton Mill, Alison Cahn, suggested that their dedicated coworking and desk-sharing space was a catalyst for tenant interaction:

One of our aims is for Halton Mill to be a working community as well as a workplace. That really started to happen when our two shared coworking spaces [were tenanted]. People in them tend to want to interact with each other, not just to socialise, but to share skills, ideas and find support with problems...and they seem to provide a focus for the tenants in the private offices to socialise as well. Now coffee breaks and lunch breaks have become part of our daily routine, and people socialise outside the office as well.

Whether collaborating or not, almost all company owners interviewed expressed an appreciation for their creative hub's atmosphere and services, even when they had not developed business ties with other tenants. One company owner said, "[The Sharp Project] hosted a 'Show Me, Show Me' event where 10 companies [told] others what they do. I participated, but no business has come of that...Our work is not that relevant to other companies [based here]." Nevertheless, the same business owner reported his appreciation for the "collaborative feel of the building."

Some caveats should be included in the paean to creative clusters. Clustering can result in employees "spilling" information and innovation from one company to the next by switching jobs, as in the high-profile case of a key engineer moving from

Google's self-driving car unit to Uber, which resulted in a lawsuit about the theft of trade secrets (Isaac, 2020). In this study, The Sharp Project offered the useful service of listing tenant firms and their capabilities on its website, but one senior manager reported a downside to this. "Whilst being in The Sharp Project helps us recruit top quality staff," he said, "we train our staff to a very high degree, but then our staff become targets for larger companies who use recruitment agencies to poach our staff. The churn rate is massive." An organised, well-presented creative hub website is a useful business development and marketing tool for tenants, but it is also an excellent tool for headhunters looking to hire employees for their clients.

Another potential drawback to narrowly defined sector clusters is that they can result in direct competition between neighbours and lead to a distortion of national or world-wide competition (Porter, 2005). Similarly, co-location spaces that are not sufficiently heterogeneous can foster more competition or "coopetition" among tenants (Bouncken et al., 2018). Porter recommends a broader cluster network that includes customers, suppliers and firms from related industries (Porter, 2005). In two of the creative hubs there was evidence of broader, non-creative in-house support or professionals (e.g. accountants), but not in all four. All four creative hub landlords or coordinators, however, were involved in dispersing relevant local, regional or national business support information to tenants.

While almost all informants appreciated co-location, not all of the tenants were convinced about the benefits. One interviewed senior manager was disparaging about the idea of hubs: "We've hired spaces [here] and we work with [Company X], but we don't work with them because they're also based at this location. I'm agnostic about having quick access. We are based here because of the close fit. It was convenient, affordable, with good facilities. There are good transport links. I don't buy the argument that we'll all work together because we're in the same space. That's the WeWork argument. It's bullshit. People just chuck noise-cancelling headphones on."

This opinion, however, was not shared by any of the other 32 interviewed firm owners, senior managers and independents. Most others reported developing their business via other tenants, often informally. As one Society1 tenant reported, "One of the guys who does web development helped speed up my website. We just chatted about it. It's all been unpaid. He has helped my business. He's given me direction." Another Society1 tenant had similar experiences saying, "I have turned down work from people I met here because I couldn't take on the job. It was too big. I have helped someone with an online shop...but I haven't actually invoiced anyone here and no one has invoiced me."

It is noteworthy finding of this study that no respondents reported expanding international trade due to location in a creative hub. None recounted increasing exports directly via the assistance or insight of their neighbours or creative hub managers. External unobserved spill-over benefits from location in a creative hub may have increased these entities' absorptive capacity to engage in international trade, but there is insufficient evidence for this conjecture. The digital and single-market natives encountered in this study indicated that they were simply taking advantage of export opportunities afforded by digital technologies, personal networks, and, often, seamless trade opportunities offered by the EU's single market.

Other UK-based studies have made conclusions in the same vein, including one conducted by NESTA. The study argued that international participation by individuals based in the UK's creative clusters and the participation of foreign nationals in the UK (i.e. social links) increased the likelihood of foreign collaboration (Mateos-Garcia and Bakhshi, 2016). Successfully exporting industrial clusters seem to be densely connected areas "within global knowledge pipelines," (Bathelt and Cohendet, 2014; Mateos-Garcia and Bakhshi, 2016).

None of the creative hubs in this study was located in one of the nine "creative clusters" to have received funding via the Creative Industries Cluster Programme. Only Manchester and, to a lesser extent, Liverpool can claim to be part of larger

creative clusters, while Lancaster and Preston do not even feature the UK's "creative conurbations" such as Slough or Guildford (Mateos-Garcia and Bakhshi, 2016). Other factors may have played a role in the relatively high level of international trade discovered at all four locations. Three of the four creative hubs—The Sharp Project in Manchester, Baltic Creative in Liverpool, and Halton Mill near Lancaster—received significant start-up grants from local, regional, national and/or EU funding bodies. Furthermore, all four hubs were located within 10 miles of universities. None of the respondents were working from home, libraries or cafes. All of the respondents were paying market rates for rent indicating a measure of economic success, which may have existed prior to their location in a creative hub. As such, the sample may have already represented a relatively well-established segment of the creative industries. More research, however, would need to be conducted to establish the relevance of these factors.

While creative clusters and creative hubs are not synonymous, the lack of evidence linking creative hubs to export expansion in this study raises doubts about funding creative clusters for the purpose of boosting exports. Nevertheless, creative clusters provide various other advantages, and acknowledging the possibility that they may not inherently drive exports can serve as a valuable initial step in formulating a deliberate export strategy for creative clusters. In order to expand exports, research seems to indicate that cluster efforts need to be directly targeted at expanding international networks (Bathelt and Cohendet, 2014; Fitjar and Jøsendal, 2016; Mateos-Garcia and Bakhshi, 2016). Suggestions for further policy considerations will be discussed in Section 7.4: Speculative Insights.

6.6.2 Growing networks rather than staff numbers

As discussed, a considerable number of creative industries firms in this study had improved business practices and increased sales via location in a creative hub. An important factor of location in a creative hub was also the growth of "staff" without

hiring more employees. The non-linear nature of the creative industries means hiring more staff (for example during a film shoot or a music festival), followed by periods with no staffing requirements (Chung et al., 2018). This project-based nature of the sector means that creative enterprises often emphasise the value of collaboration and partnerships, “a trait that is particularly unique to this sector” (Chung et al., 2018).

The Creative Industries Sector Deal intends to make it “easier for creative businesses to get the finance they need to grow” in order to increase exports (BEIS, 2018). For many interviewees, however, growing their network rather than staff numbers was the key to expanding their business. “I’m happy where I am. If my business grows, I’ll still be using contractors,” one sole proprietor at Society1 said. “It’s easier,” she continued. “I work with contractors, but no staff. If you take on staff, you take on responsibilities of tax, pensions, etc.” Like many creative businesses, she worked on a project-by-project basis that required flexibility and different skills dependent on the clients’ needs. “[I hire] writers, proof readers and developers as-and-when needed.” Her firm had an annual turnover of £50,000-£100,000 with exports accounting for 50-75% of annual turnover.

Some hubs are attuned to the project-based nature of creative work and have designed programmes specifically to help their tenants bridge periods of high workload. For example, The Sharp Project’s “Sharp Futures” is a site-specific programme that gives young people the chance to gain work experience while developing relevant creative industry skills. Sharp Futures offers these trainees on a “People on Demand” (POD) basis to tenants at an affordable rate. One firm-owner at The Sharp Project said, “We don’t have a lot of inter-business collaboration, [but] we are involved with Sharp Futures and work with Sharp Project.” Several other respondents also said they had used PODs when they needed simple tasks completing, such as data entry or cropping photos.

While the Internet has provided access to global specialists all over the world, creative hubs still have their advantages. As Bazalgette’s report argues, “clustering helps these

predominantly microenterprises address informational asymmetry and allows more efficient provision of business support services,” (Bazalgette, September 2017). One Baltic Creative company owner said,

I recently hired a Google ads expert. I looked all over the Web to find somebody and there's plenty of companies or agencies that will do it. The problem with agencies and companies is that you don't get good value for your money. It's so much better if you can find an individual to work with... In the end, I found a Google ads expert at Base Camp [a coworking space within Baltic Creative]. He is a real specialist and he sits next door. When you're in this online business everything is done by e-mail and it is a refreshing change to speak to somebody and express what you need in person instead of doing it backwards and forwards through e-mail... The first thing I do now is look to Base Camp.

Rather than hiring a full-time or non-local employee to do the job, this microenterprise hired an independent based in the same creative hub to increase sales and exports. This company employed 4 FTE and earned between 50 and 75 per cent of its total income from exports.

Even when no money changed hands, almost all interviewees in this research described improved business or personal wellbeing since moving into the creative hub. One respondent at Society1 reported, “I haven't directly collaborated with anyone here, but some people here have been very helpful with ideas like marketing and websites.” Growing the UK's Creative Industries reported that creative firms emphasised the importance of collaboration and partnerships, “a trait that is particularly unique to this sector,” (Chung et al., 2018).

Clustering microenterprises may be a more economically viable and efficient way of helping them “scale-up” by expanding their network and knowledge base without actually having to increase employee numbers. The Bazalgette Review itself points out

that simply “doubling the density of businesses in an area increases productivity by around 2-4%,” (Bazalgette, 2018).

6.6.3 Investing in creative hubs, not just clusters

The entire research sample of this study was drawn from four creative hubs, only two of which were located in one of the UK’s top ten creative clusters, i.e., The Sharp Project in Manchester and Baltic Creative in Liverpool (Mateos-Garcia and Bakhshi, 2016). The other two creative hubs were isolated nodes working outside of major creative clusters, i.e., Halton Mill near Lancaster and Society1 in Preston. Lancaster and Preston do not even figure as minor “creative conurbations” such as Reading or Aylesbury (Mateos-Garcia and Bakhshi, 2016). Halton Mill and Society1, however, were located in proximity to academic institutions, namely Lancaster University and University of Central Lancashire, respectively.

Given that a high incidence of international trade was noted at all four creative hubs, location in a creative hub—more than a creative cluster—may have been a noteworthy feature of the findings.

A major drawback for microenterprises and independents located in creative hubs, which is almost entirely avoided in creative industries policies and reports, is that a relatively high percentage of SMEs’ income must be spent on office accommodation in these creative hubs. This point should not be underestimated and the issue of low-cost accommodation in creative hubs or clusters was not addressed in the Bazalgette Review or the CISD. In February 2018, the UK government published The Taylor Review of modern working practices in which difficulties with new workplace practices such the gig economy and flexible work were brought to light. Countless studies have found that the freedom, autonomy and choice in creative entrepreneurship has a “dark side” with commercial pressures, risk and job precarity regularly featuring in the creative industries (Wright et al., 2019). As one recently joined independent at

Society1 confided, "Working from my home office was a pretty isolating experience." His new "office" office, however, required quite a sizeable monetary investment and he had not yet found additional work via the creative hub, though fellow tenants had been helpful with marketing and Internet suggestions. His annual turnover was between £30,000 and £50,000.

In the four research sites, only Halton Mill offered genuinely low-cost offices or dedicated desks with a stated aim to "keep our prices flexible and affordable, so that everyone gets the opportunity to use the space." Halton Mill's refurbishment was financed by the European Agricultural Fund for Rural Development while Society1's overhaul was entirely self-funded by its owners and investors. The cost of a dedicated desk at Society1 in Preston, however, is more than two-and-a-half times that of a desk in Halton Mill near Lancaster.

While many argue governments should avoid interfering with the 'invisible hand' of the free market economy, others find evidence that government subsidies in fact are a key to success. In case studies, economist and author of *The Entrepreneurial State* Mariana Mazzucato found that the private sector firms and entrepreneurs had the courage to invest only *after* governments had made initial, high-risk investments (Mazzucato, 2018). Indeed, three of the four creative hubs in this study benefitted from investment by the European Regional Development Fund (ERDF), which along with the European Structural Fund (ESF), allocated €7.1bn to England between 2014-2020 (Institute for Government, 2018). Given that clusters exist, Porter reasons that some competitive advantages must lie *outside* of companies or industries themselves; the cluster's location must play a role and may be the result of local variables such as levels of education, taxes, property prices, and local, regional or national policies (Porter, 2005).

The fiscal allocations were slight compared to the political and economic ambitions of the *Creative Industries Sector Deal*, including boosting creative industries exports by 50 per cent. The CISD only earmarked £4 million from existing Department of

International Trade budgets to support creative industry exports in 2018 and 2019 (BEIS, 2018). While small, targeted investments certainly can have a positive effect, it is difficult to see how minor investments would stimulate an extremely large increase in exports. As the Institute for Government report *How to design a successful industrial strategy* quips, “fiscal resources are not sufficient” in any of the Industrial Strategy sector deals (Wilkes, 2020).

In a sector dominated by microenterprises and independents, targeted small investments supporting creative hubs and coworking spaces could be an effective route to stimulating growth via networks rather than increasing firm size. This, however, might not automatically stimulate a corresponding increase in exports. Investments in hubs would need to also promote the strategic development of new international information sources, partnerships and networks for exports to increase correspondingly (Fitjar and Jøsendal, 2016).

Section D. Summary

The *Creative Industries Sector Deal* aims to increase the creative industries average firm size to stimulate exports, but this study did not find small firm size to be a barrier to international trade. The research sample was more active in international trade than official figures would indicate. This study, however, was conducted while the UK was still a member of the EU. Policy uncertainty during the inter-Brexit years of 2018 to January 2020 appeared to curtail the export potential of the sampled creative industries SMEs. The research suggests that increased productivity and exports in the sample typically stemmed not from increasing staff numbers—though this was an element for some—but from other factors such as open access to global markets, digital innovations and location in creative hubs.

The entire research sample was based in creative hubs. Participation in a creative hub may have contributed to the export success of the surveyed cohort. None of the participants in this research, however, reported enhanced export capacities due to

location in a creative hub. Given the parameters of this research project, it was not possible to determine whether clustering in creative hubs was a dependent or independent variable in the relative export success of the study's sample, but it may have played a role. As such, the regional investment disbursed by the CISD via the Creative Clusters Fund is welcome. Direct investment in local creative hubs would be a potentially useful next step. Investing in low-cost creative hubs—which offer “knowledge spillover” and ready access to networks—inadvertently may be the most useful form of creative industries export support in the post-Brexit era.

Policy analysts may ask, “Can the creative industries meet the CISD’s targets of growing firm size and increasing exports by 50 per cent?” This researcher argues that the more salient question is, do the CISD’s growth and export targets meet the needs of the UK’s creative industries?

7. CONCLUSION

7.1 A summary of the results

The *Creative Industries Sector Deal* set “scaling up” as a priority for the creative industries, with the goal of increasing exports by 50 percent between the years of 2018 and 2023. This policy sparked the main research question for this study: is small firm size a barrier to international trade in the creative industries?

This study did not find small firm size within the creative industries to be a barrier to international trade. Exporters and importers were found amongst all business sizes and turnovers in this sample. Microenterprises and independents comprised 83 per cent of the study sample, yet 76 per cent engaged in international trade, with 66 per cent exporting. In fact, the sample’s median firm size was 2-3 staff FTE, slightly lower than the national creative industries average of 3.3 FTE (Bazalgette, September 2017). Small firm size *per se* was not a barrier to international trade.

When the sample was found to be trading internationally at rates significantly different to those reported by the Office for National Statistics (ONS) and DCMS, a secondary question arose:

1. What factors might underpin potential discrepancies between this study’s findings and official figures?

The international trade engagement of the sampled independents, microenterprises, and SMEs was considerably higher than the 18 per cent reported by the ONS (DCMS, 14 February 2018). This study identified several factors that might account for the difference, including ONS data collection methods, SIC code incongruities, and the predominance of “difficult to measure” international trade in services and data. In this study, 69 per cent of the sample traded only in services while another 28 per cent

traded in goods and services, potentially accounting for some of the discrepancies. Perhaps the most significant factor, however, is the absence of microenterprises and independents in ONS data, despite self-employed independents comprising 34 percent of creative workers and microenterprises making up 95 percent of creative industries firms (Bazalgette, September 2017; Creative Industries Federation, 2020; DCMS, 26 July 2017).

When research results indicated that the sampled SMEs, microenterprises and independents were more deeply and broadly involved in the global economy than official figures would indicate, further lines of inquiry arose. This included the following secondary question:

2. Is scaling-up a valuable or necessary ingredient to increasing creative industry exports?

This study did not find scaling-up to be a necessary condition for stimulating exports. Economic theory would predict international trade involvement by larger creative industries firms (Bazalgette, September 2017; Van Marrewijk, 2017). While the largest firms in the sample indeed were the most likely to export and independents were the least likely, export engagement across the total study population was significantly higher than expected (using official figures as a barometer). In the research sample, the export rates were as follows: 87 per cent of SMEs, 65 per cent of microenterprises and 58 per cent of independents exported.

Surprisingly, smaller-sized exporters were more dependent on international trade volumes than larger exporters. While SMEs were most likely to engage in international trade—with 15 out of 17 sampled SMEs exporting—most earned less than 10 percent of annual income abroad. Conversely, only slightly more than half of independents—15 out of 26—exported, but most of these exporters earned over 50 per cent of annual income abroad (see Table 5.1).

Interviews with 33 SME senior managers, microenterprise owners and independents indicated a lukewarm response to increasing staff numbers. Interviewees often pointed to the risks associated with hiring employees in an unstable market and citing the advantages of more flexible arrangements such as hiring freelancers. No interviewees indicated staff size to be a barrier to international trade.

Given that the sample was found to be more deeply engaged in the global economy than initially expected, factors in its success could provide useful clues for policymakers and other potential entrants to the export market. This led to the following secondary question:

3. Which traits were most often identified amongst exporters in the sample?

One factor that may have played a role in the relative export success of this sample was that international traders were deeply involved in services trade. Specifically, 69 per cent exported only services, 29 per cent traded in goods and services, and 3 per cent were involved in goods trade only. Given the difficulties in measuring trade in services (and/or digital), the relative “success” of this sample may partly be ascribed to data collection methods.

Furthermore, the sample comprised almost entirely of digital natives and “single market natives,” i.e., businesses founded while the UK was a member of the EU. Europe was the most common trading partner with 82 percent of international traders doing business in the EU (North America was second with 51 percent of the sample). Interviewees indicated that the highest volume of trade, and with the greatest economic impact, was with the EU. Many of the exporters were Born Globals with international trade comprising an integral portion of their income portfolio from the outset. Exports in the sample typically stemmed not from higher staff numbers—though this was an element for some respondents—but from other factors such as open access to global markets and digital innovations.

Another feature of the research was the sample's location. This led to the following secondary question:

4. Given that the entire research sample was based at creative hubs in England's North West, might location have played a role in the research results?

The goal of the research was not to query the role of creative hubs in supporting creative industries' exports. Given the high incidence of international trade found at all four locations, however, participation in a creative hub may have been a noteworthy, though inconclusive, feature of the findings. Several interviewees cited incidences of inadvertent "knowledge spill-over" from neighbours and others cited the benefits of managed activities and programmes provided by the hubs. The location factor may particularly have benefited the microenterprises and independents encountered in the study, above all those not wanting to "scale-up" by hiring employees, preferring instead to "scale-up" by growing their networks. The research indicated that network expansion was an important strategic rationale for location in a creative hub, particularly for microenterprises and independents.

No respondents saw a direct link between their exports and location in a creative hub. Nonetheless, the benefits of locating in a hub inadvertently may have increased these entities' "absorptive capacity" to engage in international trade (Bazalgette, September 2017; BEIS, 2018; Frontier Economics, 2016). There is little evidence from this study, however, that clustering or hub location was required for the export success of the studied cohort at the time of primary research. This does not, however, preclude it from having played a role.

The primary research was conducted from 2018 to January 2020, when the UK's Economic Policy Uncertainty Index was higher than the previous twenty-year average (Baker et al., 2022; Baker et al., 2021a). As such, the study needed to consider a

potential “interaction of history effect” (Bracht and Glass, 1968). This led to the following secondary question:

5. Had the Brexit referendum—held eighteen months prior to the start of primary research—impacted the international trade of the study sample, i.e., before new trade policy changes were implemented or even decided upon?

The research suggested that exporting firms were notably more pessimistic about future earnings than non-exporters, reporting lower rates of expected income in the forthcoming year. Many interviewees recounted losing foreign business or income after the Brexit referendum of June 2016. Others described business complications, losses or personal stress due to policy uncertainty, preferring the certainty of a decision “either way.”

While services providers should, theoretically, have had fewer concerns than goods producers because intangible services do not face the same physical barriers such as border checks or customs clearance, the interviews revealed that their international income, potentially, was more affected by Brexit uncertainty. Service providers spoke of a downturn in foreign bookings, the non-renewal of international contracts, projects put on hold, and other export slowdowns, which business owners typically ascribed to Brexit.

Nevertheless, the research sample displayed a remarkably high level of international trade engagement. Despite the considerable number of interviewees indicating business losses due to Brexit, the sample reported significantly more international trade than ONS figures would have predicated for the cohort.

7.1.2 Surprising, unexpected and inconclusive results

Perhaps the most surprising finding was the discovery of the depth of reliance on international trade amongst exporters. The volume of international trade was higher than expected, with export earnings not supplemental, “nice to have” revenue. A high number of exporters relied heavily on international trade for their annual income: 29% of exporters earned over 50% of income from exports while another 46% of all exporters earned 11-50% of income from exports. This data is critical to understanding creative industries’ trade patterns.

Another surprising finding was the discovery of an inverse relationship within the sample of exporters: smaller firms were more highly dependent on international trade than larger firms, for whom exports typically constituted a smaller proportion of total income. Of the “deeply reliant” exporters who made over 50 percent of annual income abroad, 92 percent were microenterprises or sole proprietors. Most traded with the EU. This finding, however, is inconclusive; it may be an anomaly due to the small size of the sample and would require further research with a much larger sample. Nevertheless, the finding fuels speculation that interruption by large-scale trade policy shifts, such as Brexit, may disproportionately affect the smallest creative industries entities (Brown et al., 2020; Brown and Rocha, 2020). Yet this is the very segment that has been overlooked by statistical data and creative industries policies.

7.2 Situating this research

This research conducts original research that unites three distinct realms of inquiry—creative industries, international trade, and SMEs—during a period of high political uncertainty (Fig. 7.1). It is situated in the temporal context of the inter-Brexit years of 2018 to January 2020 and in the physical context of creative hubs located in England’s North West.

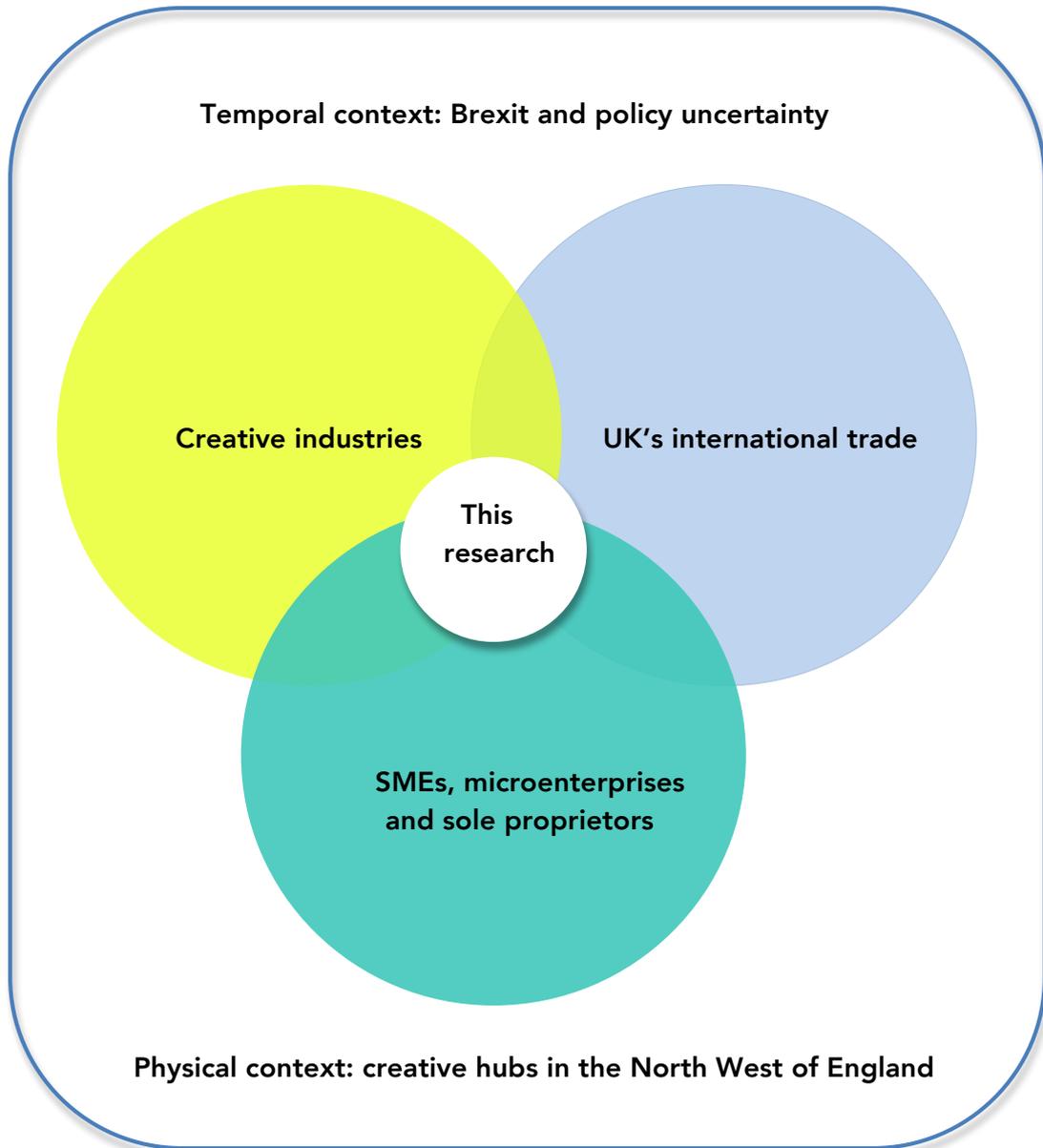


Fig. 7.1 Three distinct realms of research: creative industries, international trade, and SMEs

While numerous studies have intersected aspects of this investigation (i.e., the effects of Brexit uncertainty on the UK's international trade), no study has covered this particular and field of research. As such it provides a unique insight into the creative industries during the inter-Brexit years.

7.3 Navigating the creative industries sector through transition: A final word on the Industrial Strategy

This study found that the biggest challenge to international trade amongst the study sample was policy uncertainty during the inter-Brexit years of 2018 and 2019. The UK government's decision in early 2016 to embark on a referendum to leave the EU without a roadmap resulted in significant policy uncertainty. The *Industrial Strategy* was meant to "forge a new path" for a post-Brexit Britain (BEIS, 2017c), but from the outset, its sector deals were met with reservation by policymakers themselves. A Department for Business, Energy & Industrial Strategy (BEIS) committee argued that the government invited all sectors to approach the government, which resulted in the most organised sector lobby-groups pushing their cases and causing "a stampede of ill-formed proposals" and sector deals (Wilkes, 2020). Representing a number of manufacturing sectors, the Engineering Employers' Federation warned the BEIS committee that:

...There is now a wave of expectation from sectors that has been built up, which will soon come crashing against the wall of reality being built by government during closed-door negotiations [and the outcome is likely to be]...disgruntled sectors walking away from negotiations feeling their time has been wasted.

(House of Commons proceedings, 19 March 2019)

The committee concluded that the resulting sector deals were "underpowered" and lacking fiscal or administrative resources as compared to similar policies enacted by the EU (Wilkes, 2020).

The esteemed, fiscally conservative Institute for Government, produced *How to design a successful industrial strategy* (Wilkes, 2020). The report was highly critical of the UK government's approach to policymaking, saying it was chasing "technological winners...[picking] favoured companies and constituencies that reflected political

motivations, rather than addressing economic imperatives," (Wilkes, 2020). The Institute of Government warns that while the UK government now wields fresh policy-making freedoms independent of EU constraints, it must steer towards a realistic and well-considered policy-making approach, because "political motivations often contradict commercial imperatives," (Wilkes, 2020). In the absence of policy stability, "the Johnson government has failed to explain how it will deploy the economic freedoms promised by Brexit to build a stronger UK economy," (Wilkes, 2020).

While support for creative industries exports is constructive, the CISD's policies and targets were suited to only a small proportion of the sector, not the majority of firms encountered in this study, which were microenterprises and independents. The CISD did not address the UK's future global trading environment, which would have reduced uncertainty for the sector. Policy certainty would have been the most relevant government action but, as confirmed by most the most senior civil servant in Downing Street at the time Sir Jeremy Heywood, the government had no formal blueprint whatsoever in place for a Brexit "Leave" vote (BBC, 2016). This, as compared to the Scottish referendum of 2014, for which the Scottish government published a 670-page strategy entitled "Scotland's Future: your guide to an independent Scotland," a year in advance, to plan for and inform the Scottish electorate what ceding from Great Britain would entail (Scottish Government, 2013). The *Industrial Strategy* was leading from behind, trying to catch up, unable to provide the policy certainty that would have been so beneficial to the creative industries SMEs, microenterprises and independents encountered in this study.

While Brexit uncertainty appeared to have dented creative industries exports, Brexit policy *certainty* did not seem to remedy the situation. In January 2021 the UK entered its 1-year transition period to leave the EU customs union and the figures were not promising. Britain's goods exports to the EU were dented by 38 percent in January 2021 compared to the same month in 2020 (Lanktree, 2021). The UK's goods imports from the EU fell by 16 percent in the same period (Lanktree, 2021).

Some attributed this decrease to the COVID-19 epidemic, but the UK's international trade should have been universally affected. In fact, the UK's exports to *non-EU* countries were down by only 8 percent in January 2021 and imports from non-EU countries were only 9 percent lower (Lanktree, 2021). The "Brexit specific" decline in exports to the EU, then, was roughly 30 percent and the decrease in imports was 7 percent as compared to the previous year. With the EU hitherto making up over 50 percent of the UK's imports and exports (Douch et al., 2018c) these were exceedingly large declines.

The BBC reported that the government's Brexit deal struck at the 11th hour in late December 2021 imposed post-Brexit barriers that were having a "heartbreaking" effect on the arts and confirmed the creative industries' "worst fears," (Jones, 2021). One circus company owner described the final deal as a "big blow" because European touring had been a major source of income, effectively subsidizing the UK side of the business (Jones, 2021). The new paperwork, bureaucracy around different regulations and recertified health insurance involved "huge costs" for the small company because, like many creative industries, it was operating on very small margins (Jones, 2021). Like many other creative industry organisations, the company had benefitted from funds such as Creative Europe, which invests in arts and cultural projects (Jones, 2021).

It is unfortunate that the UK government was unable to strike a deal with the EU until the final moment because it prolonged the uncertainty that was so damaging to business, particularly small and vulnerable businesses (Brown et al., 2018). One creative industry leader criticized the uncertainty and tardiness of the government's EU withdrawal negotiations: "The devil is definitely in the detail and this is the detail we really needed months ago," she said (Jones, 2021).

The question remains why this study's sample of very small creative industries was more involved in international trade than official statistics or traditional economic theory would suggest. Chapter 6.1 of this thesis argued that current statistical tools

may not be adequately tuned to the economic environment in which today's creative industries operate. Additional hypothesis, however, may also be considered. Factors—such as the UK's hitherto open international trading environment or recent digital innovations—may have changed the playing field so much that small creative companies are challenging traditional economic wisdom. Relatively young SMEs, microenterprises and independents in this study were able to participate in international trade, despite their diminutive size.

Should these findings be part of a wider trend, this research would have significant implications for international trade and creative industries policy makers. Given that microenterprises and independents were found to be actively engaged in international trade right up until the UK's departure from the EU, current *Industrial Strategy* policy measures may be aiming at the wrong target of increasing firm size. In the absence of barrier-free access to the EU trade bloc, future initiatives may need to focus on other initiatives such as greater support for clusters, creative hubs, and other measures that augment the resources of microenterprises and independents by expanding their networks instead of expanding staff numbers.

7.4 Speculative insights

This study's results challenge the assumption that small firm size is a barrier to international trade in the creative industries. The goal of *Creative Industries Sector Deal* to increase firm size in the creative industries in order to increase exports, appeared to be moot. The sampled SMEs, microenterprises and sole proprietors were found to be already deeply involved in international markets, with 66 percent of respondents exporting. Furthermore, very few of the interviewed firm owners and senior managers cited small firm size to be a barrier to growth or export expansion. Digital innovations and barrier-free access to the EU trade block seemingly had already supported the sample's export capabilities. The entities in this study were Born Globals, digital natives and single market natives. This study was conducted, however, prior to the UK's secession from the EU when the creative industries had

trade-barrier-free access to the EU's large single market.

In the absence of barrier-free access to the EU trade block, policymakers have turned to supporting creative exports via initiatives such as creative clusters. Given that the entire study sample was based in creative hubs and a high level of international trade was discovered, location in a creative hub may have played a role in augmenting exports. While the *Creative Industries Sector Deal* only supports industry consolidation on the broader "cluster" level, directly supporting creative hubs could be a useful next step. With company size shrinking in the creative industries, this study found that creative hubs were offering some microenterprises and independents the opportunity of "scaling up" networks without the risks associated with "scaling up" staff numbers.

At the time of this research, however, location in a creative hub did not appear to stimulate exports directly. For the Born Globals encountered in this study, exporting was not considered a separate aspect of their business, but an integral part of their income stream. Although some businesses exported after establishing a successful presence in the national UK market, others were trading internationally from the start. No respondents indicated that location in a creative hub had expanded their ability to export. This does not preclude it from having played a role, but further research is required to explore this hypothesis.

This study cannot make direct inferences about creative clusters because none of the sampled creative hubs were located in one of the nine Creative Industries Cluster Programme sites and two of the sites (Halton and Preston) were not even located in minor "creative conurbations," (Mateos-Garcia and Bakhshi, 2016). Yet a relatively high level of international trade was found in these two locations, querying the need for clustering in order to increase exports.

Rather than discouraging creative clusters, however, this finding can be employed as a useful step to designing a clear and deliberate export strategy for creative clusters. For instance, rather than encouraging deeper integration between national clusters or

national metropolitan areas, cluster policy efforts may need to focus on supporting partnerships with like-minded clusters abroad. This study and others suggest that networking with international partners and keeping abreast of other international sources of information is the most important factor to increasing absorptive capacity and successful exporting (Fitjar and Jøsendal, 2016). For example, the UK's "Business of Fashion, Textiles and Technology Cluster" in Stratford, Thames Gateway, and Lea Valley might do well to establish links with like-minded, high-tech, textile and apparel manufacturing hubs in Spain (Barcelona, Madrid, Seville, and Valencia), the Netherlands, or Estonia. Bristol and Bath's "Creative Research and Development Cluster" might likewise partner with the European Institute for Innovation and Technology (EIT) Culture & Creativity in Cologne, Germany, or the Visual Sciences and Culture Program (CSV) in Hauts-de-France region. These European examples were selected for practical purposes of travel ease, time differences, comparable socio-economic and industrial histories, etc. Expanding creative cluster partnerships to further afield in the Americas, Africa, Asia and Australasia may likewise expand both potential and realised absorptive capacity. Such international partnerships may be more likely to increase the exports of the UK's creative clusters than fostering inter-regional or national networks between clusters in the UK (Fitjar and Jøsendal, 2016; Mateos-Garcia and Bakhshi, 2016). Acknowledging the possibility that clustering may not inherently drive exports can serve as a valuable step for designing a considered, successful export strategy for creative clusters.

In conclusion, in a sector dominated by microenterprises and independents, targeted investments supporting creative hubs and coworking spaces could be an effective route to stimulating growth in the creative industries rather than the current focus on increasing firm size. This, however, might not automatically stimulate a corresponding increase in exports. Investments in creative hubs or cluster likely need an equivalent strategic programme of promoting the development of new international partnerships, networks and information sources for exports to increase respectively (Fitjar and Jøsendal, 2016).

7.5 Limitations of this research and suggestions for future directions

The context of this research was England's North West so the findings are not necessarily applicable to SMEs, microenterprises and sole proprietors in other regions, though they do suggest implications for the UK's creative industries as a whole. In order to draw conclusions about the international trade patterns of a wider population of the UK's creative industries, one would need to conduct further studies in additional regions of the UK. Mapping additional regions and cities would provide a thicker description of the UK's creative industries as a whole. Furthermore, one person conducted the research not a team. Teams of researchers could employ the same methods developed by the author to test the effects of "observer bias" on the author's results.

Triangulation by other researchers would be a useful test of the validity and credibility of results (Guba and Lincoln, 1982; Lincoln and Guba, 1985; Noble and Heale, 2019). Examples of triangulation include a cross-sectional study using the methods developed by the author in other creative hubs in regions such as England's North East, Wales or Scotland. In order to reasonably draw extrapolations, conducting comparative research in "twin" cities of equivalent size in other regions of the UK (i.e., matching Manchester to Birmingham or Liverpool to Newcastle) would be a useful next step.

Revisiting the same locations and organising focus groups could be another method for testing the validity of the results. The researcher did not use focus groups for two reasons. First, the method requires the facilitator to be well-trained in the approach (Krueger and Casey, 2000), which the researcher is not. Second and importantly, arranging a time convenient for all participants was a major hurdle for employing this method. The interviewees ranged from sole proprietors to company owners of firms with more than 100 employees so the researcher needed to be flexible to accommodate the interviewees' busy schedules. As such, focus groups were deemed

to be an ineffective method for this segment of the population. This, however, should not deter other researchers from carrying out this work. Ethnographic methodologies employed by researchers embedded in creative industries firms, such as prolonged engagement could also yield insightful data (Guest et al., 2013; Noble and Heale, 2019).

The research was conducted in a period of uncertainty and unusually high publicity on the topic of the UK's international trade policy. This may have caused a "contamination effect" on the samples' responses about international trade (Price and Murnan, 2004). Initially, the research intention was to study creative industries SMEs before and after the UK's exit from the EU. The Brexit negotiations were drawn out by almost two years and as such the timescale fell outside of the scope of this research project. While Brexit "policy uncertainty" became a key feature of this study, it would be valuable for future researchers to take up the initial spirit of this research and use the same methods or populations to study the international trade reach of the creative industries in the post-Brexit era of "policy certainty." Revisiting the same four creative hubs post-Brexit would provide useful insights about the extent of major trade policy shifts on the creative industries while examining their present international trade reach. Regression analysis, however, would need to be done in order to discount the economic effects of the global COVID-19 pandemic, which occurred during the last nine months of the Brexit negotiations and continued throughout the first years of the UK's post-EU era.

Other future research opportunities might include using the author's research methodology to query firms and independents specifically *not* situated in creative hubs to determine the effect that the location variable had on the results. Creative industries SMEs located outside of hubs may have substantially different trade patterns to those found within. Such research could provide useful insight into a broader population of creative industries and could guide future policy initiatives.

In conclusion, this research can act as a springboard for further investigations into the

international trade patterns of not only the UK's creative industries, but also the UK's broader population of SMEs in other sectors.

7.6 Research impact

This research unlocks some unique factors and behaviours of the creative sector and its relationship to global markets. Parts of the creative sector—microenterprises and sole proprietors located in creative hubs—display behaviours that diverge from the expectations of government and its policy. Currently, these factors elude existing measurement mechanisms, potentially accounting for the disparity between policy and actual practices within the sector.

Although the Brexit referendum and ensuing economic policies were slapdash, the Brexit referendum was a legitimate poll of popular sentiment. It suggested that government and business need to challenge the assumptions of neo-liberalism, free movement of people, and open markets—principles that, for many, were embedded in the EU (Todnem et al., 2017). The expression of these sentiments, however, would not have been precluded by an evidence-based roadmap for leaving the EU before the Brexit referendum (Baines et al., 2020). Once Article 11 was invoked and the UK pursued secession from the EU, however, listening more broadly and closely to the creative industries—as this study has done—may have influenced the direction of policy. As Todnem et al. write:

Michael Moore predicted that Trump would win months in advance of the election, not because Moore collected better quantitative survey data than the pollsters, but because he talked to people and listened to what they said and the emotion with which they expressed it. The alternative, relying on a narrow set of traditional sources (e.g. advisors and communication channels) to see how a change is progressing, limits listening by ignoring legitimate, passionate, and often valid points of view. Genuine listening can be useful to inform and improve the planning and direction of the change.

This research is valuable because it “genuinely listens”—particularly to the smallest and most numerous creative industries ventures—the nine in ten enterprises in the sector that employ fewer than ten employees. Conversely, the CISD relies heavily on sources such as the Frontier Economics report, which combines data from the ONS with personal interviews, quoting “Creative Industry Leaders” throughout the report (Frontier Economics, 2016). The report names thirteen creative industry leaders, including artist Grayson Perry, comedian Eddie Izzard, architect Richard Rogers, and business leaders from companies such as Pinewood Studios, AEG, and Film4. While providing useful and valid viewpoints, virtually all of these creative industry leaders and businesses were based within London’s M25, all were male, and none were from the creative industry microenterprises that the report is so concerned about.

By listening to the smallest and most numerous segment of the creative industries (namely SMEs, microenterprises and sole proprietors) this research achieved its goal of producing knowledge that is useful for furthering understanding of real-life challenges (Guest et al., 2013). As one project partner and creative hub manager wrote in his evaluation of the collaboration with the researcher:

The research gathered some fascinating results and insights, which have lead (sic) to mainly two outcomes:

- 1. A realisation that [we] need to procure a Board Member with an international reach to help further support our tenants ambition to trade internationally.*
- 2. Committing to work with delivery partners who help provide support for businesses who wish to trade internatiially (sic)...We have just signed a 2 yr deal with the...Chamber of Commerce to deliver business support / programme for Busiensses (sic) which will include support addressing the issues raised in the research findings.*

Another project partner, the director of a creative hub, wrote, "The report about international trade at [our creative hub] was fascinating, and very unexpected. I had no idea that our tenants were so involved in international trade."

The primary research conducted at Baltic Creative and its preliminary findings were published in *The Design Journal* in 2019 (vol. 22 (sup1), 2159-2160). It was also presented at three conferences: the International Association of Societies of Design Research (IASDR) 2019 Conference in Manchester, the European Academy of Design (EAD) 2019 Conference in Dundee, and the Academy for Design Innovation Management (ADIM) 2019 Conference in London. This research has been cited twice, including a report by the Creative Industries Policy & Evidence Centre (PEC).

7.7 Summary

This research is valuable in that it thoroughly examines one important aspect of an under-represented, yet the most populous segment of the creative industries. The study uncovers important international trade patterns that hitherto were not immediately evident, neither to policymakers nor to creative sector participants themselves.

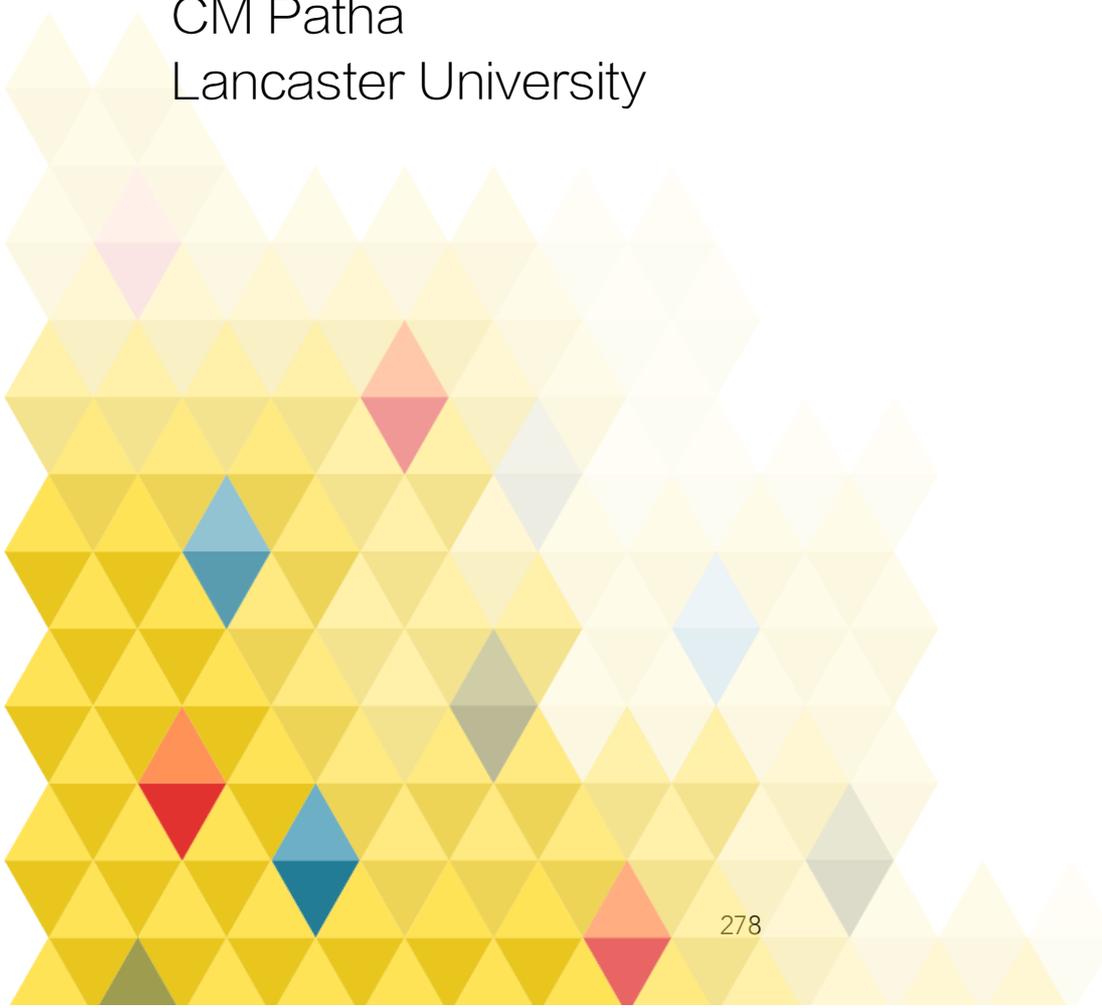
Given the high level of international engagement discovered in this study, the findings suggest that policy uncertainty and far-reaching changes in the UK's international trading environment, such as Brexit, may have broader and more profound implications for the creative industries than might have been assumed. As creative company size continues to decline but digital innovations provide access to new global markets, it is reasonable to assume that—given the right context—microenterprises and independents are equipped to take advantage of international trade opportunities.

These findings have profound implication for policymakers. In the absence of barrier-free access to the EU trade block, future initiatives may need to focus on measures such as clustering or supporting creative hubs where microenterprises and sole proprietors are able to augment capabilities by expanding their networks instead of expanding staff numbers. This should be backed-up by corresponding programmes to support international linkages between clusters, hubs and other sources of external industry knowledge based abroad in order to expand the potential for exports. Should they choose to tap into the findings, national and regional policymakers have the potential to set appropriate policy measures to buttress the creative sector's participation in global trade.

Appendix 1: Baltic Creative Report



Baltic Creative Tenants Export Study December 2018



CM Patha
Lancaster University

Are local digital and creative industries more global than we think?

Executive Summary

Creative industries account for almost 6 per cent of total UK jobs and are the UK's fastest growing sector. In 2015, they accounted for an impressive 9 per cent of the UK's total services exports.¹⁰ The UK government's 2018 *Industrial Strategy: Creative Industries Sector Deal* aims to increase exports by 50% before 2023, claiming that "there remains a great deal of untapped potential in the sector, with many businesses not yet exporting at all." Research conducted in 2018 by the Liverpool-based commercial landlord Baltic Creative and Lancaster University, however, reveals that at least one cohort of creative firms is already deeply intertwined with the global economy.

Although official ONS statistics state that less than 11 per cent of businesses export,¹¹ this study found that an astonishing 69 percent of Baltic Creative tenants trade internationally (Fig. 1). Furthermore these SMEs are extremely dependent on their international income: 35 per cent of the companies earn most of their income abroad (over 50 per cent); another 35 per cent earn a significant portion of their of their income overseas (11 to 50 per cent), and a further 30 per cent of the tenants earn under 10 per cent of their income internationally (Fig. 2).

Almost all creative industries firms (95 per cent) employ fewer than ten people.¹² The UK government's Industrial Strategy sees "size in particular as a challenge to creative industries businesses seeking to export." Again, this study has not found this to be the case at Baltic Creative. Although several companies surveyed employ between 10 and 50 employees, the mean company size is 3.2 FTE (full-time employees), in line with the national UK Creative company average size of 3.3 FTE.¹³

Companies that already export report their main concern to be the UK's decision to leave the European Union in March 2019, so-called Brexit. The EU is the largest trade partner with 90 percent of companies exporting to Europe; 63 per cent exporting to North America; and 51 per cent trading with Asia. While most international trade comprises exports, 1-in-5 companies report that more than 25 per cent of their total expenditure is made in foreign currencies. These companies suffered with the sharp devaluation of the British pound after the Brexit referendum in 2016.

While this research is based on a small, geographically isolated sample of companies and cannot claim to represent a broader snapshot of creative industries in the UK, the findings reveal a surprisingly large proportion of income generated from exports, by even the smallest of SMEs.



¹⁰ DCMS, 2016, CIF 2017

¹¹ BEIS 2017a, ONS

¹² BEIS, 2018.

¹³ Bazalgette, September 2017.

The Study

The research was conducted at Baltic Creative CIC - a commercial property landlord providing space specifically designed for the creative and digital industries in Liverpool. As a Community Interest Company, Baltic Creative's profits are reinvested back into their property, their local community, or local businesses. Each year, Baltic Creative CIC issues a business owners output survey. Here, businesses are asked to provide key figures including questions on annual turnover, annual growth and expected growth. The survey also asks questions around trading and export.

Because company owners have been reporting increasing engagement with international clients year-on-year, MD of Baltic Creative Mark Lawler and researcher at Lancaster University CM Patha agreed to conduct an export-specific study of Baltic Creative tenants.

In May 2018, 58 Creative & Digital SMEs - all based out of Baltic Creative CIC - responded to

various questions about their international reach. The research comprised a 16-question online survey and almost a dozen semi-structured interviews with a selection of business owners.

The study will continue throughout 2019 to assess the impact of the UK leaving the European Union on this set of businesses.

The Study Results...so far

The number of tenants at Baltic Creative engaged in international trade is impressively high. The 2016 business owners' survey found that 57% of tenants were exporting their goods and services out of the UK. In 2018, the export survey found the number had shot up to almost 70% of tenants trading internationally. Of the 30% percent who do not export, one-third would like to start exporting in the near future (Fig. 1).

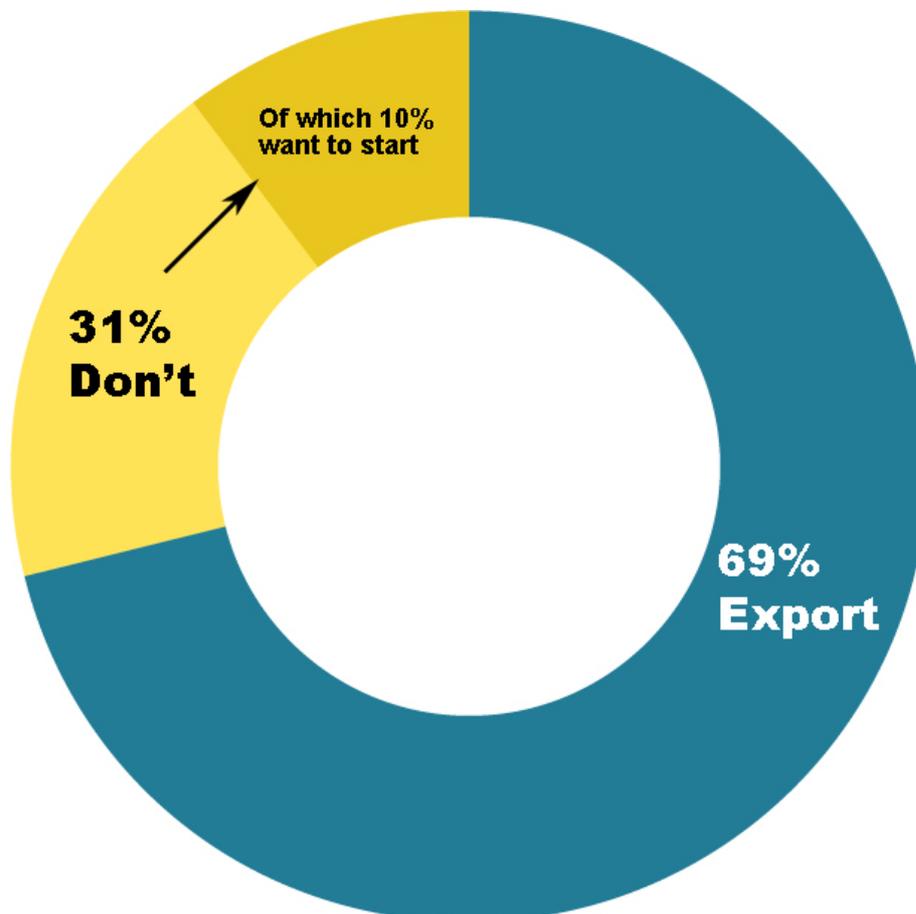


Fig.1. Proportion of Baltic Creative firms exporting

About the Exporters

Baltic Creative's exporting firms make a significant share of their income from overseas (Fig. 2). Their foreign income breakdown is as follows:

- 15% earn over 75% of their income from exports;
- 20% earn 50 to 75% of their income from exports;
- 15% earn 25 to 50% of their income from exports;
- 22% earn 10 to 25% of their income from exports.

These findings, however, should not be surprising given the fluidity and internationalisation of the digital economy in which we all operate. Several company owners reported that international trade came about organically due to the nature of their business and through personal contacts rather than through a concerted export plan.

Europe is their main trade partner with 90 per cent of companies exporting to the EU, 63 per cent trading with North America, and 51 per cent exporting to Asia.



Fig.2. Exporters rely heavily on their international income

International trade relationships

Ten per cent of Baltic Creative's tenants don't yet export, but would like to. The crucial question is, where do you start? How did successful exporters start? Where did they find their first international trade partners?

Most exporters reported that they started with personal contacts. 56 per cent of exporters began trading internationally via personal friends or contacts based either in the UK or abroad.

Not far behind, 51 per cent of exporters reported that a strong online presence was crucial to meeting their first international clients. Many of these exporters found overseas trade partners by investing in international online marketing and search engine optimisation (SEO).

While a more costly solution because travel and conference fees are involved, trade shows also

work. 38 per cent of exporters met some of their earliest international clients at trade shows, either in the UK or abroad.

Government departments and local organisations can also provide strong trade links. 21 per cent of exporters met their earliest trade contacts via an intermediary such as the Department of International Trade, the Chambers of Commerce or by participating in a sponsored trade delegation.

While not in the top tier of export strategies, a good number of exporters still managed to make impressive strides without leaving the office. 18 per cent reached out to potential trade partners after desk-based research and another 13 per cent of exporters got started by proactively responding to (and winning) international tenders.



Fig.3. Where exporters go to find their trade partners

Brexit

Exporters report that their main concern around trade is Brexit. Most of the companies are service providers so trade barriers are not a major concern, but 15 percent sell both goods and services, and another 15 per cent sell goods only. One business owner expressed worry about tariffs since 25 percent of his goods are sold to Europe. Other business owners, both goods and service providers, voiced concern about intangibles such as customer perception and the ease of doing business after Brexit.

When it comes to preparing for Brexit, 65 per cent of exporters say they are waiting to see what

happens, but others are taking a more active approach: 30 per cent are pursuing new business development in markets outside of Europe, 16 per cent are developing strategic partnerships with companies in the EU (i.e. to re-sell their goods or services in the EU), 11 percent are opening an office in an EU country, and another 5 percent are opening a Euro bank account or opening an office outside of the EU.

One company managed to profit from Brexit, but others are struggling (Fig. 4).



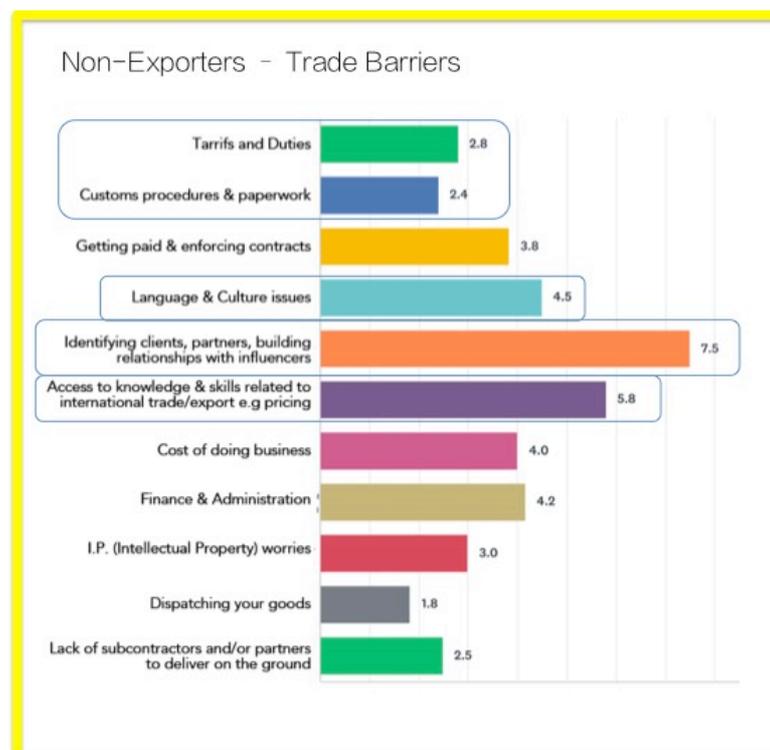
Fig.4. Exporters views on Brexit

Fig.5. Reported Trade Barriers

Trade Barriers

Exporting companies and those not yet exporting report the same barriers to international trade. The biggest worries for both groups are finding clients, access to skills related to international trade, and language and cultural issues (Fig. 5).

One might expect that those who already trade would be well-versed in customs procedures and are thus unconcerned about paperwork, but remarkably, companies that already export, are *far more worried* about tariffs, duties and customs red-tape.



Help is welcome

Company owners were asked if their landlord, Baltic Creative, could do anything to help with their export objectives. Respondents nominated the following as the “Top Five” most useful initiatives:

1. **Match-making** with relevant companies in other co-working/ shared office spaces around the world;
2. **Introductions** to subcontractors, partners and resellers **in local markets**;
3. **Department of International Trade** workshops/seminars/funding;
4. Introductions to potential foreign **investors**;
5. Information on **financing exports**: e.g. how to get paid in foreign currencies, what is UK export finance, when might you need it and how to access it, etc.

Tenants also identified several other helpful initiatives that would be “easy wins” for Baltic Creative as they don’t cost much time or money:

- **An Online list of contacts of vetted specialists** in international trade e.g. legal advisors, accountants, DIT contacts, foreign in-country contacts, consultants, fixers, etc;
- Baltic Creative should become member of the **Institute of Export and International Trade** so tenants have access to a free exports help-line called, “Ask the experts”;
- **Create a local Baltic Creative Twitter feed, Instagram account or Facebook page** where tenants can post trade information that might be relevant to other tenants.

Conclusion

Baltic Creative tenant companies are exporting at much higher rates than is suggested by the government’s statistics for creative industries. The Baltic Creative cohort may be unusual in their deep involvement with the global economy or the official statistics may not be accurately reflecting the sector, which more highly dependent on self-employed workers and

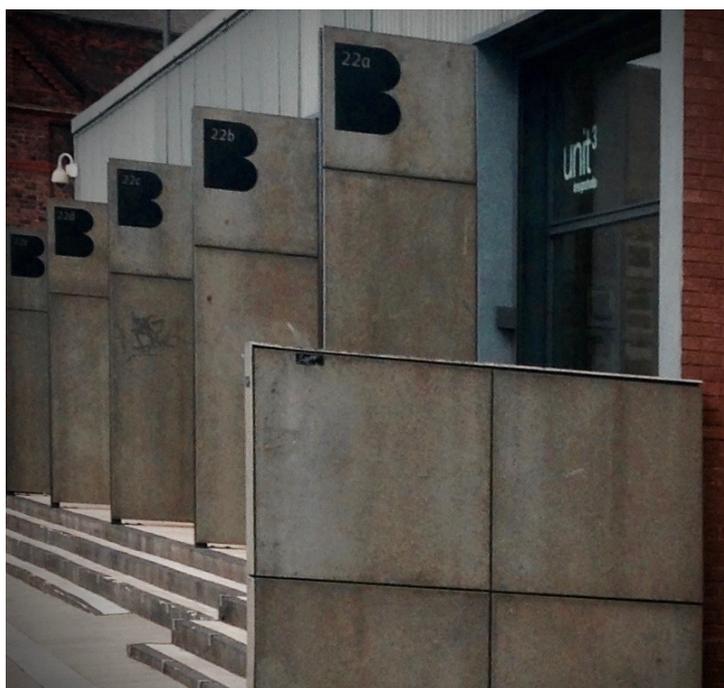
micro-enterprises than any other sector. With 90 per cent of creative firms employing no more than five employees, 80 per cent no more than two, and 60 per cent just one. The comparative figures for the UK economy are, respectively, ten, five and two.¹⁴ It may be that these small firms and their contribution to the UK’s international trade balance are getting overlooked.

More research needs to be done to assess whether the broader creative industry is also more deeply involved in the global economy and if not, what makes this group of companies so successful. Whatever the case, the Baltic Creative tenants are hungry for knowledge and open to fresh initiatives around trade. That may indeed be the very reason for their success.

CM Patha
December 2018

“We are open to new ideas, recognising that knowledge is key to understanding how to expand and grow to new markets.”

Baltic Creative Tenant



¹⁴ Bazalgette, September 2017.

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Appendix 2: Sample participant information sheet



Participant information sheet

Baltic Creative Tenants International Trade

For further information about how Lancaster University processes personal data for research purposes and your data rights please visit our webpage: www.lancaster.ac.uk/research/data-protection

I am a PhD student at Lancaster University and I would like to invite you to take part in a research study about the export reach of Baltic Creative's tenants. Please take time to read the following information carefully before you decide whether or not you wish to take part.

What is the study about?

This study aims to understand the current scope of Baltic Creative tenants' international trade, incl. the challenges you face when exporting, the impact of Brexit thus far on your exports, and your views on the future of your international trade.

My PhD is funded by the by AHRC National Productivity Investment Fund (NPIF) via the North West Doctoral Training Programme. The purpose is for students to investigate opportunities and challenges to deliver new products and service opportunities for business in the North West. The goal is to support the creative industries cluster in the North West whilst enhancing and contributing to wider industry.

Why have I been invited?

I have approached you because you replied to Baltic Creative's online international trade survey. I am trying to understand more about your particular trade situation and your personal views on the future of your international trade. I would be very grateful if you would agree to take part in this study.

What will I be asked to do if I take part?

If you decided to take part, you will be asked for a personal, 30-60-minute interview in which you will discuss the international trade of your company and your views thereof.

What are the possible benefits from taking part?

If you take part in this study, your insights will contribute to understanding the contribution of creative and digital SMEs to the UK's overall international trade.

Do I have to take part?

No. It's completely up to you to decide whether or not you take part. Your participation is voluntary.

What if I change my mind?

If you change your mind, you are free to withdraw at any time during your participation in this study. If you want to withdraw, please let me know, and I will extract any ideas or

information (=data) you contributed to the study and destroy them. However, it is difficult and often impossible to take out data from one specific participant when this has already been anonymised or pooled together with other people's data. Therefore, you can only withdraw up to 2 weeks after taking part in the study.

What are the possible disadvantages and risks of taking part?

It is unlikely that there will be any major disadvantages to taking part. Taking part will mean investing 30-60 minutes for an interview.

Will my data be identifiable?

After the interview, only I, the researcher conducting this study, and my thesis supervisors Dr. Nick Dunn and Dr. Roger Whitham, will have access to the ideas you share with me. The only other person who may have access to what you contributed is a professional transcriber who will listen to the recordings and produce a written record of what you have said should my transcription software fail to transcribe this interview. If that is the case, the transcriber will sign a confidentiality agreement.

I will keep all personal information about you (e.g. your name and other information about you that can identify you) confidential, that is, I will not share it with others. I will remove any personal information from the written record of your contribution.

How will we use the information you have shared with us and what will happen to the results of the research study?

I will use the information you have shared with me only in the following ways: I will use it for research purposes only. This will include my PhD thesis and other publications, for example journal articles. I may also present the results of my study at academic conferences and inform policy-makers and the Department of International Trade about my study.

When writing up the findings from this study, I would like to reproduce some of the views and ideas you shared with me. I will only use anonymised quotes (e.g. from my interview with you), so that although I will use your exact words, you cannot be identified in our publications.

How my data will be stored

Your data will be stored in encrypted files (that is no-one other than me, the researcher will be able to access them) and on password-protected computers. I will store hard copies of any data securely in locked cabinets in my office. I will keep data that can identify you separately from non-personal information (e.g. your views on a specific topic). In accordance with University guidelines, I will keep the data securely for a minimum of ten years.

What if I have a question or concern?

If you have any queries or if you are unhappy with anything that happens concerning your participation in the study, please contact myself, Catharine Patha on c.patha1@lancaster.ac.uk or +44 7801 353 587 or my PhD supervisor Nick Dunn on nick.dunn@lancaster.ac.uk.

If you have any concerns or complaints that you wish to discuss with a person who is not directly involved in the research, you can also contact: Judith Mottram, judith.mottram@lancaster.ac.uk. Thank you for considering your participation in this project.

Appendix 3: Sample consent form

CONSENT FORM



Project Title: Baltic Creative Tenants Export Study

Name of Researchers: Catharine Patha

Email: c.patha1@lancaster.ac.uk

Please tick each box

1. I confirm that I have read and understand the information sheet for the above study. I have had the opportunity to consider the information, ask questions and have had these answered satisfactorily.	<input type="checkbox"/>
2. I understand that my participation is voluntary and that I am free to withdraw at any time during my participation in this study and within 2 weeks after I took part in the study, without giving any reason. If I withdraw within 2 weeks of taking part in the study my data will be removed. If I am involved in focus groups and then withdraw my data will remain part of the study. PLEASE NOTE: Withdrawing from a focus group can be difficult and if your study involves focus groups you may want to add the following: I understand that as part the focus group I will take part in, my data is part of the ongoing conversation and cannot be destroyed. I understand that the researcher will try to disregard my views when analysing the focus group data, but I am aware that this will not always be possible.	<input type="checkbox"/>
3. If I am participating in the focus group I understand that any information disclosed within the focus group remains confidential to the group, and I will not discuss the focus group with or in front of anyone who was not involved unless I have the relevant person's express permission	<input type="checkbox"/>
4. I understand that any information given by me may be used in future reports, academic articles, publications or presentations by the researcher/s, but my personal information will not be included and I will not be identifiable. Fully anonymised data will be made available to genuine research for re-use (secondary analysis)	<input type="checkbox"/>
5. I understand that my name/my organisation's name will not appear in any reports, articles or presentation without my consent.	<input type="checkbox"/>

6. I understand that any interviews or focus groups will be audio-recorded and transcribed and that data will be protected on encrypted devices and kept secure.	<input type="checkbox"/>
7. I understand that data will be kept according to University guidelines for a minimum of 10 years after the end of the study.	<input type="checkbox"/>
8. I agree to take part in the above study.	<input type="checkbox"/>

Name of Participant

Date

Signature

I confirm that the participant was given an opportunity to ask questions about the study, and all the questions asked by the participant have been answered correctly and to the best of my ability. I confirm that the individual has not been coerced into giving consent, and the consent has been given freely and voluntarily.

Signature of Researcher / person taking the consent _____ **Date**
Day/month/year

One copy of this form will be given to the participant and the original kept in the files of the researcher at Lancaster University

Appendix 4: Sample interview questions

1. How long have you been in Baltic Creative/Halton Mill/Society1/Sharp Project?
2. Has being located here helped any aspect of your business?

If company exports:

2b. Has location here in _____ helped you with any aspect of your exports (e.g. interactions with fellow tenants, sharing of clients, or just inspiration? **If yes, How?**

3. How many clients do you have abroad? Are they significant to your annual income?

If company exports:

4. What prompted you to export?

5. Foreign trade in services doesn't involve the same red tape as goods. What is your experience with red tape, tariffs, other duties or taxes?

If company does not export:

6. Is anything preventing you from trading abroad?

7. Are you optimistic or apprehensive about the effect of your business when the UK leaves the EU? **Why?**

If company exports:

7b. Have your exports increased or decreased since Brexit?

If company does not export:

7c. Has your company felt any effects of the Brexit referendum?

8. How do you think Brexit will impact your company (and your exports, if export)?

Appendix 5: Baltic Creative Export Survey 2018

Business Owner Export Survey 2018

As the UK prepares to leave the European Union, British companies are looking at how they do business abroad. Whether you're new to international trade or already have a substantial portfolio, we'd like to help you navigate the changes.

Baltic Creative is working with PhD students from Lancaster University on this research project. The data collected here will only be made publicly available in anonymised and statistical form. The data will be stored with Survey Monkey and the results held digitally within Baltic Creative Protected Server. The data may be used in Baltic Creative's annual reports, in academic journals and other publicly available sources. No specific company, email or data will be published. By completing the survey, you consent to taking part in the study.

This survey is aimed at business owners/MDs/CEOs. As such, we only need one response per company. Please spend 5 minutes answering the following 16 (easy!) questions to help us understand what kind of international trade relationship, support or advice you might be looking for.

1. Please state your company name: _____

2. Please state your email address: _____

3. In which regions do you currently trade? Tick all that apply.

- a. Locally within Liverpool & Merseyside
- b. North West
- c. UK-wide
- d. Europe
- e. North America
- f. Asia
- g. Oceania (Australia, New Zealand, South Pacific)
- h. South America
- i. Africa
- j. Antarctica (just kidding)

Feel free to tell us more: _____

4. If you don't trade internationally, would you like to begin trading abroad?

- a. Yes
- b. No

Feel free to tell us more: _____

If you said No, please **go to Question 13**. Otherwise please continue.

5. What percentage of your income last year came from exports (outside the UK)?

- a. 0%
- b. 0-10%
- c. 11-25%
- d. 26 – 50%
- e. 51-75%
- f. 76-100%

Feel free to tell us more (i.e. Where are most of your international clients based?): _____

6. Do you sell goods or services abroad?

- a. Services
- b. Goods
- c. Both
- d. I don't trade internationally

Feel free to tell us more: _____

7. What percentage of your expenditure last year was on goods or services bought from abroad (e.g. outsourcing web development, equipment bought abroad, international fairs and travel, etc)?

- a. 0%
- b. 0-10%
- c. 10-25%
- d. 25 – 50%
- e. 50-75%
- f. over 75%

Please tell us what most of your international expenditure was on:

8. If you already trade internationally, how did you find your first few international clients or partners? Please tick the most relevant responses.

- a. Via a personal, UK-based contact;
- b. Via a personal contact who is based abroad;
- c. Relationships formed with foreign customers/partners at a trade show abroad;
- d. Relationships formed with foreign customers/partners at a trade show in the UK;
- e. Participated in trade delegations;

- f. Responded to tender opportunities in international markets;
 - g. Engaged a marketing company or sales rep in a foreign market;
 - h. Pitched our product to a shop or re-seller in the foreign market (and they agreed to stock our product or to represent us);
 - i. Via a prior existing relationship with a foreign government, university or NGO (from a previous job, company, etc.);
 - j. Via an intermediary (e.g. Department of International Trade, Enterprise Network Europe, Chamber of Commerce) who introduced us to potential partners or customers; Please specify _____
 - k. Foreign customers/partners found us online and approached us;
 - l. Foreign customers/partners approached us via our existing international customers, partners, or suppliers;
 - m. Online marketing and sales;
 - n. Desk-based research;
- Please tell us more: _____

9. If you trade internationally, for how long have you been doing so?

- a. Less than a year
- b. 1-2 years
- c. 2-3 years
- d. 3-5 years
- e. 5-10 years
- f. 10 years or more
- g. Feel free to tell us more: _____

10. If you'd like to expand your international business, in which 3 regions would you most like to expand your trade?

- a. Europe
 - b. North America
 - c. Asia
 - d. Oceania (Australia, New Zealand, South Pacific)
 - e. South America
 - f. Africa
 - g. I don't want to expand my trade
- Feel free to tell us more: _____

11. Have you ever been on an International Business Delegation?

- a. Yes
 - b. No
- If yes, where and sponsored by whom: _____

12. Have you attended any overseas trade shows/exhibitions?

- a. Yes

b. No

If yes, please state which exhibitions: _____

13. If you don't yet export and would like to, what barriers prevent you from exporting? Or if you do already export, where are your biggest constraints?

Rate on a scale of 1-to-10. (1 is a small barrier, 10 is a big barrier.)

- a. Tariffs and Duties;
 - b. Customs procedures & paperwork;
 - c. Getting paid and enforcing contracts;
 - d. Language and Culture issues;
 - e. Identifying clients, partners, building relationships with influencers;
 - f. Access to knowledge & skills related to international trade/export e.g pricing;
 - g. Cost of doing business;
 - h. Finance & Administration;
 - i. I.P. (Intellectual Property) worries;
 - j. Dispatching your goods;
 - k. Lack of subcontractors and/or partners to deliver on the ground;
- Tell us more: _____

14. If Baltic Creative develops a programme to help tenants export, what would you find most useful? Rate on a scale of 1-to-10. (1 is least important, 10 is most important.)

- a. Presentations from companies who already export/import or have scaled up their exports ("How I did it and my Top 10 Tips");
- b. Match-making with relevant companies in other co-working/ shared office spaces around the world;
- c. Introductions to subcontractors, partners and resellers in local markets;
- d. Department of International Trade workshops/seminars/funding;
- e. Liverpool Chambers of Commerce workshops/seminars/funding;
- f. Brexit-specific seminars –what will change, how to prepare;
- g. Funds to attend trade fairs/expos/overseas missions;
- h. Introductions to potential foreign investors;
- i. Information on financing exports: e.g. how to get paid in foreign currencies, what is UK export finance, when might you need it and how to access it, etc.
- j. Online list of contacts for vetted specialists in international trade e.g. legal advisors, accountants, DIT contacts, foreign in-country contacts, consultants, fixers, etc.
- k. Baltic Creative should become a corporate member of the Institute of Export and International Trade so my company can get access to a free exports help line called, "Ask the experts";

- l. Create a Baltic Creative tenant's Twitter feed or Facebook page where people can post trade information that might be relevant to other tenants;
- m. I'm not interested in help with starting/increasing/maintaining exports.
Feel free to tell us more: _____

15. How are you preparing for Brexit? Please choose all that apply.

- a. Pursuing new business development in other markets outside of Europe;
- b. Opening an office in an EU country;
- c. Opening an office outside of the EU;
- d. Developing strategic partnership with a company in the EU (e.g. so they can sell your goods or services);
- e. Opening an Euro bank account;
- f. Waiting to see what happens;
- g. I don't intend to trade internationally so I don't think it will affect me.
Feel free to tell us more: _____

16. If Baltic Creative runs a series of presentations or workshops on international trade, would you be interested in attending? If yes, when would be the ideal time to host workshops:

- a. 9-10am
- b. Lunchtime 12:30-14
- c. 16:30-18
- d. After office hours 18-19:30pm
- e. I'm not interested in attending
Feel free to tell us more: _____

Appendix 6: Halton Mill International Reach Questionnaire

As the UK prepares to leave the European Union, creative and digital companies are looking at how they do business abroad. This survey will help us understand whether you're new to international trade, already have a substantial portfolio, or if you want to remain a mainly local business.

This research project has been designed by a PhD student at Lancaster University. The data collected here will only be made publicly available in anonymised and statistical form. The data will be stored with Smart Survey and the results held digitally within Lancaster University's protected server. The data may be used in academic journals and other publicly available sources. No specific company, email or data will be published. By completing the survey, you consent to taking part in the study.

This survey is aimed at those who are self-employed or business owners/MDs/CEOs. As such, we only need one response per company. Please spend 10 minutes answering the following 15 questions to help us understand your international trade position and what kind of international trade relationship, support or advice you might be looking for.

1. Please state your business email address: * _____

2. What is your company name? * _____

3. Which of the following applies to you:

- a. Self-employed or Freelancing
- b. Self-employed, but I sometimes employ other freelancers
- c. Company owner with 1-2 employees
- d. Company owner with 3+ employees
- e. Working on my own at this location, but employed by a larger company in another location (this survey may difficult for you to answer. Feel free to answer only that which applies).

Feel free to tell us more (e.g. how many freelancers do you employ on a regular basis) _____

4. What is your company turnover or, if you are a free-lancer, what is your annual income? (Please state amounts pre-tax)

- a. Under £30,000
- b. £30,000 - £50,000
- c. £50,000 - £100,000
- d. £100,000 - £200,000
- e. £200,000 - £300,000

- f. £300,000 - £500,000
 - g. £500,000 - £1million
 - h. £1 - 2 million
 - i. £2 - 3 million
 - j. over £3 million
- Feel free to tell us more: _____

5. As part of your business, do you buy or sell any goods or services from outside of the UK? *

- a. Yes
 - b. No
- Feel free to tell us more: _____

6. In which regions do you currently trade? Tick all that apply.

- a. Locally and/or around the North West
- b. Nationally within the UK
- c. Europe
- d. North America
- e. Asia
- f. Oceania (Australia, New Zealand, South Pacific)
- g. South America
- h. Africa
- i. Antarctica (just kidding)

Please tell us from which areas or countries you generate most of your income (please include a rough percentage): _____

7. If you don't trade internationally, would you like to begin trading abroad?

- a. Yes
 - b. No
- Feel free to tell us more: _____

8. Do you buy/sell goods or services abroad?

- f. Services
 - g. Goods
 - h. Both
 - i. I don't trade internationally
- Feel free to tell us more: _____

9. In the last year, what percentage of your INCOME came from outside of the UK?

- a. 0%
- b. 0-10%
- c. 10-25%
- d. 25 – 50%
- e. 50-75%
- f. over 75%

Feel free to tell us more: _____

10. What percentage of your EXPENDITURE last year was on goods or services bought from abroad (e.g. outsourcing web development, equipment bought abroad, international fairs and travel, etc)?

- a. 0%
- b. 0-10%
- c. 10-25%
- d. 25 – 50%
- e. 50-75%
- f. over 75%

Please tell us what most of your international expenditure was on: _____

11. If you export, how did you find your first few international clients or partners? Please tick the most relevant responses.

- a. Via a personal, UK-based contact;
- b. Via a personal contact who is based abroad;
- c. Via personal contacts made when I lived abroad
- d. Relationships formed with foreign customers/partners at a trade show abroad;
- e. Relationships formed with foreign customers/partners at a trade show in the UK;
- f. Participated in trade delegations;
- g. Responded to tender opportunities in international markets;
- h. Engaged a marketing company or sales rep in a foreign market;
- i. Pitched our product to a shop or re-seller in the foreign market (and they agreed to stock our product or to represent us);
- j. Via a prior existing relationship with a foreign government, university or NGO (from a previous job, company, etc.);
- k. Desk-based research;
- l. Foreign customers/partners found us online and approached us;
- m. Foreign customers/partners approached us via our existing international customers, partners, or suppliers;
- n. Online marketing and sales;
- o. Via an intermediary (e.g. Department of International Trade, Enterprise Network Europe, Chamber of Commerce) who introduced us to potential partners or customers (Please specify in the "Feel free to tell us more" field below)

Feel free to tell us more: _____

12. If you'd like to expand your international business, in which 3 regions would you most like to expand your trade?

- a. Europe
- b. North America
- c. Asia

- d. Oceania (Australia, New Zealand, South Pacific)
 - e. South America
 - f. Africa
 - g. I don't want to expand my trade
- Feel free to tell us more: _____

13. If you don't yet export and would like to, what barriers prevent you from exporting? Or if you do already export, where are your biggest constraints? Rate on a scale of 1-to-10. (1 is a small barrier, 10 is a big barrier.)

- a. Tariffs and Duties;
 - b. Customs procedures & paperwork;
 - c. Getting paid and enforcing contracts;
 - d. Language and Culture issues;
 - e. Identifying clients, partners, building relationships with influencers;
 - f. Access to knowledge & skills related to international trade/export e.g pricing;
 - g. Cost of doing business;
 - h. Finance & Administration;
 - i. I.P. (Intellectual Property) worries;
 - j. Dispatching your goods;
 - k. Lack of subcontractors and/or partners to deliver on the ground;
- Feel free to tell us more: _____

14. How are you preparing for Brexit? Please choose all that apply.

- a. Pursuing new business development in other markets outside of Europe;
 - b. Opening an office in an EU country;
 - c. Opening an office outside of the EU;
 - d. Developing strategic partnership with a company in the EU (e.g. so they can sell your goods or services);
 - e. Opening an Euro bank account;
 - f. Not doing anything; just waiting to see what happens;
 - g. I don't intend to trade internationally so I don't think it will affect me.
- Feel free to tell us more: _____

Appendix 7: Society1 International Trade Questionnaire

As the UK prepares to leave the European Union, creative and digital companies are looking at how they do business abroad. This survey will help us understand whether you're new to international trade, already have a substantial portfolio, or if you want to remain a mainly local business. This research project has been designed by a PhD student at Lancaster University. The data collected here will only be made publicly available in anonymised and statistical form. The data will be stored with Smart Survey and the results held digitally within Lancaster University's protected server. The data may be used in our annual reports, in academic journals and other publicly available sources. No specific company, email or data will be published. By completing the survey, you consent to taking part in the study. This survey is aimed at those who are self-employed or business owners/MDs/CEOs. Please spend 10 minutes answering the following 15 questions to help us understand your international trade position and what kind of international trade relationship, support or advice you might be looking for.

1. Please state your business email address and your industry:

2. Which of the following applies to your company:

- Self-employed / Freelancing
- Company with 1-2 employees
- Company with 3-10 employees
- Company with 10-50 employees
- Company with 50-100 employees
- Company with over 100 employees
- Working on my own at this location, but employed by a larger company in another location

Please specify the number of full- and part-time employees in your company (if you are self-employed, please state "1")

3. Do you work with freelancers?

- Yes
- No

How many freelancers do you employ and how often?

4. In the next two years, would you like to increase the size of your company, stay the same, or scale down the number of people you employ?

- Grow company by 1-2 employees
- Grow company by 3 or more employees
- Stay the same
- Reduce company size

Please tell us more about your ideal company size:

5. What is your estimated company turnover (income) for the CURRENT fiscal year?
Please state amounts pre-tax.

- Under £30,000
- £30,000 - £50,000
- £50,000 - £100,000
- £100,000 - £200,000
- £200,000 - £300,000
- £300,000 - £500,000
- £500,000 - £1million
- £1 - 2 million
- £2 - 3 million
- over £3 million

Please tell us what you expect your turnover to be in the FOLLOWING fiscal year:

6. In the past 12 months, have you collaborated with any other tenants at Society1? This may include business where you paid/were paid by another tenants, client referrals, informal discussions that led to new business ideas or practices, etc.

- YES... I have collaborated with other tenants at The Sharp Project
- NO... I have NOT collaborated with other tenants at The Sharp Project

Please explain your response:

7. As part of your business, do you buy or sell any goods or services from outside of the UK? *

- Yes
- No

8. In which regions do you currently trade? (i.e. Where do you make and spend your money)? Tick all that apply.

- Locally and/or around the North West
- Nationally within the UK
- Europe
- North America
- Asia
- Oceania (Australia, New Zealand, South Pacific)
- South America
- Africa
- Antarctica (just kidding)

9. In the last year, how much of your TOTAL INCOME came from outside of the UK?

- 0%
- 1 – 10%
- 11 – 25%
- 26 – 50%
- 51 – 75%
- 76 – 100%

Please indicate your FOREIGN INCOME breakdown (e.g. 50% USA/Canada, 30% EU, 20% Asia)

10. Do you sell goods or services abroad?

- Services
- Goods
- Both Goods and Services
- I don't export

What do you sell abroad (i.e. animation, womenswear, advertising on my YouTube channel, etc.):

11. In the last year, how much of your TOTAL EXPENDITURE was on goods or services bought from abroad (e.g. outsourcing web development, equipment bought abroad, international fairs and travel, etc)?

- 0%
- 1 – 10%
- 11 – 25%
- 26 – 50%
- 51 – 75%
- Over 75%

Please indicate your FOREIGN EXPENDITURE breakdown (e.g. 40% Asia, 25% EU, 25% USA, 10% Africa)

12. Do you buy goods or services from abroad?

- Services
- Goods
- Both goods and services
- I don't buy goods or services from abroad

What do you buy from abroad (i.e. website development, travel to conferences, printing, etc.):

13. If you export or import, how did you find your first few international clients or trade partners? Please tick the most relevant responses.

- Via a personal, UK-based contact
- Via a personal contact who is based abroad
- Via person contacts made while I was living abroad
- Relationships formed with foreign customers/partners at a trade show abroad
- Relationships formed with foreign customers/partners at a trade show in the UK
- Participated in trade delegations
- Responded to tender opportunities in international markets
- Engaged a marketing company or sales rep in a foreign market
- Pitched our product to a shop or re-seller in the foreign market (and they agreed to stock our product or to represent us)
- Via a prior existing relationship with a foreign government, university or NGO (from a previous job, company, etc.)
- Desk-based research
- Foreign customers/partners found us online and approached us
- Foreign customers/partners approached us via our existing international customers, partners, or suppliers
- Online marketing and sales
- Via an intermediary (e.g. Department of International Trade, Enterprise Network Europe, Chamber of Commerce) who introduced us to potential partners or customers (Please specify in the "Feel free to tell us more" field below)

Feel free to tell us more:

14. If you don't trade internationally, would you like to begin trading abroad? (Skip this question if you already export/import.)

- Yes
- No

Feel free to tell us more:

15. Whether you already trade internationally or not, what are your biggest barriers to exporting? Rate on a scale of 1-to-10. (1 is a small barrier, 10 is a big barrier.)

	1	2	3	4	5	6	7	8	9	10
Identifying clients, partners, building relationships with influencers										
Language and Culture issues										
Tariffs and Duties										
Customs procedures and paperwork										
Getting paid and enforcing contracts										
Access to knowledge and skills related to international trade/export e.g pricing										
Cost of doing business										
Finance and Administration										
I.P. (Intellectual Property) worries										
Dispatching your goods / Lack of subcontractors or partners to deliver on the ground										
Time Difference										
Trouble reaching clients or partners abroad										
Brexit uncertainty										

Please tell us more about your barriers to trade:

Appendix 8: The Sharp Project International Trade Questionnaire

As the UK prepares to leave the European Union, creative and digital companies are looking at how they do business abroad. This survey will help us understand whether you're new to international trade, already have a substantial portfolio, or if you want to remain a mainly local business. This research project has been designed by a PhD student at Lancaster University. The data collected here will only be made publicly available in anonymised and statistical form. The data will be stored with Smart Survey and the results held digitally within Lancaster University's protected server. The data may be used in our annual reports, in academic journals and other publicly available sources. No specific company, email or data will be published. By completing the survey, you consent to taking part in the study. This survey is aimed at those who are self-employed or business owners/MDs/CEOs. Please spend 10 minutes answering the following 17 questions to help us understand your international trade position and what kind of international trade relationship, support or advice you might be looking for.

1. Please state your business email address:

2. What does your company do?

3. Which of the following applies to your company:

- Sole-proprietor / Freelancer / Contractor
- Company with 2-3 employees or partners
- Company with 4 -10 employees
- Company with 11-50 employees
- Company with 51-100 employees
- Company with over 100 employees
- Working on my own at this location, but employed by a larger company in another location

Please specify the number of full- and part-time employees in your company (if you are self-employed, please state "1")

4. In the next two years, would you like to increase the size of your company, stay the same, or scale down the number of people you employ?

- Grow company by 1-2 employees
- Grow company by 3 or more employees
- Stay the same
- Reduce company size

Please tell us more about your ideal company size:

5. What was your company turnover/annual income for the LAST fiscal year (2018-2019)?

- Under £30,000
- £30,000 - £50,000
- £50,000 - £100,000
- £100,000 - £200,000
- £200,000 - £300,000
- £300,000 - £500,000
- £500,000 - £1million
- £1 - 2 million
- £2 - 3 million
- over £3 million

Please specify your income (e.g. £150,000).

6. What is your expected company turnover for the NEXT fiscal year (2019-2020)?

- Under £30,000
- £30,000 - £50,000
- £50,000 - £100,000
- £100,000 - £200,000
- £200,000 - £300,000
- £300,000 - £500,000
- £500,000 - £1million
- £1 - 2 million
- £2 - 3 million
- over £3 million

Please specify your expected turnover (e.g. £800,000).

7. In the past 12 months, have you collaborated with any other tenants at The Sharp Project? This includes instances where you hired or were hired by another tenant, informal discussions that led to new business ideas or practices, client referrals, etc.

- YES... I have collaborated with other tenants at The Sharp Project
- NO... I have NOT collaborated with other tenants at The Sharp Project

Please explain your response, including any significant interaction you've had with others at the Sharp Project:

8. Does your company buy or sell anything from abroad?

- Yes
- No

9. In which regions do you currently trade? (i.e. Where do you make and spend your money)? Tick all that apply.

- Locally and/or around the North West
- Nationally within the UK
- Europe
- North America
- Asia
- Oceania (Australia, New Zealand, South Pacific)
- South America
- Africa
- Antarctica (just kidding)

10. In the last year, how much of your TOTAL INCOME came from outside of the UK?

- 0%
- 1 – 10%
- 11 – 25%
- 26 – 50%
- 51 – 75%
- 76 – 100%

Please indicate your FOREIGN INCOME breakdown (e.g. 50% USA/Canada, 30% EU, 20% Asia)

11. Do you sell goods or services abroad?

- Services
- Goods
- Both Goods and Services
- I don't export

What do you sell abroad (i.e. animation, womenswear, advertising on my YouTube channel, etc.):

12. In the last year, how much of your TOTAL EXPENDITURE was on goods or services bought from abroad (e.g. outsourcing web development, equipment bought abroad, international fairs and travel, etc)?

- 0%
- 1 – 10%
- 11 – 25%
- 26 – 50%
- 51 – 75%
- Over 75%

Please indicate your FOREIGN EXPENDITURE breakdown (e.g. 40% Asia, 25% EU, 25% USA, 10% Africa)

13. Do you buy goods or services from abroad?

- Services
- Goods
- Both goods and services
- I don't buy goods or services from abroad

What do you buy from abroad (i.e. website development, travel to conferences, printing, etc.):

14. If you export or import, how did you find your first few international clients or trade partners? Please tick the most relevant responses.

- Via a personal, UK-based contact
- Via a personal contact who is based abroad
- Via person contacts made while I was living abroad
- Relationships formed with foreign customers/partners at a trade show abroad
- Relationships formed with foreign customers/partners at a trade show in the UK
- Participated in trade delegations
- Responded to tender opportunities in international markets
- Engaged a marketing company or sales rep in a foreign market
- Pitched our product to a shop or re-seller in the foreign market (and they agreed to stock our product or to represent us)
- Via a prior existing relationship with a foreign government, university or NGO (from a previous job, company, etc.)
- Desk-based research
- Foreign customers/partners found us online and approached us
- Foreign customers/partners approached us via our existing international customers, partners, or suppliers
- Online marketing and sales
- Via an intermediary (e.g. Department of International Trade, Enterprise Network Europe, Chamber of Commerce) who introduced us to potential partners or customers (Please specify in the "Feel free to tell us more" field below)

Feel free to tell us more:

15. If you don't trade internationally, would you like to begin trading abroad? (Skip this question if you already export/import.)

- Yes
- No

Feel free to tell us more:

16. Whether you already trade internationally or not, what are your biggest barriers to exporting? Rate on a scale of 1-to-10. (1 is a small barrier, 10 is a big barrier.)

	1	2	3	4	5	6	7	8	9	10
Identifying clients, partners, building relationships with influencers										
Language and Culture issues										
Tariffs and Duties										
Customs procedures and paperwork										
Getting paid and enforcing contracts										
Access to knowledge and skills related to international trade/export e.g pricing										
Cost of doing business										
Finance and Administration										
I.P. (Intellectual Property) worries										
Dispatching your goods / Lack of subcontractors or partners to deliver on the ground										
Time Difference										
Trouble reaching clients or partners abroad										
Brexit uncertainty										

Please tell us more about your barriers to trade:

17. Has Brexit, thus far, affected your business positively or negatively? Do you have any thoughts you'd like to share on the subject?

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