

Spanish Creative Entrepreneurship at a Glance

An overview of the Spanish Entrepreneurship System for Creative Industries

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As a part of CINet WorkPackage 3

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INTERNET INTERDISCIPLINARY INSTITUTE
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Barcelona, 18th February 2014

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1. Sociocultural Environment for Entrepreneurship in Spain

The role of the environment in the decision to create a company is very important; not only when it comes to legal or political aspects but, even more importantly, with regards to the social and cultural context. The beliefs, values and attitudes of a particular society determine the decisions and behaviour of its members. The decision of creating a new company is, to a great extent, a result of the existing sociocultural environment. Therefore, the predominant cultures are influencing the entrepreneurial intentions in every country.

Consistent with this, entrepreneurship in Spain is highly conditioned by the values, perceptions and attitudes rooted in the Spanish society. Although the existing cultural background shows a well-endowed society – which has good basic capacities to undertake new businesses – there are a number of critical factors and structural weaknesses that actually limit innovative, entrepreneurial behaviour. The predisposition to become self-employed is similar to the existing pattern in European societies. However, and despite current difficult economic circumstances, most of Spanish population prefer to develop their professional careers as employees.

According to the *Flash Eurobarometer 2012*, over a third (35%) of people in Spain say that if they could choose between different kinds of jobs, they would prefer to be self-employed rather than be employed by a company. This proportion is very similar to that at the EU level, since 37% of European respondents express a preference for self-employment. Six out of 10 (62%) respondents in Spain state that they would prefer to be employees – a result that is slightly higher than the 58% of people who give this answer at the EU level.

There has been a large shift in Spain on this question since 2009. Currently, there is a higher proportion of people who say that they would rather work as employees (+10 points), and less people who are inclined for self-employment (-5 points). This is in line with the EU-level trend. In fact, the proportion of Europeans who prefer to work as employees has increased (+9 points) whereas the proportion of those who prefer to be self-employed has reduced (-8 points). Probably, this is a consequence of the long-lasting financial crisis in the Eurozone.

Despite the recent economic downfall, Spaniards are still positive about entrepreneurship. According to the *Amway Global Entrepreneurship Report 2013*, the vision of the Spanish society about entrepreneurial initiatives is positive (60% of population). However, there is a great distance between the individual's willingness to create a new business, and his or her effective decision to take this risk. Among the structural weaknesses experts detect, are worth noting: the low risk tolerance; the scarce ability to detect business opportunities; and a limited competitive spirit. Yet the difficulties are not only related to the lack of a conducive culture, and discouraging societal norms. Most of the entrepreneurs ecosystems in Spain are harmed by the lack of appropriate funding, or adequate institutional and infrastructural supports.

The main consequence of this is the difficulty in modernizing entrepreneurship mechanisms that promote higher-quality business initiatives. The *2012 Global Entrepreneurship Monitor (GEM)* for Spain, in its recommendations, highlights the urgent need to intensify the implementation of an educational system that facilitates the recognition of opportunities; the risk management; the configuration of multidisciplinary teams; and, even more importantly, the promotion of activities with high potential for growth, job creation and innovation.

Therefore, current rate of entrepreneurship in Spain is lower than the EU average — 5.2% vs. 8.0%, in terms of GEM’s *Early-stage entrepreneurial activity (TEA)*. If we look at the entrepreneurial attitudes and perceptions among population, in the context of UE-28 economies, the picture is somehow disappointing. Although the population supports entrepreneurial culture, this background does not materialize in a brilliant result of entrepreneurial activity. The need for a qualitative leap to consolidate a new and more ambitious entrepreneurship culture is pressing in Spain.

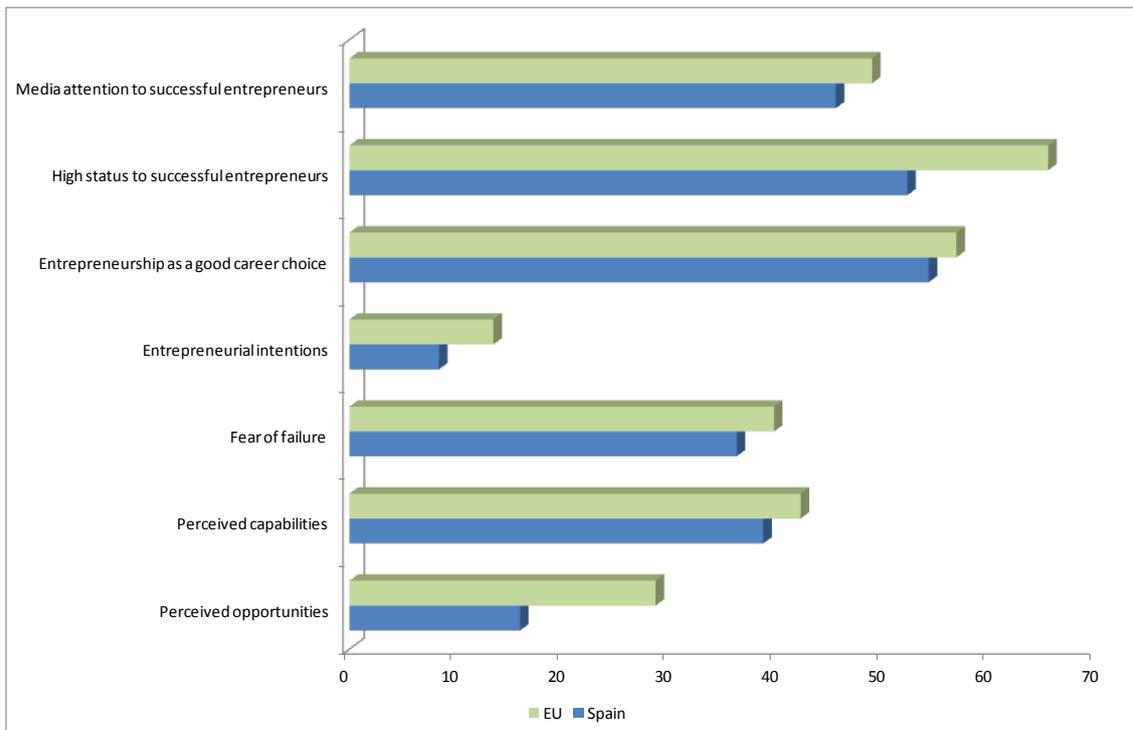


Table 1
Source: 2013 Global Entrepreneurship Monitor

A critical issue is that, in terms of cultural background, Spanish young people (between 18 and 34 years) are reproducing the same predominant patterns that those among older people. Both the rate of perceived opportunities and the degree of competitiveness are indifferent to age. Despite the shocking youth unemployment rate (55.1% population under 25), the perception of good opportunities to become an entrepreneur is still at very low levels.

Remarkably, this rate has decreased in recent years despite the fact that the economic crisis sometimes offers good business opportunities. Moreover, the adverse societal norms and culture are also negatively affecting the perceived capacities of Spanish entrepreneurs, regarding to their social networks (-6.5 points since 2008).

Although search for independence and self-fulfilment are still the main drivers for becoming self-employed, the role of economic necessity as motivation for entrepreneurship has increased during the economic crisis. As a matter of fact, the economic necessity is pushing people to self-employment, but in a very slow path.

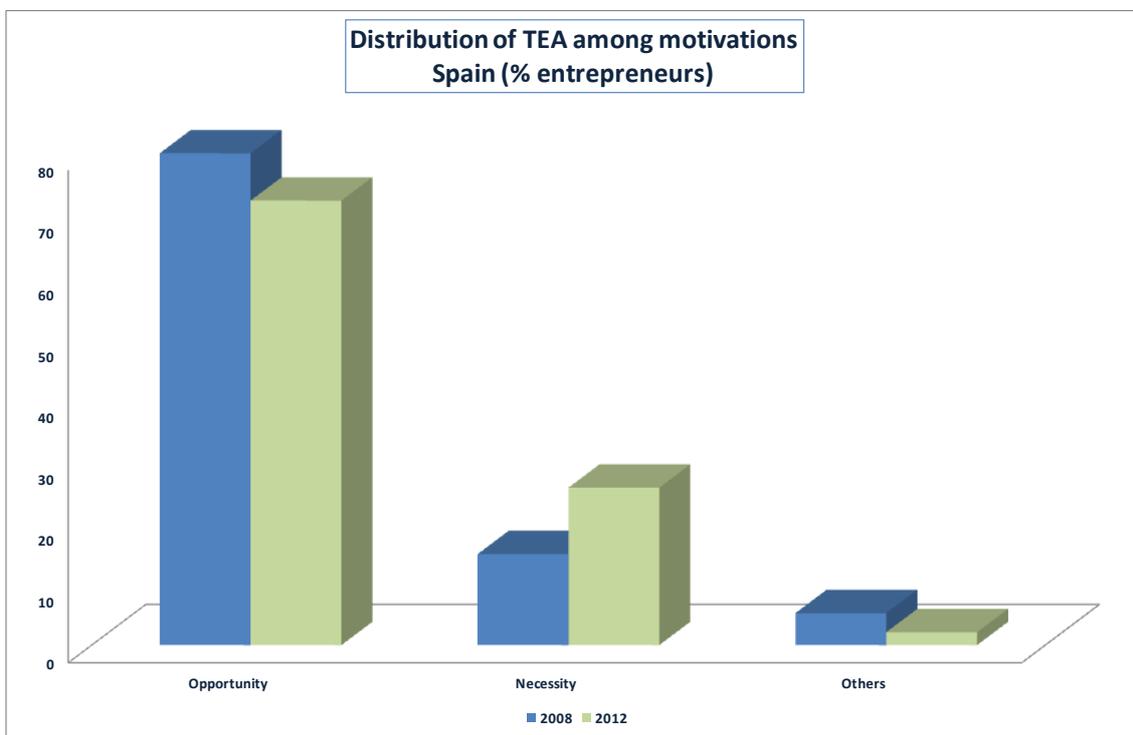


Table 2
 Source: 2012 Global Entrepreneurship Monitor Spain

In fact, the economic pressure is a much more decisive factor in the motivation to become an entrepreneur in Spain, whereas the seeking of autonomy to take personal profit of opportunities for innovation has much less influence than in the rest of Europe.

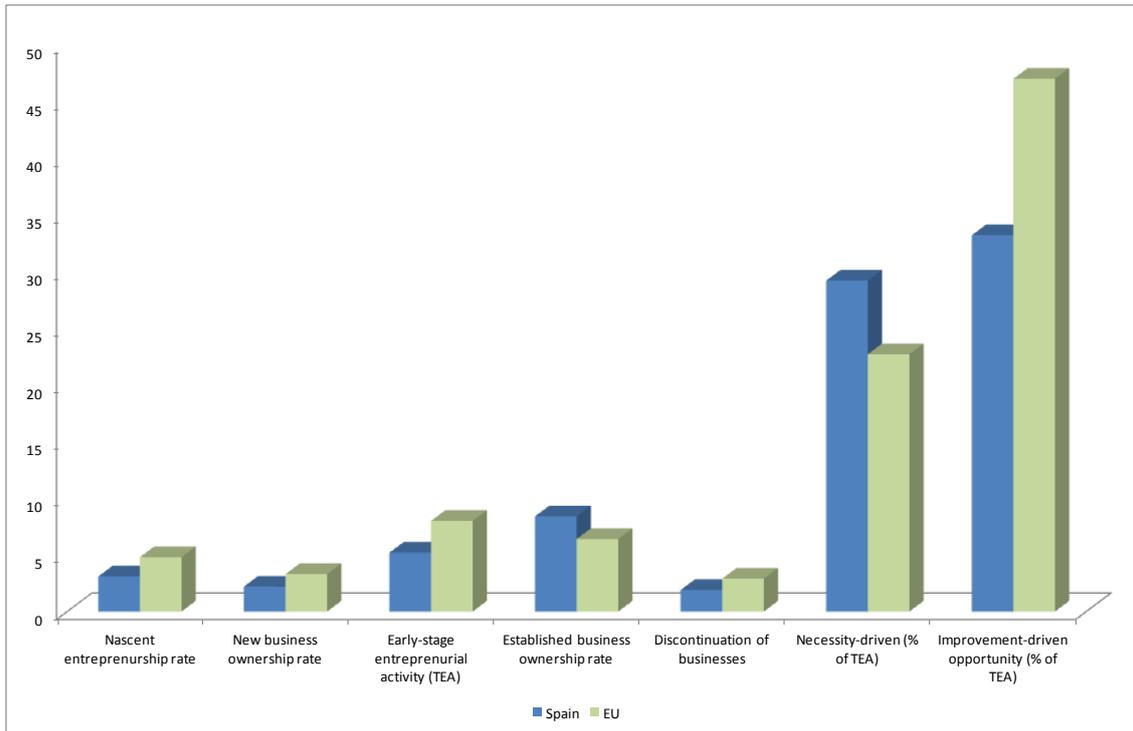


Table 3
 Source: 2013 Global Entrepreneurship Monitor

A direct consequence of this transition is the lower ambition of new business projects. Before the financial crisis, almost half of the start-ups were involved in the creation of new products or services. Since then, however, the degree of innovativeness has fallen to barely reach one-third of business projects.

One of the main barriers to become an entrepreneur in Spain, despite the positive attitude of population, is the perception of the difficulties to become a successful entrepreneur. According to the Eurobarometer (2012), almost 80% people say self-employment is unfeasible for them within the next five years. A quarter of them say they do not regard self-employment as feasible on the grounds that they do not have financial resources. And even more Spaniards feel that the current economic climate is not good for a start-up, far higher than the European average. This could be an effect of the economic crisis. Moreover, a majority of people in Spain say that bankruptcy and the risk of losing their property make them afraid of starting a business. These fears are the main concerns and obstacles to become a self-employed in Spain – rather than the lack of job security, skills or business ideas.

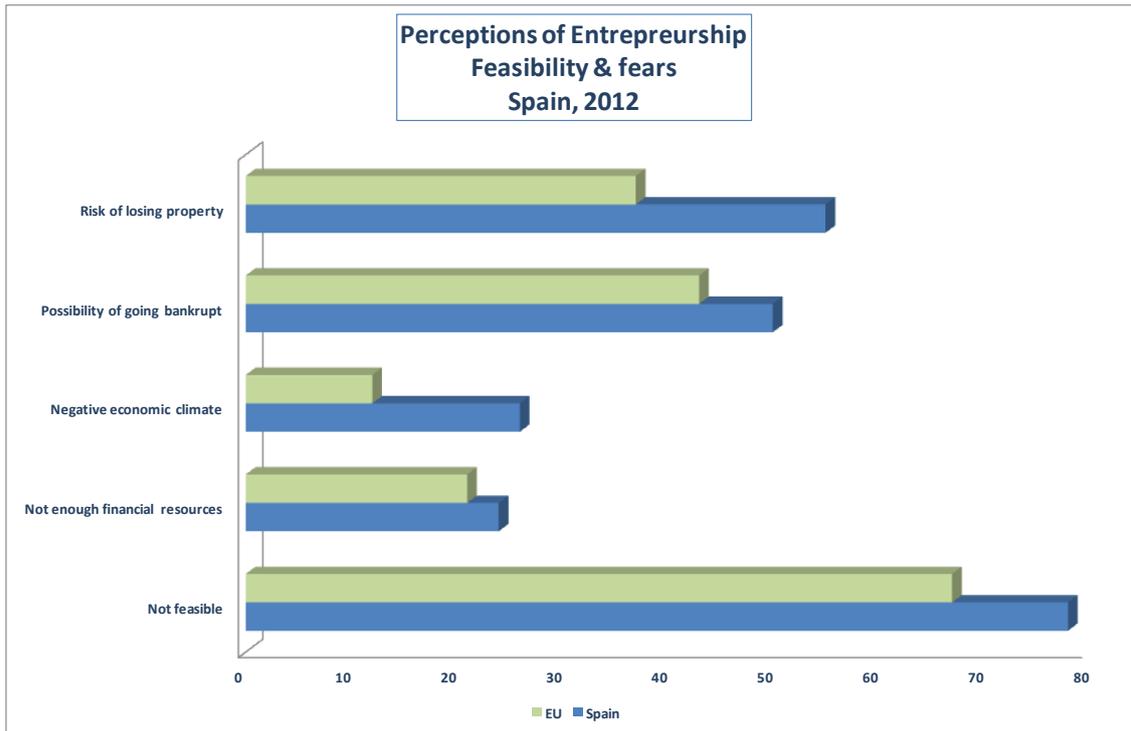


Table 4
Source: 2012 Eurobarometer

Only 5% of people who considers self-employment as feasible for them say that bureaucracy difficulties are one of the main barriers. In fact, we observe a shorter transition from the emergent entrepreneurial intention to the effective creation of a new firm. To reduce such period is a big issue in Spain because of the difficulties to perform a new business.

The *Doing Business 2014 Report* ranked Spain as 142nd, in a list of 160 countries, according to its ease of starting a business. This eloquent result shows that Spanish legislation and regulatory frameworks are not very venture-friendly. Spain loses opportunities for entrepreneurship due to the cost in time, the permits and procedures required, as well as the disclosure, registering property, contract enforcement and taxing policies. The new regulation to promote entrepreneurship in Spain (2013), despite make easier the burden of red tape, has not been welcomed by most of the social agents involved. 64% of the Spanish population still believes that current policies, and society itself, are not favourable neither encourage entrepreneurial activities.

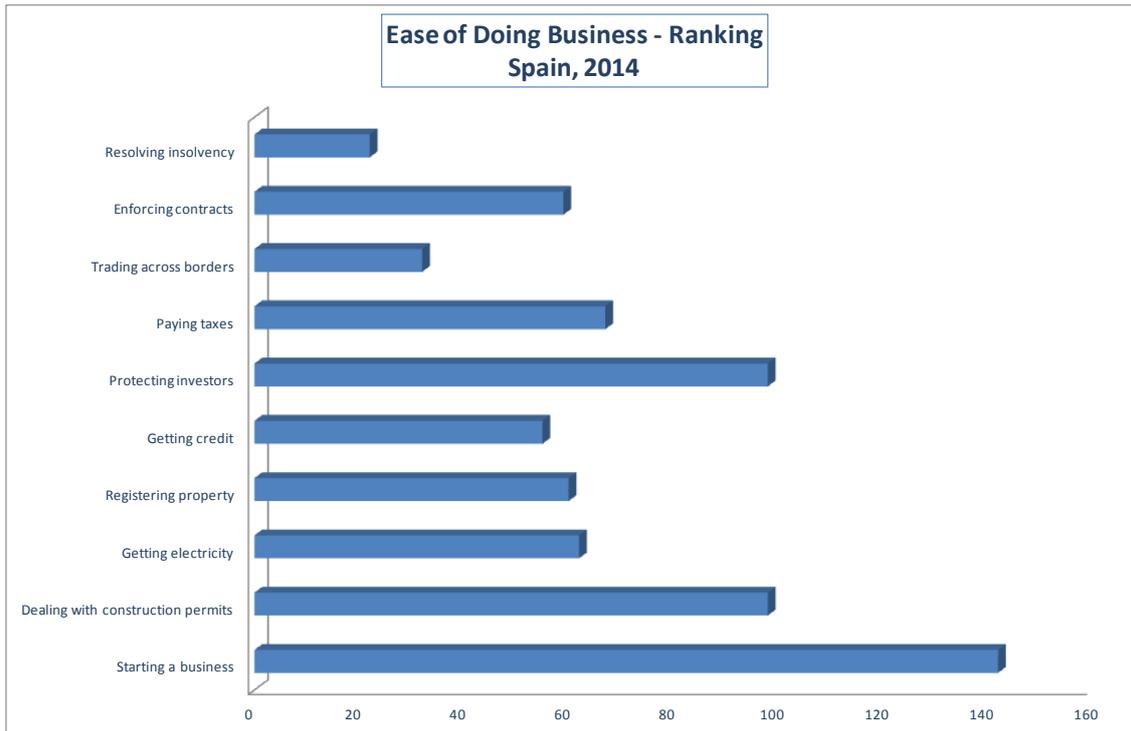


Table 5
 Source: 2014 Doing Business Report

The preference for entrepreneurship is also affected by the absence of *role models*. Spain lacks a convincing collection of visible success stories. The public image of Spanish business owners is not very positive mainly due to the high level of black economy and some recurrent episodes of political and financial corruption. And in spite of being Spain a country of small and micro-businesses, the representation of the business sector is in the hands of major companies. As, until recent years, most of the major Spanish companies came from the building and real estate sectors or they were the aftermath of privatization processes in energy or ICT industries, the public discourse, image and reputation of business owners is far away from the archetypical model of success stories. Of course, cases that could serve as reference model exist and some of them are very powerful. But they still are very few. Perhaps for all these reasons, the perception about entrepreneurs by the Spanish society has deteriorated during the financial crisis. Not surprisingly, people in Southern European countries that are commonly associated with the economic and financial crisis increasingly see entrepreneurship as less positive.

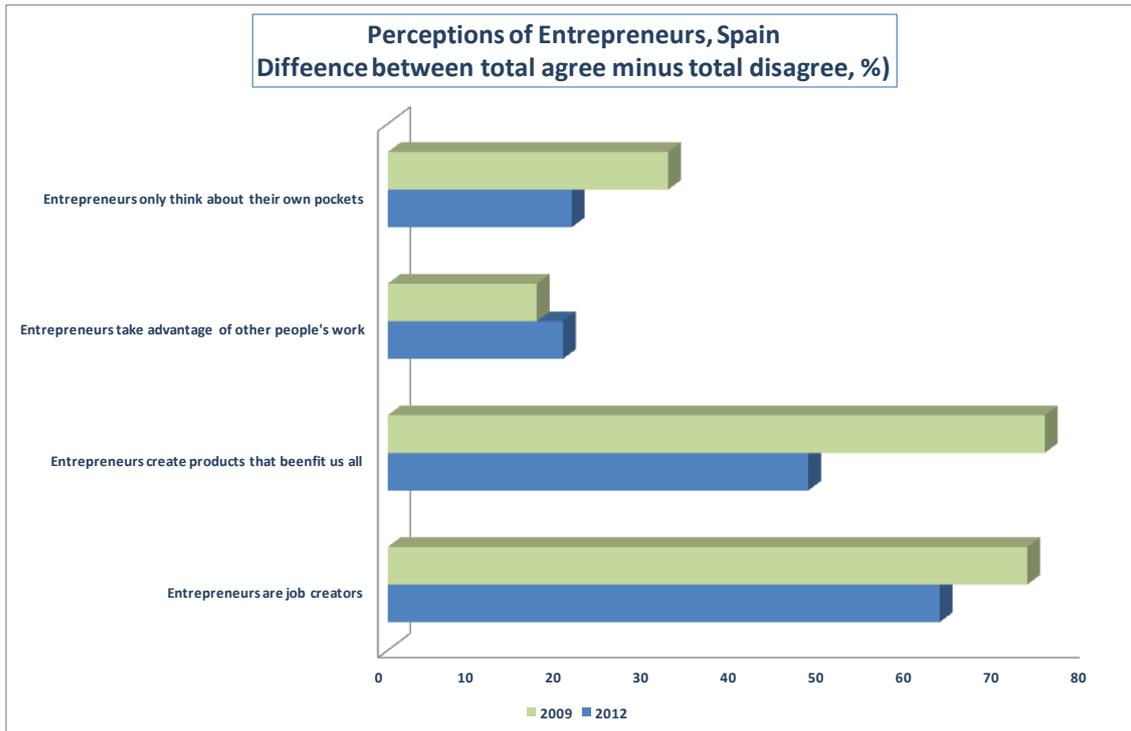


Table 6
Source: 2012 Eurobarometer

The severe financial crisis is radically changing the business landscape in Spain, and destroying the country's corporate stock. In the last four years, Spain has lost more than 200,000 companies (-6.2%). As a result, the notion of entrepreneurship as a strategy for wealth generation and evasion from unemployment and poverty is at stake.

Moreover, the very fast growth in unemployment rates in Spain has been a consequence of the collapse of an economic model with low productivity but very intensive in labour. Insofar as long-term unemployment increases, the opportunities to reintroduce in the market a huge amount of low-qualification labour (61% of unemployment, 3.6 million people) reduce, their skills become obsolete, and unemployment turns to be a structural problem. The lack of the appropriate competences to create, and adequately manage firms, among most of unemployed population is limiting the scope of policies promoting entrepreneurship in Spain.

Spain is still a country with great economic and social imbalances at regional level. This inequality is also transferred to the entrepreneurial activity. Spain shows considerable disparity levels in entrepreneurship, ranging between 7% and 1.5%, depending on the case. This has to do with the differences in the industry mix among regional economies, so that the Mediterranean Arch is the most dynamic area, also in entrepreneurship.

2. Spanish Entrepreneurs' Profile

The quality of educational institutions plays a key role in promoting entrepreneurial attitudes and skills. As in the context of digital revolution most of entrepreneurship opportunities are emerging in the information industry and in knowledge-based services, science and technology studies are emerging as a potential factor to encourage business opportunities. Data show that the situation in Spain is very similar to that in the rest of the EU. Even a better outcome is obtained as far as the performance of higher education is concerned. However, results are not so positive when the secondary education is analysed. At this stage of the education system, dropout rates are very high in Spain.

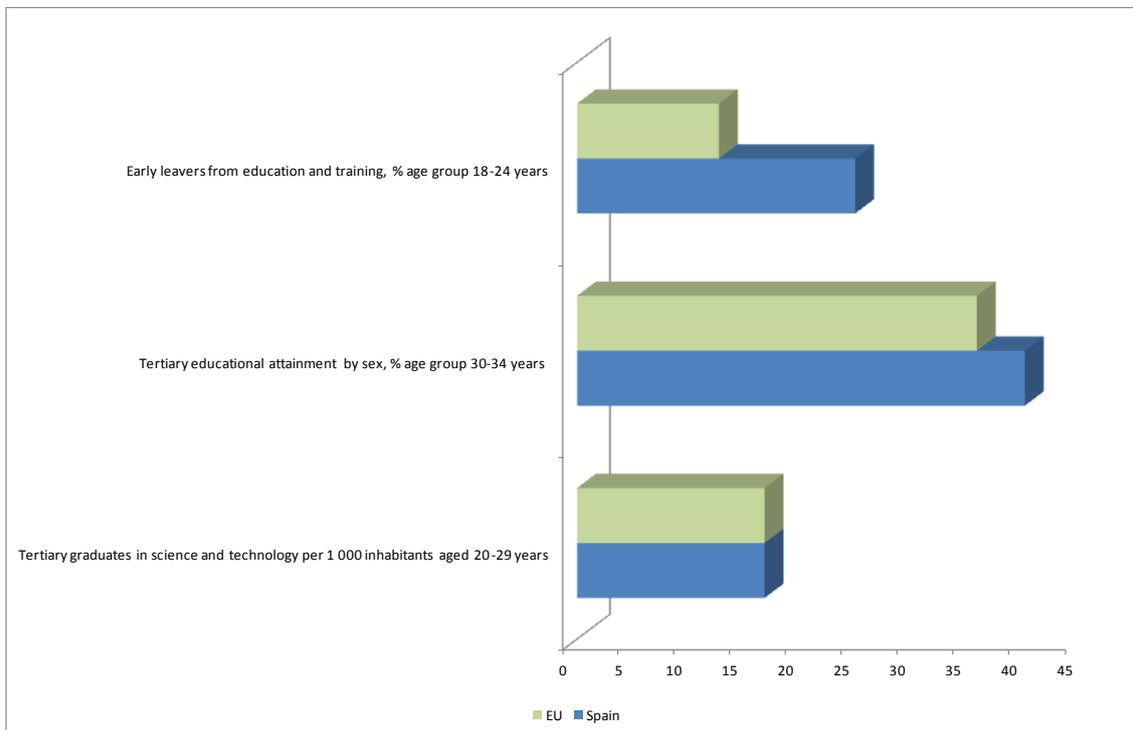


Table 7
Source: 2012 Global Entrepreneurship Monitor Spain

The high dropout rate in secondary education not only has a negative effect on the overall educational level of the population, it also hinders the availability of workers with technical and specialized training. Thus, the knowledge base of society and the opportunities for innovation are restricted.

In the context of the European Higher Education Area (Bologna Process), many universities are starting to promote more entrepreneurial skills – e.g. by introducing entrepreneurship as a course component of university curriculum). Most of Spanish universities also have a long expertise in promoting the incubation and development of start-up activities in their labs and

incubators – which are usually linked to their research institutes. These initiatives have flourished mainly in the learning programmes related to health, engineering and other hard sciences. We detect the highest Early-Stage Entrepreneurial Activity rates (TEA) in the youngest and high-qualification groups and among the male population. By contrast, in two very sensitive groups of the labour market (i.e. women and people over 45) entrepreneurship rate is declining. The current entrepreneurial profile in Spain is still the following: young, male and graduated. There is a wide educational and gender gap. This is a key issue for the next future.

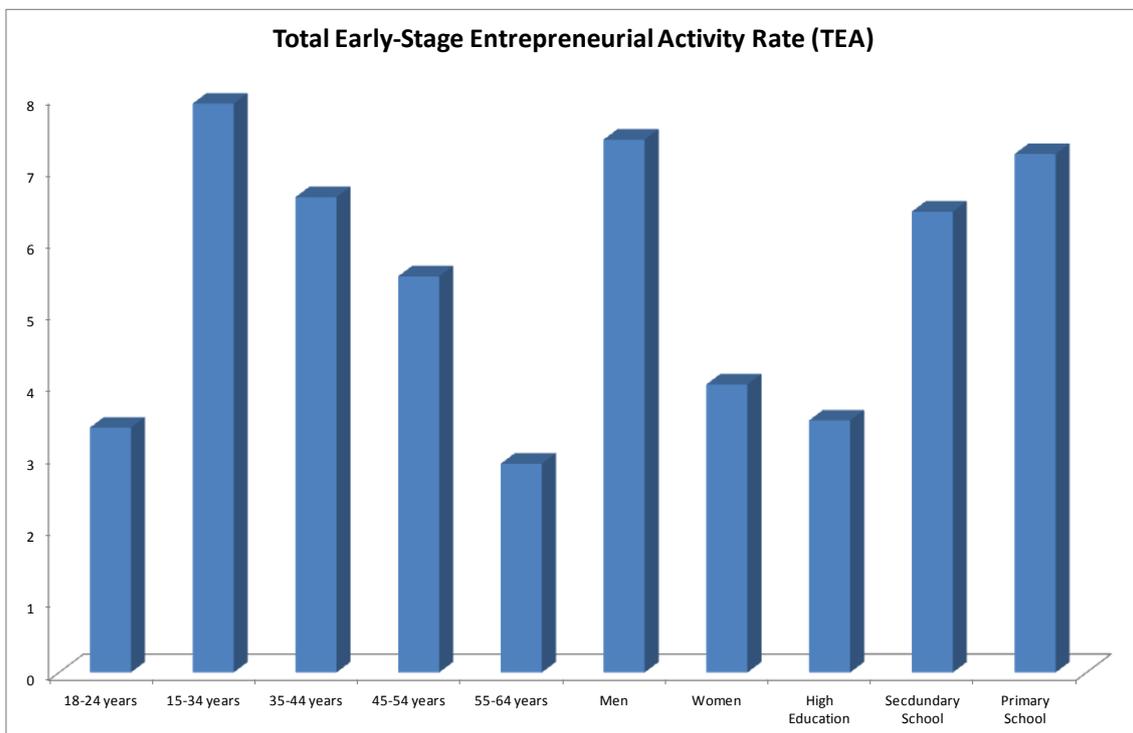


Table 8
Source: 2012 Global Entrepreneurship Monitor Spain

Despite their different average income and educational levels, differences in entrepreneurship rates between urban and rural population are insignificant in Spain. Disparities are more relevant among regions than between the cities and the countryside.

If we address our attention to young people, the picture is even less optimistic. While it is true that there is a clear desire for generational change in the business process, and the rate of entrepreneurship is higher among young people, recent developments are not so positive. Under current economic circumstances, entrepreneurship is not an easy alternative for this group of people. Many of their initiatives die before they reach the market because the lack of financial support, capacity building and relational capital. In addition, an unfavourable bias is observed in the strategic direction of their proposals, which seem to be too oriented towards

low value-added sectors. Young entrepreneurs deserve more appropriate helping policies in Spain.

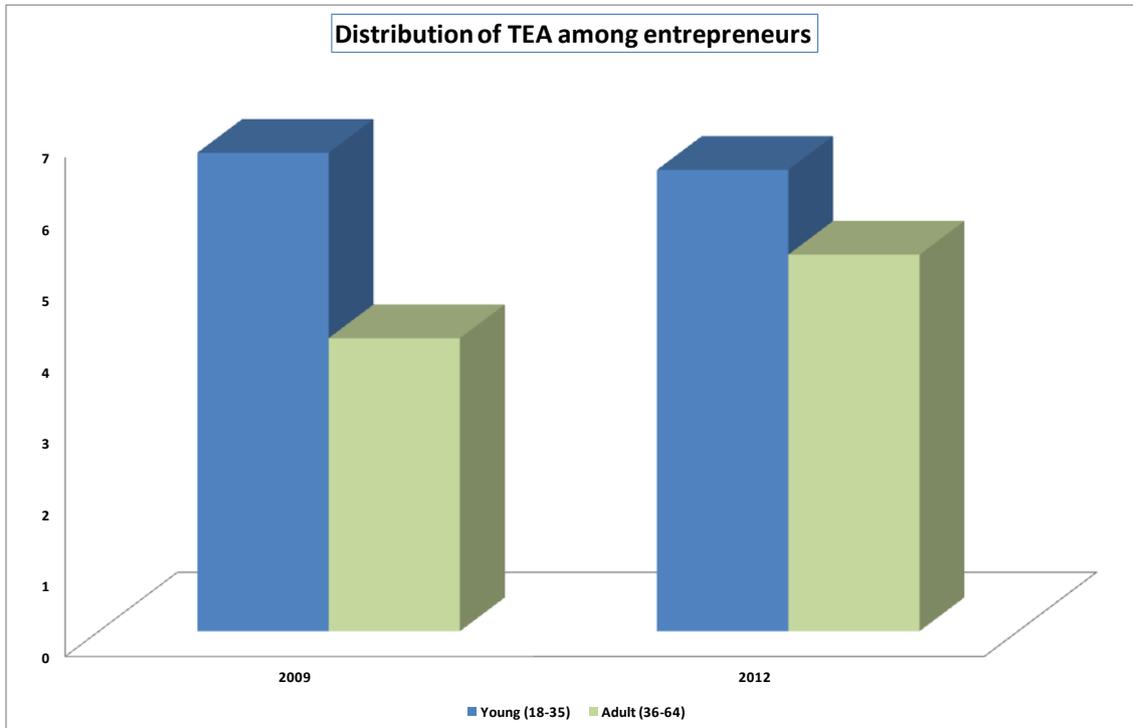


Table 9
Source: 2012 Global Entrepreneurship Monitor Spain

Although almost half of the new entrepreneurs in Spain do not have specific training, this weakness is to be offset by the active involvement of the university system and local development agencies. Both are making considerable efforts to provide entrepreneurs with the adequate skills, and help them to improve their chances of success.

Spain shows the entrepreneurship profile that is characteristic of European societies with a relatively low average per capita income, low percentage of employees with post-secondary and higher education, and low emphasis of the education system in innovative and proactive behaviour.

At the same time, the economic crisis has harmed one important driver of entrepreneurship in Spain: immigration. Insofar as the flow of migrants has been dramatically reverted, entrepreneurship rates have also diminished. This is because immigrants presented a higher propensity to engage in entrepreneurial activities – which were mainly motivated for economic necessity, usually based on franchises and with small initial investments. However, the withdrawal of immigrant flows has noticeably reduced entrepreneurship potential.

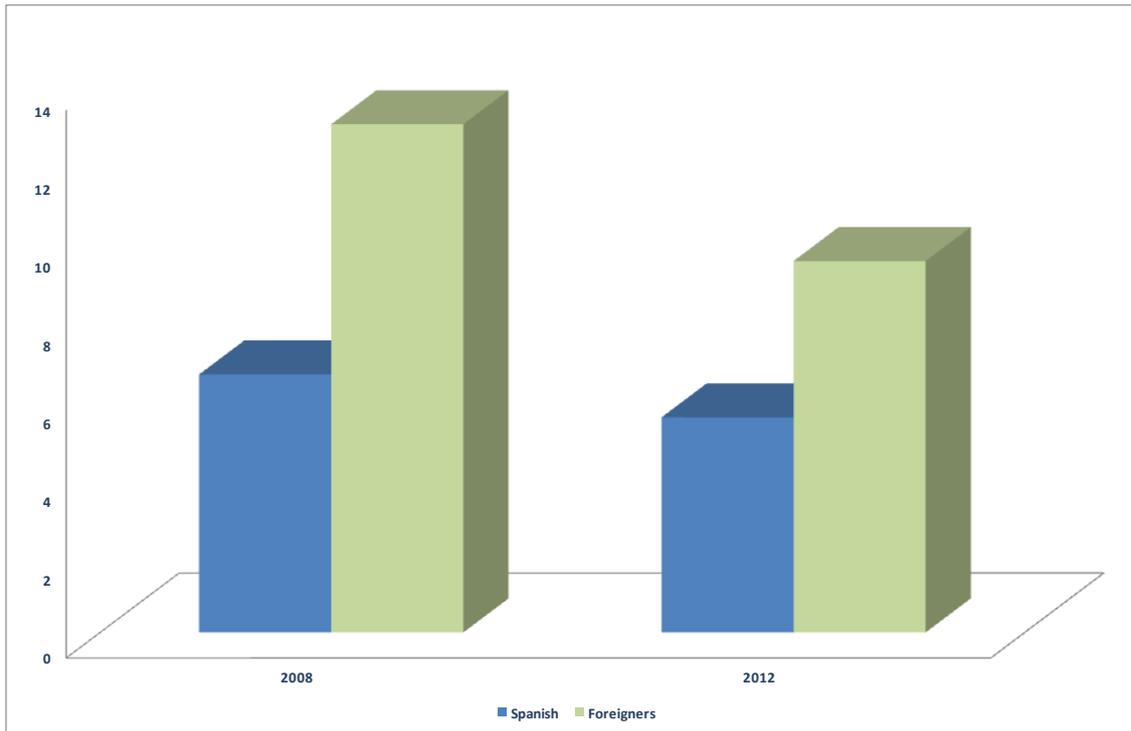


Table 10
 Source: 2012 Global Entrepreneurship Monitor Spain

Since the outbreak of the financial crisis, entrepreneurial initiatives are less ambitious regarding to the invested capital and to their expectations for job creation. In 2012, almost one-third of new entrepreneurs contributed with all the seed capital while the remaining 70% were dependent on external funding to implement their business idea.

Given the difficulty of access to bank credit – the financial sector is involved in a restructuring process – and the low implication of venture capital and Business Angel networks, the use of private informal finance has been predominant – mostly from family and friends.

But leadership in business creation is in hands of a different type of entrepreneur, who is high-qualified, has previous labour experience, is prone to take the opportunity to invest in their innovative idea, and has enough funding to do it. As this kind of opportunity-driven motivation has to be supported on own resources, the rate of entrepreneurship is much higher among people included in the upper scale of income distribution. Moreover, the involvement of this group in the entrepreneurship process is very high, considering that most of them try to create a new firm even though previous ideas failed.

The response of economic policy to the financial crisis has been based on a tough fiscal adjustment that has in the funding of research activities one of its main victims. Between 2010 and 2012, Spain lost 13,000 researchers and €1,200 millions of investment in R+D+I activities. Although the dismissal of these very talented people could have represented an opportunity to create new businesses, the sluggish domestic market and the failure of public policy to

encourage more knowledge-intensive economic activities are leading to the international migration of these talented people.

The peculiarities of corporative culture in Spain further translate into a higher entrepreneurs' reluctance to establish strong cooperative ties – despite cooperation reduces risk and increases the opportunities for innovation and growth. The tendency to short-sightedness and the lack of ambition are driving Spanish companies to prefer trade agreements instead of strategic alliances. Thus, the scope of business networking of many companies is reduced.

One of the main problems related to business creation in Spain is not how to provide an effective support to entrepreneurs for bringing their ideas to market, but to fill the lack of appropriate reference models to benchmark a growth strategy.

Studies on Spanish high-growth businesses show that firms' sustainability is based on the same strategies as those that originally facilitated their expansion. Thus, the primary contributing factors to a company's continued growth are proactivity and leadership, organisational flexibility, customer-orientation, brand's reinforcement, a good management of financial leverage, the use of capital as the primary financing source, an ongoing R+D+i investment policy, the pursue of overall quality and excellence and, of course, internationalisation. There is room in Spain for focusing Entrepreneurship Policy on Scale-Up, not only on Start-Up.

In recent years, new ventures are emerging in service activities. Many of these new companies born global and are ICT-based. This represents a big challenge for the organisational infrastructure that supports start-ups. The richest and more entrepreneurial regions in Spain have an industrial tradition – mainly in medium and low-technology sectors – so most start-ups do not easily find appropriate mentoring. Spanish supporting infrastructure should be more permeable and absorptive to benefit from the experience of other cultures and ecosystems.

In summary, the assessment of the context in which the business is conducted shows a scenario that is yet hostile to the entrepreneur. Among the main barriers to entrepreneurial initiative, we could point the shortage of funding, the lack of entrepreneurial culture and basic education, and an insufficient set of public policies and programmes.

3. Creative Industries in the Spanish Economy

In Spain there is no integrated policy for the creative industry as a whole. Rather, political strategies are focused around the wide concept of *culture*, and complemented by sectorial strategies aimed at some specific activities. However, in recent years, new policies at the local and regional level have gradually emerged to support creative industries.

Creative industries are an important part of the Spanish economy. Creative industries' core activities generate around 3.5-4.0% of the GDP. And these figures are even higher (5.5-6%) if we take into consideration interdependent and support activities. The last study by TERA Consultants (2010) estimated that, in 2008, the sector generated a gross value added of €62 billion and 1.2 million jobs.

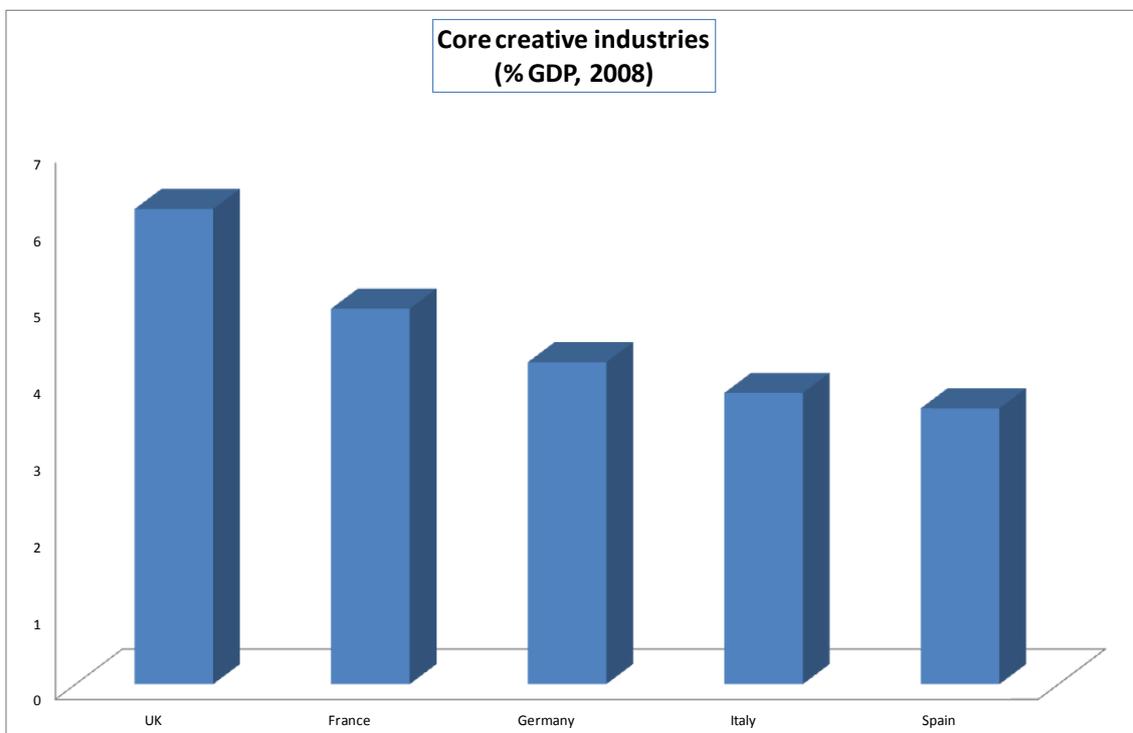


Table 11
Source: TERA consultants (2010)

As matter of fact, Spain is Europe's fifth largest producer in creative industries. But the weight of this industry in the country's economy is below European average. We can infer that Spain is not a specialist in the commercial use of creativity. Yet the metropolitan areas of Madrid and Barcelona are among the largest and most specialized European agglomerations in creative industries – with contributions above a 6% to the local GDP.

The sector is demanding specific policies to promote creative economic activities. Their main requests are: the protection and promotion of diversity cultural, the provision of cultural infrastructure and public funding, the creation of institutional mechanisms, the enlargement of

export markets, the protection of copyrights, and the promotion and support of creative clusters.

If we focus on the figure of the creative entrepreneurs, probably we will face some problems to define an entrepreneur in the creative sector. For example, art-creating entrepreneurs usually are creative in unique and sometimes unexpected ways rather than simply in *standard* ones. So, probably is unhelpful to approach the state of entrepreneurship in creative cultures through the conventional factors determining creative capability of potential entrepreneurs. They might have a unique combination of individual skills, competences and commitments, and very particular and creativity-based mind-sets. As Ann Markusen states, *'artists as potential entrepreneurs bring strengths and deficits to enterprise development that differ from other types of entrepreneurial candidates'*.

They configure a particular type of entrepreneur, come from very diverse backgrounds, and perform activities mainly based on inspiration, creativity, and innovation. Experts state that, in addition to these obvious key features, creative entrepreneurs are risk-taking, and show to have external locus of control, perseverance, self-reliance, flexibility, adaptability, autonomy, and achievement motivation.

Although in Spain creative capabilities seem to show low magnitudes, in reality the country benefits from a very active community of cultural entrepreneurs, who do not necessarily rely upon specific public policies. Creativity is not an industry but a capacity, so that support policies should be diversified and imaginative. Probably, the policy framework for the creative economy has complex, multidimensional and multidisciplinary dimensions.

4. Additional Elements for Discussion

We might pay interest to the deficits and obstacles faced by creative entrepreneurs. In the case of Spain, most creative entrepreneurs suffer from the lack of ability to join forces with their communities, and with well-established companies. These established companies could collaborate with entrepreneurs in promoting, producing and marketing their value propositions, while making them a critical element of company's value chains. Creative entrepreneurship is not only a matter of being original and creative, but to successfully produce and distribute in a large scale.

A fundamental challenge for creative entrepreneurs might be how to build and sustain a business. Many of creative new businesses do not dominate their markets. Among other reasons, this is because they have to manage and combine rich creative dynamics with business, marketing and self-promotion decisions. The most part of entrepreneurs in the industry have difficulties even to promote their own expertise to their audiences. In comparison with entrepreneurs in the information industry, they lack from expertise in leadership, management of complex structures, and marketing and customer-oriented strategies.

Added to the serious issues to find financial support – which is being affecting Spanish traditional ventures too – creative entrepreneurs face a lack of understanding of creative initiatives by the financial sector and venture capital. In despite of their business potential, it is hard for creative entrepreneurs to integrate cultural creativity in sustaining business models, clearly attractive to potential investors.

In addition to the challenges related to market building, availability of human capital and technical resources, support network, or strategic planning, complex additional topics (mainly related to intellectual property, copyright and contractual agreements) are critical as well.

Currently, most relevant public initiatives in Spain are being carried out at a local level. Partly, this is because creative industries tend to agglomerate and locate in the biggest cities, near the Spanish greatest markets. But this is also due to the specific knowledge, talent and services they consume. For example, in Barcelona many small creative businesses are scattered distributed throughout the urban agglomeration. By their part, yet, local authorities promote biggest cultural producers to occupy and reuse the oldest industrial spaces in the city, which are currently abandoned. In this sense, the experience of The Lace Market could be extremely beneficial, and provide a role model to benchmark.

Another potential issue to discuss is how to prevent a certain trivialization of cultural creativity. This comes in light of some local policies apparently targeted at some kind of productive 'creative' activities, and which in fact are neither cultural nor creative.

Some additional ideas are offered regarding the transferability of lessons from the Lace Market:

- 1) To think about the development of an entrepreneurship ecosystem for creative industry, on the basis of Babson's six general domains.

Which domains are positively affected, according to the Lace Market experience? Which are the main barriers to be removed?

- 2) To address attention to the seven strategies of political action for cities, suggested by Ann Markusen:
 - a. Know who your artists are
 - b. Encourage convening and equipment-sharing artists' centres
 - c. Develop sustainable artist studio and live/work buildings
 - d. Provide entrepreneurial training tailored to artists and designers
 - e. Build networking and marketing opportunities for artists
 - f. Embed artists in city development strategies
 - g. Partner with local arts and policy faculty for entrepreneurial research and training

In which of these areas Lace Market experience would be more useful and transferable?

- 3) To identify the specificities of entrepreneurial training programmes for creative industries (different from training designs aimed at other type of entrepreneurs)
- 4) (And bearing in mind Daniel Isenberg's recommendations:)

Are creative initiatives encompassing all varieties of entrepreneurship, and all life-cycle stages; or are they more focused on small start-ups, and initial stages of business development?

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