Innovation Management of SMEs in the Creative Sector in Flanders and the Netherlands

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This article studies the innovation management of 105 creative SMEs in Flanders and the Netherlands. This region appears to have an innovative climate and stimulating lifestyle, well-developed infrastructure and proximity of logistics and suppliers. However, we identified many restricting legislations and regulations that hamper creative SMEs. Above that, creative SMEs fail to find sufficient access to capital to invest in their growing innovative activities. Dutch creative SMEs find more easily access to external financial resources and governmental support than their Flemish colleagues. Finally, the use of managerial and financial tools seems uncommon but required among creative SMEs.

INTRODUCTION

Today, SMEs represent a very important part of the European economy, not only in terms of number of firms but also in terms of added value and employment. Within the SMEs group, the creative sector is recently one of the fastest growing sectors. Creative SMEs in Belgium and the Netherlands show a growth in employment that is almost double that of the average in all sectors. Since the creative sector in Flanders and the Netherlands is particularly one of small and micro firms, they often lack important scale economies, financial and human resources and well-established organizational structures to effectively manage the market introduction of their innovations. Recent research has shown that many creative SMEs lack systematic methods with which to measure the impact of their innovations and the proportion of risks to profits and they also lack formal strategic innovation management systems (De Jongh e.a., 2003). Other studies indicate a lack of financial and managerial knowledge within creative SMEs and the capacity to invest in management and marketing to successfully sell innovations on an international scale (Nauwelaerts & Frank, 2007; Sleuwaegen & Onkelinx, 2008; Nauwelaerts & Vijfeyken, 2010).

Starting from these facts, our paper focuses on the strategic innovation management of creative SMEs in Flanders and the Netherlands. We mainly base our study on the innovation diagnostic instrument, developed by Mazzarol & Reboud (2006). On the basis of an extended questionnaire, this instrument identifies strong and weak points in the innovation management process of SMEs, as measured by the innovation diagnostic diamond (IDD) and identifies particular innovation profiles of SMEs, through an initial assessment of the anticipated lifecycle (length), sales forecast (volume) and profit margin (rate) of the innovations, which determine the overall RENT that can be generated from the investment.
We studied a group of 105 creative SMEs in Flanders (82) and the Netherlands (23) between 2006 - 2010. Interviews were carried out personally and took on average two to three hours. In our study we focus on factors which stimulate or hinder innovation of creative firms. Key success factors of successful innovations are identified as well as so called ‘profit profiles’ or ‘RENT profiles’ of creative SMEs.

First we conclude that almost all Flemish and Dutch creative SMEs are convinced of the importance of innovation and effective innovation management for the survival of their business on the global, competitive market. Almost all firms plan to commercialize an innovation within the next 3 years.

Many studied cases reveal to have a ‘shrimp profile’, showing small margins, volumes and lengths. A ‘shrimp profile’ shows a less complex innovation that can be commercialized fairly quickly and is usually appropriate for small or micro firms. Next, also other dominant profiles like ‘champions’, ‘flash in the pan’ and ‘oases’ are identified. ‘Champion innovations’ show that small firms can develop potentially high performance innovations in all three aspects (length, volume and margin) while a ‘flash in the pan profile’ can be determined by the short length of lifetime of the innovation. ‘Oasis innovation’ has a long length of lifetime and is beneficial for SMEs in case of high margins.

On the side of the ‘innovation climate’ we identify many stimulating factors such as the well developed infrastructure and proximity of logistics, suppliers etc. and an innovative and stimulating life style in the global area of Flanders and the Netherlands. However, we identify many restricting legislations and regulations that seem to hamper seriously most creative SMEs. Above that, many creative SMEs fail to find sufficient access to capital to invest in their growing innovative activities. Most of their investments are originating from reinvested profits. When we compare Flemish to Dutch (from the Netherlands) SMEs, we observe that the Dutch creative SMEs find more easily access to external financial resources and governmental support and subventions. We also find that, the younger SMEs seem to attach more importance to their suppliers than their older competitors. All interviewed SMEs attach a high importance to the demands of their clients, sometimes to such an extent that they neglect their own pricing strategies.

It also appears from our study that the use of managerial tools like a SWOT analysis or setting up a financial or business plan is very uncommon among creative SMEs.

The next section describes the importance of the creative SME sector in Flanders and the Netherlands. Section two gives an overview of the relevant literature and introduces the main research propositions. In section three we describe our research method and data collection and in section four we present our results and discuss our findings. Finally in section five we formulate policy recommendations and conclusions as well as the limits of our study.

THE CREATIVE SME SECTOR IN FLANDERS AND THE NETHERLANDS

Today, SMEs (1) represent a very important part of the European economy, not only in terms of number of firms but also in terms of added value and employment. In the period 2007 – 2010 macro-economic figures show that the Dutch and Belgian economy are influenced by the world wide economic crises. Growth rates of real GDP of both countries show a decline since 2009. Total workforce of both countries in this period grew slightly. (Index Mundi, 2011) (See Table 1 and Figure 1)

Within the SMEs group, the creative sector is recently one of the fastest growing sectors. We consider the creative sector as “all companies active in fashion- and jewel design, interior design, architecture, furniture and product design, graphic design, photography etc.” According to De Jong et al. (2007) features of creative firms can be classified in four domains, arts, media & entertainment, creative services and knowledge intensive services.

Belgium and the Netherlands are listed in the top 10 of European countries in the perspective of successful contribution of their creative industries to their economy. The Belgian-Dutch creative SME sector has grown substantially in the past ten years thanks to the growing welfare and technological progress. Above this, the creative sector is relatively young and in a strong development stage (De Voldere e.a., 2006).
TABLE 1
MACRO-ECONOMIC FIGURES FROM THE NETHERLANDS AND BELGIUM (2)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real GDP Growth rate</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NL GDP</td>
<td>2,90%</td>
<td>3,50%</td>
<td>2,00%</td>
<td>-3,90%</td>
</tr>
<tr>
<td>BE GDP</td>
<td>3,00%</td>
<td>2,80%</td>
<td>1,00%</td>
<td>-2,70%</td>
</tr>
<tr>
<td><strong>Workforce</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NL Workforce</td>
<td>7.600.000</td>
<td>7.604.000</td>
<td>7.715.000</td>
<td>7.848.000</td>
</tr>
<tr>
<td>BE Workforce</td>
<td>4.890.000</td>
<td>4.940.000</td>
<td>4.990.000</td>
<td>5.070.000</td>
</tr>
<tr>
<td><strong>Investment % of GDP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NL investment</td>
<td>19,3</td>
<td>20</td>
<td>20,5</td>
<td>19</td>
</tr>
<tr>
<td>BE investment</td>
<td>19,4</td>
<td>21,3</td>
<td>22,7</td>
<td>21,3</td>
</tr>
</tbody>
</table>

FIGURE 1
WORKFORCE AND GDP, THE NETHERLANDS AND BELGIUM (2)

Creative SMEs in Belgium and the Netherlands show a growth in employment that is almost double that of the average in all sectors. Creative firms operate in general on a small scale. Dutch figures on creative firms show that in 2009, about 66 percent are micro firms with one owner (no employees); 27 percent are micro firms with 2-10 employees; 6 percent are small firms with 10-50 employees and 1 percent of Dutch creative firms are middle-sized and have more than 50 employees (Braams & Urlings, 2010).

Unfortunately, the creative sector is relatively difficult to identify since it is not well defined or delineated in the existing literature and statistics. Only recently and in reaction to the economic crisis, sector and regional studies are made in relation to growth and economical value of creative firms. The creative industry is described as a “vital and multifaceted sector that makes a major contribution to the
innovation and business development climate” (Amsterdamse Innovatie Monitor, 2011). De Jong, Fris & Stam (2007) classify features of creative industries in four domains: arts, media & entertainment, creative business services and knowledge-intensive business services. For the period 1995 – 2003 De Voldere, et al. (2006) identified the core creative sector in Flanders and Brussels as follows: the audiovisual industry; the music industry; fashion industry; architecture and design; the printed media and publishing sector.

Depending on the chosen definition of creative industry (Braams & Urlings, 2010), the total amount of creative firms in the Netherlands in 2009 is 43,000 (small definition: arts, media & entertainment, creative business services) or 78,000 (large definition: arts, media & entertainment, creative business services, creative retail business, knowledge intensive services, other firms). According to the small definition 5 percent of all Dutch firms are creative firms. Total growth rate of the Dutch creative industry is 19 percent in the period 2006 - 2009 (total growth rate all firms in that period is 16 percent). Figure 2 represents the numbers of firms of three main categories of Dutch creative firms in 2006 and 2009; art, media and entertainment and creative business services. Figure 2 shows substantial growth between 2006 and 2009 in all categories but mostly in the ‘creative business services’.

FIGURE 2
NUMBERS OF FIRMS IN THE THREE MAIN CATEGORIES (THE NETHERLANDS)

Since the creative sector in Flanders and the Netherlands is particularly one of small and micro firms, they often lack important scale economies, financial and human resources and well established organizational structures to effectively manage the market introduction of their innovations. Recent research has shown that many creative SMEs lack systematic methods to measure the impact of their innovations and the proportion of risks to profits and they also lack formal strategic innovation management systems (De Jongh e.a., 2003). Other studies indicate a lack of financial and managerial knowledge within creative SMEs (Nauwelaers & Frank, 2007) and the capacity to invest in management and marketing to successfully sell innovations on an international scale (Sleuwaegen & Onkelinx, 2008; Nauwelaerts & Vijfeyken, 2010).

Starting from these facts, our paper focuses on the innovation management of creative SMEs in Belgium (Flanders) and the Netherlands. In order to identify key factors which stimulate or hinder the innovation process of creative firms we make use of an analytical framework and corresponding questionnaire developed by Mazzarol and Reboud (2006). In a previous study of Nauwelaerts, Van Assche and Van Beveren (2011) the innovation profile of the Flemish creative (design) sector has been studied on the basis of 51 case studies in Flanders. Our study is extended by about 31 extra cases in Flanders and 23 cases in the Netherlands. This allows us to have deeper insights in the similarities and differences between the Flemish and the Dutch innovation climate and processes of their SMEs. Our study also contributes to a larger study initiated by Mazzarol and Reboud which is focused on
understanding the process of innovation management from the perspective of the small firm and from a strategic perspective. Research data of this larger study is stored in a collective database of research partners in 12 countries, working together in an innovation program. We want to provide a contribution for owner/managers of small creative firms and policymakers offering them an insight in key factors of successful innovation management as well as so called ‘profit profiles’ or ‘RENT profiles’ of creative SMEs. Our study also wants to compare the innovation climate in Flanders and the Netherlands and raises questions on the important role of the owner-managers of creative firms in relation to their innovation strategy. The paper contributes to a better understanding of management of innovation in small creative firms.

LITERATURE OVERVIEW AND RESEARCH PROPOSITIONS

Our study builds on previous research on innovation management in SMEs and management of small creative firms. In order to investigate the role of management and environment in the process of innovation of small creative firms we made use of an existing questionnaire developed by Mazzarol & Reboud (2006). In this section we discuss relevant literature in relation to the questionnaire and our study: innovation management of SMEs and strategic management of small creative firms. Corresponding with the literature, we introduce research questions.

Innovation Management of SMEs

Small firms are dominant in most countries (OECD, 2004) and in the perspective of economical changes and the struggle of firms to establish sustainable competitive advantage, successful innovation management in small firms is of significant interest for managers of SMEs, policy makers and researchers. According to Biolos (1996) innovation champions can rely on three fundamental competences: they show that new products are connected to core competences of the firm and at the same time related to market reality; these firms show flexibility and are able to react on changing demands of potential clients and markets; these firms can not only create but also develop and commercialise innovative outputs. Davilla, Epstein & Shelton (2006) relate successful innovation management to ‘design principles’: strong leadership, innovation strategy and innovation portfolio. Innovation has to be integrated in the business model and is connected with the vision and mentality of the firm. This is in line with findings of Smith et al. (2008): ‘the innovation principal has to be fully integrated in the culture of the organisation’. Factors that influence the ability of management of innovation are leadership style, resources, structure of organisation and culture, technology, knowledge management, strategy, employees and innovation process. Creativity is needed in the first stage of innovation and Van Bruystegem et al (2007) find that cross functional teams, job rotation and complementarities in teams improve creativity.

Devos, De Woestyne & Van de Broeck (2007) state that insufficient marketing research budgets, insufficient R&D, high risks and lack of knowhow are reasons for small and medium-sized firms to underperform in relation to innovation. Management of creative firms often lack managerial knowhow and have difficulties in developing and commercializing their new products and services successfully (Nauwelaerts & Franck, 2007).

Measuring Innovation Management

Although the focus of their research project is primarily on the firm and data are collected on the organisational level, Mazzarol & Reboud (2009) introduced a broader conceptual framework for studying the process of innovation management in order to understand the overall task environment of organisations (supportiveness of National Innovation System, overall task environment within a country) as well. The framework has therefore a focus on three units of analysis: system view, organisational view and individual view, earlier suggested by Tan et al. (2009). In relation to ‘system view’ the National Innovation System (NIS) and overall task environment are supposed to be valuable in relation to the process of managing innovations. NIS includes the common innovation infrastructure (e.g. governmental R&D policies) and clusters specific factors (e.g. Porter’s 5-forces) (Porter & Stern, 2001). Mazzarol &
Reboud follow Adams et al. (2006) in defining key elements related to innovation management: inputs (people, physical and financial resources, tools), knowledge management (idea generation, knowledge repository, information flows), innovation strategy (strategic orientation, strategic leadership), organisation and culture (culture and structure), portfolio management (risk / return balance, optimisation tool use), project management (project efficiency, tools, communications, collaboration) and commercialisation (market research, market testing and marketing and sales). ‘Individual view’ is related to leadership style, entrepreneurial orientation, managerial competence and capacity for strategic partnering of firm’s senior management. According to Santi et al. (2003) potential RENT (returns) of an innovation results from the volume of the innovation, the rate of margin and the length of the innovation. In order to categorize firms in (one of six) RENT-configurations or RENT-profiles Mazzarol & Reboud follow Santi et al. and measure six items related to volume, rate and length: market adoption and anticipated sales (volume), estimated gross and net profit margin (rate of margin) and a complexity of technical based lifecycle of the innovation and ease of replication by competitors (length).

Strategic Management of Creative Firms

Companies in the creative sector will strategically focus on niches. This implicates that they are continuously looking for unique and innovating designs. The combination of a niche market with a flexible organisation structure and production of small volumes represent their success (Nauwelaerts & Vijfeyken, 2010). Nauwelaerts & Franck (2007) identify critical weaknesses of entrepreneurship within the creative industry: lack of cash at the start; insufficient financial flexibility in all stages of growth and insufficient managerial knowledge and knowhow, especially in the field of business economics, finance and law. Third parties are supposed to play a role in innovation processes of creative SMEs (Hollaender, Cools & Nauwelaerts, 2010). Nauwelaerts et al. (2007) states that training and participating in interactive networks and workshops can offer a solution. Networking with customers and suppliers make creative firms more flexible and increases their chances of success.

Research Questions

In our study we focus on the process of innovation management of small creative firms in Flanders and the Netherlands. Research questions are:

Q1. In relation to firm profiles, innovation success and ‘organizational view’:
   Which RENT-profiles are dominant for the firms in our study and what can we learn from this?
   Is innovation success related to certain RENT-profiles?
   Which stakeholders are important for small creative firms?

Q2. In relation to innovation climate and ‘system view’:
   Which factors influence the innovation climate in Flanders and the Netherlands?
   Is there a difference in the innovation climate between the two countries?
   To what extend is the innovation climate in both countries perceived as an important stimulating factor for innovation of creative SMEs in Flanders and the Netherlands?

Q3. In relation to the strategic management process of the innovation and “individual and organizational view”:
   What can be said about the strategic focus of creative firms in our study?
   What can we learn from our results of the diagnostic diamond in terms of resources-, strategy-, innovation-and market index?
   Which managerial characteristics of the owner – managers of creative firms are related with innovation success?
On the basis of an extended questionnaire and the innovation diagnostic instrument, developed by Mazzarol & Reboud (2006) we can identify strong and weak points in the innovation management process of SMEs, as measured by the innovation diagnostic diamond (IDD). It also allows us to identify particular innovation profiles of SMEs, through an initial assessment of the anticipated lifecycle (length), sales forecast (volume) and profit margin (rate) of the innovations, which determine the overall RENT that can be generated from the investment. This innovation diagnostic instrument, allows us to formulate conclusions and policy advice for creative SMEs in view of their innovation management. It is a strategic analysis rather than a financial one and provides the entrepreneur with a sense of how complex their commercialization task is likely to be, as well as how formal their innovation management system is within the firm. For example, a high potential RENT innovation profile (e.g. high volume, rate and length), known as a ‘Champion’ will typically require a more formal innovation management approach with an IDD profile that is strong on all four areas (e.g. strategy, innovation, resources and market) of commercialization activity.

We studied a group of 105 creative SMEs in Flanders (82) and the Netherlands (23) between 2006 - 2010. The creative SMEs in Flanders were selected from the databases of the Center for Entrepreneurship in the Creative SMEs in Flanders and in the Netherlands by snowball sampling starting with a selection from the database of the researchers guided by theoretical sampling. Survey questions were translated into Dutch and double checked by Dutch experts. Interviews were carried out personally and took on average two to three hours. In October 2006, a first invitation was distributed by the Flemish Centre for Entrepreneurship in the Creative Sectors (CONCreaS) to all creative entrepreneurs listed in their combined databases, to participate in the Innovation Diagnostic. This invitation was sent by mail to 432 small firms active in the creative sector. A number of firms responded directly to the invitation, while others were contacted by telephone in the following weeks to encourage participation in the survey. While the majority of the participants preferred to fill in the questionnaire together with a member of the Lessius team during an interview (which usually took place at the firm), six firms preferred to fill in the diagnostic alone and to send it to us directly by e-mail. During the academic year 2009 – 2010 we decided to start a second round of interviews of creative SMEs in Flanders and the Netherlands with the help of students in both countries. Finally we succeeded to raise the total number of interviews up to 105 in total.

We conclude from our population analysis that firms active in the creative sector in Flanders are typically micro or small firms, with few employees. The majority of firms is led by the owner-manager (who also answered the questionnaire in most cases), typically without any support of other senior managerial staff or a board of directors.

The firms in our sample are active in the following sectors: Fashion, Design, Architecture, Visual Arts, Media, Music, Audiovisual and Performing Arts. About 99 percent of them are micro or small firms with less than 50 employees. In the Flemish sample, 83 percent are micro firms with less than 10 employees while in the Dutch sample, only 65 percent of them are micro firms. This reflects well the overall conclusion that creative firms in the Netherlands are on average slightly bigger. 73 percent of the SMEs are younger than 10 years old and show a growth of 19 percent in terms of full time employees and of 73 percent in part time employees compared to three years ago. This confirms that the creative industry is still young but in a stage of important growth and development. Table 2 shows the annual turnover of the SMEs in our sample, divided into five groups and table 3 shows the numbers of micro versus small firms.

One important research question the study focuses on is the role of stakeholders such as clients and service suppliers in the innovation process of creative SMEs. We focus on factors which stimulate or hinder innovation of creative firms. Key success factors of successful innovations are identified as well as so called ‘profit profiles’ or ‘RENT profiles’ of creative SMEs. In this perspective we paid attention to the role of stakeholders, especially clients and service suppliers in relation to innovation. Third parties are supposed to play an important role in innovation processes of creative SMEs (Hollaender, Cools & Nauwelaerts, 2010). Next, we calculated the different market-indices, strategic-, resources- and
innovation-indices based on the diagnostic diamond. Finally, attention was given to the ‘innovation climate’ and its differences between Flanders and the Netherlands. We identify the most important stimulating and hindering governmental measures (fiscal stimuli, subventions, regulations, infrastructure) for creative SMEs in order to grow and innovate.

TABLE 2
OVERVIEW OF THE SALES VOLUME OF THE FIRMS IN OUR SAMPLE

<table>
<thead>
<tr>
<th>Sales volume</th>
<th>Percentage of the population</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 250.000</td>
<td>45%</td>
</tr>
<tr>
<td>250.001 - 1.000.000</td>
<td>27%</td>
</tr>
<tr>
<td>1.000.001 - 2.000.000</td>
<td>14%</td>
</tr>
<tr>
<td>2.000.001 - 3.000.000</td>
<td>4%</td>
</tr>
<tr>
<td>&gt; 3.000.001</td>
<td>8%</td>
</tr>
<tr>
<td>No answer</td>
<td>2%</td>
</tr>
</tbody>
</table>

TABLE 3
NUMBER OF EMPLOYEES IN THE SMES OF THE SAMPLE

<table>
<thead>
<tr>
<th>Country</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium Valid</td>
<td>&lt;10 MICRO</td>
<td>68</td>
<td>82,9</td>
</tr>
<tr>
<td></td>
<td>&gt;=10 SMALL</td>
<td>12</td>
<td>14,6</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>80</td>
<td>97,6</td>
</tr>
<tr>
<td>Unknown</td>
<td></td>
<td>2</td>
<td>2,4</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>82</td>
<td>100,0</td>
</tr>
<tr>
<td>NL Valid</td>
<td>&lt;10 MICRO</td>
<td>15</td>
<td>65,2</td>
</tr>
<tr>
<td></td>
<td>&gt;=10 SMALL</td>
<td>8</td>
<td>34,8</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>23</td>
<td>100,0</td>
</tr>
</tbody>
</table>

DATA ANALYSES AND RESULTS

First we conclude from our interview analyses that almost all Flemish and Dutch creative SMEs are convinced of the importance of innovation and effective innovation management for the survival of their business on the global, competitive market. Almost all interviewed creative SMEs plan to commercialize an innovation within the next three years.

As was explained in detail before, entrepreneurs were asked to evaluate a particular innovation in terms of its volume (total annual sales generated by the innovation), rate (rate of profit associated with the innovation) and length (duration of the innovation’s lifetime). On the basis of these three characteristics, eight RENT profiles were identified. The results for the Flemish and Dutch sample are given in Figure 3.
Compared to the global international sample of firms, our sample has a significantly higher frequency of ‘Oasis’; ‘Shrimp’ and ‘Flash in the pan’ profiles. Next, we also found relatively many ‘Champion’ profiles.

**FIGURE 3**
**RENT PROFILES IN THE TOTAL SAMPLE**

![Rent Profile Diagram]

In relation to our first research topic, many studied cases reveal to have a ‘shrimp profile’, showing small margins, volumes and lengths which could be expected from the sample we identified. At first sight, we would advise these companies to try to extend their sales volumes, margins as well as the period of commercialization. Nevertheless, this ‘shrimp profile’ seems not always undesirable since it shows a less complex innovation that can be commercialized fairly quickly and is usually appropriate for small or micro firms. In line with this profile, many creative SMEs base their success on many, frequent but small innovations and unique products, requiring smaller investments. SMEs active in Fashion and Jewel design are typical examples of creative firms with ‘shrimp’ profiles that can be very successful in commercializing frequent innovations in limited series. Most of the ‘Shrimp’ profiles in our sample, realized more than ten innovations during the past three years. This implies that these establishments are much less dependent on a single innovation, but rather on their long-term success in commercializing multiple innovations.

Next, also other dominant profiles like ‘champions’, ‘flash in the pan’ and ‘oases’ are identified. ‘Champion innovations’ show that small firms can develop potentially high performance innovations in
all three aspects (length, volume and margin) while a ‘flash in the pan profile’ can be determined by the short length of lifetime of the innovation. ‘Oasis innovation’ has a long length of lifetime and is beneficial for SMEs in case of high margins. The ‘Oasis B’ profile is an attractive profile for micro firms, given its low requirements in terms of production volume. As we will see below, creative micro firms face serious difficulties in acquiring sufficient funding for their innovations, rendering high investments virtually impossible. Hence, the ‘Oasis B’ profile, which combines low volume with a high rate and high length, is a highly attractive RENT configuration for the firms in our sample.

On the side of the ‘innovation climate’ we identified many stimulating factors such as the well developed infrastructure and proximity of logistics, suppliers etc. and an innovative and stimulating lifestyle in the global area of Flanders and the Netherlands. As can be seen in Figure 4, the Dutch-Flemish region is generally perceived as positive by firms with respect to the geographic distance to their market, the lifestyle and standard of living and infrastructure. However, since many firms in the creative sector sell luxury goods or services, they are necessarily heavily influenced by the economic climate.

However, we identified many restricting legislations and regulations that seem to hamper seriously most creative SMEs. Above that, many creative SMEs fail to find sufficient access to capital to invest in their growing innovative activities. Most of their investments are originating from reinvested profits. Although governments try to stimulate investments, it appears very difficult for creative micro firms to have access to external financial funds or ‘risk capital’, often needed for innovations by young, creative SMEs. Governments should help them by providing clear communication and accessible information on supporting programs and opportunities.

When we compare Flemish to Dutch SMEs, we observe that the Dutch creative SMEs find more easily access to external financial resources and governmental support and subventions. This important conclusion is in line with results from other studies in and also outside the creative sector (De Ruyter, 2010)

When looking at the results of the ‘diagnostic diamond’, we can conclude from figure 5 that on average, the SMEs in our sample have scores for all four indices above the expected average levels of five (indicated by the light grey line).
The market-index shows the highest global score (6.62) for our sample. This market-index focuses on how effective and efficient the firm is in bringing the innovations to the market. Thus, it focuses on the final stage of selling the innovation to the final customers. In order to evaluate the firms’ performance on its market-index, questions are asked concerning the perceptions of the clients, the viability of the innovation within the existing technologies, systems and processes of the customers, previous collaboration with customers and customer adoption in relation to innovation. The result of the market-index shows that the SMEs in our sample are quite good in responding to the needs and demands of their customers. We also found that, the younger SMEs seem to attach more importance to their suppliers than their older competitors. All interviewed SMEs attach a high importance to the demands of their clients, sometimes to such an extent that they neglect their own pricing strategies.

On the other hand, we find the lowest score (5.98) for the ‘strategy index’. The strategy index focuses on the methods and tools used by the firm in order to manage their innovations in an effective and efficient way. Among these tools we identify f.e. the use and setting up of a business plan, a SWOT analysis, a financial or cash flow plan, firm’s anticipation on regulations of government, firm’s assessment of bargaining power of customers and suppliers and assessment of risks in the light of potential threats. The results of the strategy –index confirm our earlier findings: the use of managerial tools like a SWOT analysis or setting up a financial or business plan is very uncommon among creative SMEs. This is probably due to the lack of managerial knowledge and qualified people in these subjects, also confirmed by Nauwelaerts & Frank (2007) and Sleuwaegen & Onkelinx (2008). This weakness is also related to the sometimes difficult access to financial resources, since banks or other financial providers often require a solid and reliable financial and business plan from their clients.
Finally, the use of patents or other protection of intellectual property seems very limited in the creative SMEs. This is probably related to the high costs and complex procedures of IP protection but at the same time it makes creative SMEs more vulnerable for imitations of their innovations.

When we finally compare the results for the SMEs from Flanders to those from the Netherlands we find that the Market- and Innovation-index do not show significant differences. On the other hand, for both the Resource- and Strategy-index, the respondents from the Netherlands show significantly higher scores. This perfectly explains and confirms our previous finding that SMEs from the Netherlands find more easily access to governmental and other support compared to their Flemish colleagues and have generally a more developed strategy. If we look at the age of the firms, we find that the older SMEs show significantly higher scores for the Resources- and Strategy-index, which also seems logical and in line with our previous findings.

CONCLUSIONS AND POLICY IMPLICATIONS

To conclude our paper, we formulate some policy suggestions for SMEs in the creative sector drawn from our study. First, we advise creative SMEs on the basis of our diagnostic diamond not only to focus on product or service innovation but also to develop their managerial knowledge and skills and effectively use financial, strategic and marketing plans, administrative tools and other organizational innovations. This will help them to structure and organize their businesses in a more effective and efficient way and to manage their innovations successfully on today’s uncertain and competitive international markets.

Next, creative SMEs should have better access to governmental support. Governments should provide more accessible information on -and lower the barriers to- the supporting programs, especially for the very small and micro firms in Flanders.

On the basis of the analysis of the ‘RENT profiles’ we suggest that creative SMEs should try to extend the life cycle of their innovations for instance through the use of more IP protection or other long term, exclusive contracts. If possible, they should also try to extend the margins and volumes of their innovations. Unfortunately this is often difficult since most innovations of creative SMEs are typically related to unique products or small, limited series. We conclude that creative SMEs should try to more proactively organize and manage their businesses and invest in financial and business plans, management tools, strategic planning and marketing which will bring on many advantages like better access to external financial resources, risk reduction, more effective reaction to uncertain circumstances and more profits on the longer term. Owner managers of creative firms can be helped in these items by the actions of supporting organizations such as Concreas and Design Flanders.

Further research could try to identify new, effective supporting actions by which governments and other organizations can respond to these special needs of SMEs in this growing sector.

Finally we notice that the results of our case studies cannot be perfectly compared to those in other countries or sectors since our sample contained mainly very small, micro firms with a very restricted management structure. Nevertheless, the creative sector in Flanders and the Netherlands has a strong growth potential and is therefore worth more focus and support.

ENDNOTES

1. Definition of SMEs: < 250 employees, turnover ≤ 50 million euros and balance sheet total ≤ 43 million euros. Micro firms in our study have less than 10 employees.
2. Index Mundi, 2011

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