

The importance of creativity, design and innovation to business performance and the UK economy

Sustained success in business – regardless of sector – increasingly depends on the ability to innovate: to exploit new ideas and new opportunities ahead of the competition. According to PricewaterhouseCoopers' *Innovation Survey*, top innovators generate over 75 per cent of revenue from products not in existence five years ago. The ability to innovate, in turn, depends on the availability and exploitation of creative skills. In a real enterprise culture, these needs create a virtuous circle: for sustained innovation and growth, companies need to be able to draw on the talents of a flourishing creative community; for innovation to flourish, the creative community needs to be responding to the demands of dynamic and ambitious businesses.

That ought to be good news for the UK. It plays to one of our national strengths. The UK's record of inventiveness hardly needs repeating here. From the industrial revolution through to the jet engine and television, the examples are regularly trotted out. But it's not all a matter of history. Despite a dismal comparative performance in terms of investment in R&D, the UK has continued to produce a disproportionate number of the world's ideas. The concept of the worldwide web originated with Sir Tim Berners-Lee; 80 per cent of the chips in mobile phones manufactured in the Far East are designed in the UK by ARM; the designer of the product that has probably had the most impact on any company's fortunes, the iPod, was a Briton, Jonathan Ive; when the new A380 Airbus recently took to the air, it did so not only on UK-designed (and built) wings and engines, but with the whole cabin interior designed by a UK company.

In many of the creative industries, the UK is an acknowledged world leader. In architecture, fashion, product design, advertising, the performing arts, games software and many aspects of film and broadcasting, British practitioners and UK companies are among the best in the world. The performance of the creative industries is testament to this. In 2003, they accounted for eight per cent of Gross Value Added (GVA) and contributed £11.6 billion to the UK's balance of trade. Between 1997 and 2003, these industries grew by an average of six per cent per annum – three times the rate of the economy as a whole. According to the industry body, British Design Innovation, up to 70 per cent of the output of some UK design companies is sold overseas – something that should be a source both of pride and concern.





The less good news is that too little of this creativity is routinely exploited by the rest of British business. If it were, many more UK products and services would be world leaders in their markets. In a survey published this year by the Boston Consulting Group, polling the views of nearly 1,000 senior executives around the world, only one British company made it into the top 20 most innovative companies.

Too often in the UK, entrepreneurial enterprises aim too low or run out of steam; they prove highly successful by most measures but fall well short of fulfilling their true potential. In sectors like computers and software, where the UK was in the very forefront of early developments, we have created many successful businesses – particularly in niche areas like games software and animation – but we have failed to develop global giants. Where are our IBMs, Dells, Apples, Googles or Microsofts?

In the more recent but equally significant area of biotechnology, the UK has again been in the forefront of development, producing over half of all relevant Nobel Prize winners. However, while the leading new businesses globally have already reached a capitalisation of up to \$8 billion, the leading British company is capitalised at less than a tenth of this figure and doesn't make the top ten. It is another area where the UK is in danger of creating many of the ideas and reaping too few of the rewards. In part, this is a cultural issue, with both entrepreneurs and their backers settling for an early return rather than a potentially much larger one.

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The continuous growth of SMEs requires a more creative approach

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Much has been done in recent times to encourage start-ups and university spin-outs. While these are undoubtedly essential for economic success, they are not sufficient. What is also required is continued – indeed *continuous* – growth from such businesses. What an ‘enterprise economy’ requires is not so much *more* SMEs, but more SMEs that don’t want to remain SMEs. The DTI’s *Innovation Report* found that three to four per cent of the businesses founded in a particular period account for 50 to 75 per cent of all new jobs created ten years later.

This is not to argue that every small business should seek to grow. Some companies have neither the aspiration nor the capability to grow. Not every restaurant should seek to become a chain; not every jobbing builder should aspire to become a construction company. Many small businesses are set up because the independent lifestyle suits the owners. That’s enterprising and laudable in its own right, but such businesses are not the subject of this review. The concern of this review is the untapped potential of the large number of solidly managed but low-growth businesses that could be transformed with a skilful injection of creativity.

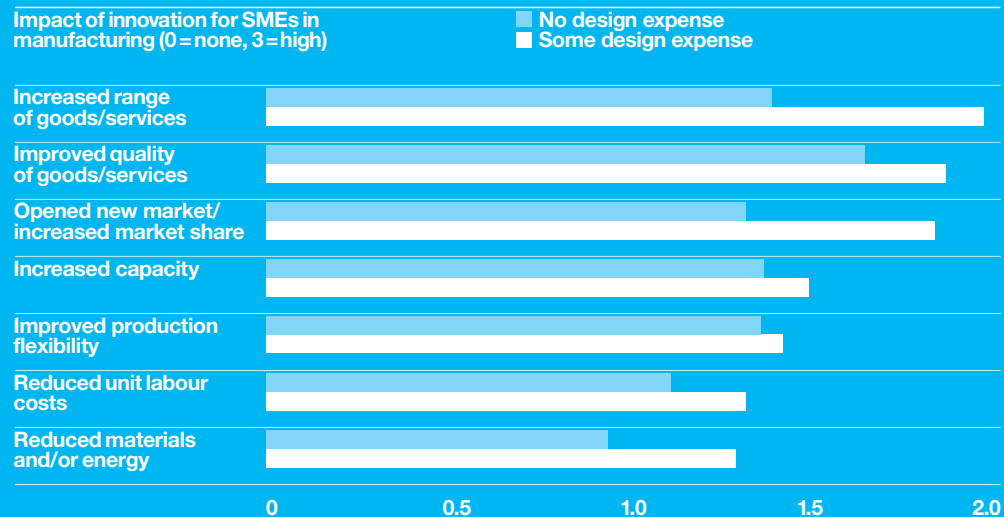
These are not companies that are badly run or in trouble; they simply aren’t going anywhere. It is a pattern of behaviour that will be broken only by example – by more companies demonstrating the scale of what can be achieved. It also requires many more of the established companies to recognise the potential of a more creative and enterprising approach.

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It is certainly possible for UK companies to adapt – and the print industry contains some good examples. Here is a sector that was faced with two pressures. One was the rise of competition from countries with a lower cost base, particularly in Eastern Europe; the other was the advent of technology that enabled many customers to do the job for themselves. While many businesses suffered, the more enterprising businesses responded to these pressures, and the industry looks very different today. Half of its revenue comes from services, with creativity at their core. It is not simply a matter of graphic design; it also encompasses innovative packaging. I have seen examples of tamper-proof drug packets, meal boxes that go straight into the microwave, which crisps up the outside of their contents, and holiday documentation in the format of a personalised cheque book – all ideas that add value to the supply of the printed material.



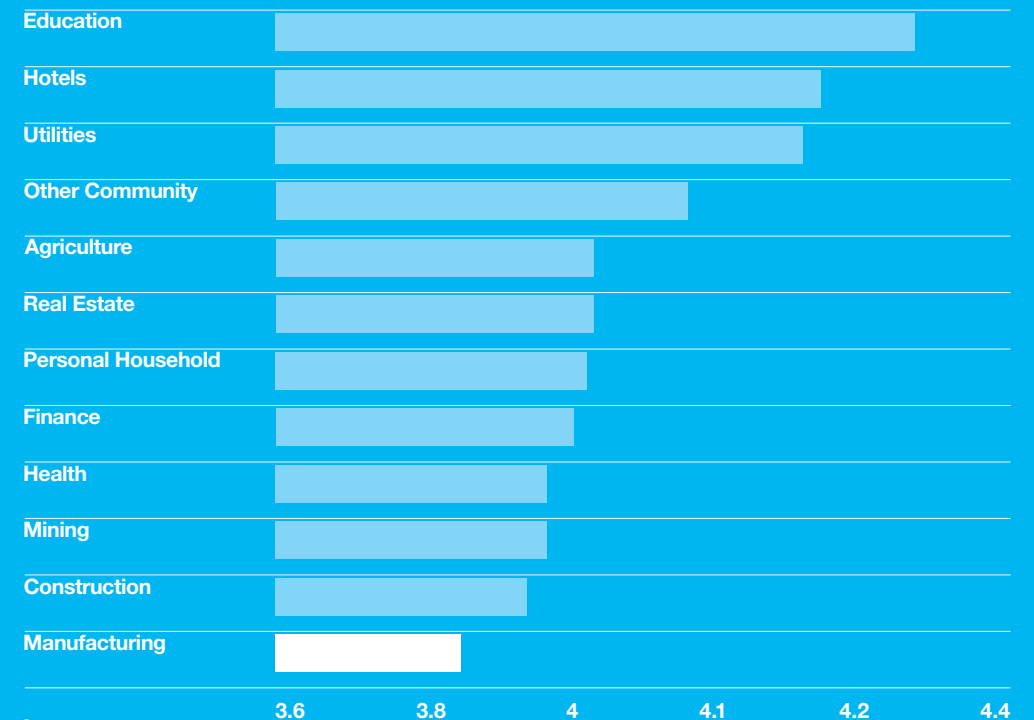
Innovation has a variety of impacts; in each case attention to design enhancing the outcome...



Source
Third Community
Innovation Survey

Manufacturing lags in encouraging creativity...

Employees recognised and rewarded for being creative (1 = low, 5 = high)



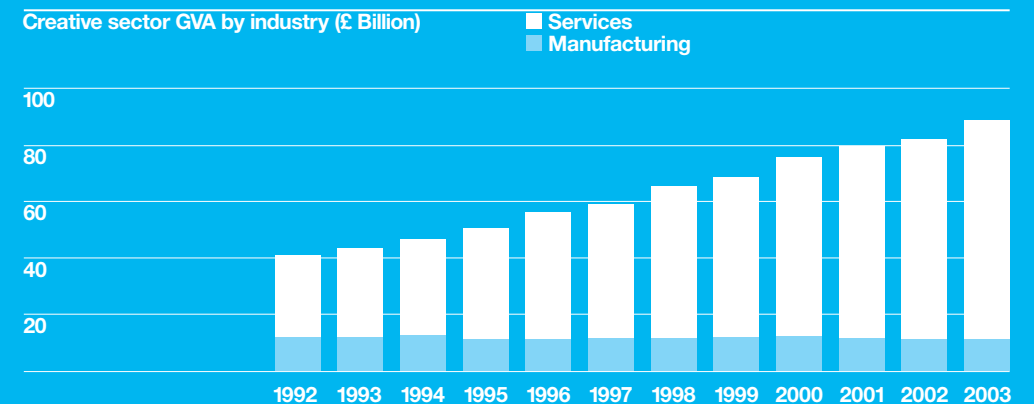
Source
The Work Foundation
2005

“Innovate or fail. Markets are being transformed, brands are being built, products and services are being re-designed, replaced or developed through innovation. Research shows that businesses which harness creativity and design put themselves at the leading edge. More need to be convinced.”

**Penny Egan, Executive Director,
Royal Society for the Encouragement of Arts,
Manufactures and Commerce**

There has been spectacular growth in the creative industries – but they have been underutilised by UK manufacturing...

Creative sector GVA by industry (£ Billion)



Source
Office for National
Statistics



Creativity thrives on a demanding business sector

On the other side of the coin, it's dangerously complacent to think that the UK's creative capabilities are simply an enduring national characteristic: that our creative industries will continue to flourish, regardless of whether the rest of British enterprise uses them or not. In a few limited areas – like chip design, for example – creativity can be remote from production or delivery but, in most areas, closeness to the customer remains a factor in product design and development. These creative capabilities grew up serving other areas. Fashion design grew out of the clothing industry; product design was built up servicing UK manufacturing. If manufacturing disappears, so, over time, will the associated design capability, for in some ways, creativity is becoming more collaborative, with users playing an increasing role in innovation. Innovation cannot flourish in a vacuum – and successful businesses cannot be sustained without it.

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