

# The Risk Appreciation Society

1. Creative Industries & the innovation system
2. The 'Risk System'
3. The case for a NESTA-style innovation fund



## Jason Potts

ARC Centre of Excellence in Creative Industries and Innovation (CCI)



Queensland University of Technology

Innovation Review, July 4th 2008, Canberra. 'Contribution of the Creative Industries to the National Innovation System'

CRICOS No. 000213J

# Economics of creative industries

- CI contributes to economic growth and evolution
- Occurs directly (CI growth) and via impact on the innovation system (creative economy)

Potts & Cunningham (2008) 'Four models of the creative industries' *Int. J. of Cult. Pol.*

Potts *et al* (2008) 'Social network markets: A new definition of creative industries' *J. Cult. Econ.*

# Why are the creative industries growing?

possible explanations:

- (1) factor accumulation
- (2) qualitative factor change
- (3) growth of demand
- (4) institutional evolution

Or (5) innovation system efficacy

- Increased investment
- ICT revolution
- Globalization: increased mobility of people & ideas
- Rising education & urbanization.
- Growth of niche markets (long tail)
- Micro & macro reforms, increasing income & improving business conditions

# Growth model vs. evolutionary model

<i>model</i>	<i>example</i>	<i>caused by</i>	<i>analytics</i>	<i>policy</i>
<b>CI as growth driver</b>	<b>Fashion &amp; design industries grow faster than all-industry average</b>	<b>ICT, micro reform, macro-stability, globalization, wealth effects as luxuries become necessities</b>	<b>CI as a meso trajectory  Uniform growth</b>	<b>Competition policy  Industry policy</b>
<b>CI as evolutionary mechanism</b>	<b>Fashion &amp; design increasingly incorporated in all new products and services</b>	<b>Representing the new, adapting new technology to human/ social context, embedding in new ways of producing &amp; consuming</b>	<b>CI over meso trajectories  Complex growth</b>	<b>Innovation policy</b>

# How CIs facilitate innovation & economic evolution

1- Origination	2 - Adoption	3 – Retention
entrepreneurship & novelty	innovation, diffusion, creative destruction	embedding & normalization
art, music, publishing, fashion	advertising, media, design	design, film & TV, architecture
creative response, tools for imagination & exploration, experimental space	social network creation, connection of new technologies to new lifestyles, selection mechanism	rendering new rules into embedded functionality, in agent and as social rules

# CIs are part of the innovation system

- But not at the supply-side front end (R&D)
- Mostly in the adoption, adaptation, diffusion, retention and latter phases of innovation
- This is across all industries (creative economy)
- Strong focus on demand side (identity dynamics, social network markets) and consumer-producer interactions

# Risk-culture & the national 'risk system'

- Innovation systems miss a focus on risk
- Risk system?
- Public policy often gets in the way of this
- The risk system enables innovation systems, cultural system and economic systems to co-evolve

# What is risk?

- Behaviour in an **open system** in consequence of dealing with **novelty** and **uncertainty**
- Economic evolution involves novelty, novelty involves risk
- Limits to economic evolution thus determined in part by **risk tolerance & risk capabilities**
- Connection to enterprise, entrepreneurship, experimentation, learning, imagination, profit, failure...

# What is a risk system?

- The elements and connections between risk behaviour, competence, organization, institutions
- Modelled on concept of an 'innovation system'

# Why does a risk system matter?

- Determines parameters of innovation system
- Capabilities for economic and socio-cultural evolution and change

# Why map and study the risk system?

- To learn about its elements & forces affecting it
- Connection to extant organizations, institutions, technologies etc

# What does a risk system do?

- Promotes 'sustainable' risk-taking
- Develops risk preferences, risk tolerance, risk capabilities, risk 'literacy', ...
- Develops distinction between 'good risk' and 'bad risk'
- Behavioural (and socio-cultural) dimension of the innovation system
- Develops organizational forms and institutions that support 'risk-taking' in an open-system

# Risk system not the same as innovation system

- More focused on person identity
- More concerned with genetic, neurological, psychological, sociological, demographic and legal reasons for risk taking
- Focused on actions of creativity and imagination, not consequences
- Concerned with education and cultural systems, including personal learning to take risks to learn and discover
- Importantly, this goes against most government public policy models that seek to eliminate, mitigate or control risk.
- Upshot is whether risk is a positive or negative value. Argument here is that it is a net positive value.

# Risk system not the same as insurance system

- crucial difference is between **closed system & open system**.
- Insurance well defined in a closed system as a mechanism to eliminate risk.
- In an open system, more is required. This 'more' is the risk system.
- This thus enters the world of evolutionary complexity and the growth of knowledge in an open system.
- Insurance only makes sense over known probabilities: 'classic' risk.
- Yet over unknown spaces, we are dealing with genuine risk, or uncertainty, over which evolutionary potential unfolds.

# risk is good

- Not 'greed is good', but in an open system market economy: 'risk is good'
- Promotes novelty generation and adoption
- Thus functions as a 'public good'
- 'Good risk' versus 'bad risk'
- Creative industries contribute to risk system development

# Elements of the risk system

1. Biology, psychology & demographics
2. consumer risk
3. business risk
4. investment and finance
5. institutions of risk
6. science & technology risk
7. socio-cultural risk
8. legal & political mechanisms of promoting risk

# Possible measures of the risk system

- Demographic
- Insurance profiles (and socialization of risk)
- ‘Sophisticated demand’ (novelty loving: use of new technologies)
- GEM index
- Heritage foundation institutional measures
- Savings and financial
- Specialization

# Risk-culture & the creative economy

- Defines creative economy
- Social network markets
- Creating supply of and demand for novelty
- Normalisation of the new (modernism and po-mo)

# rules of the risk-appreciation society

*Rule #1: Openness to new ideas  
is good*

*Rule #2: Failure is not bad*

*Rule #3: Identity matters*

*Rule # 4: Cooperation matters*

*Rule #5: Creativity requires  
commitment*

*Rule #6: Facts matter*

*Rule #7: Support for those who carry  
and underwrite risk*

*Rule #8: Support for those who  
instruct & promote risk*

# A national innovation system endowment

- The case for an innovation fund, modelled on the UK's NESTA
- Would be a contribution to the risk system as well as the innovation system
- A 'creative economy' strategy

# Why?

- *portfolio selection theory*: higher return through diversification via uncorrelated 'assets'
- longer term positions
- deep-set incentives to the construction and maintenance of the risk and innovation system
- Better incentives through specific lack of public accountability (i.e. independence)
- Better private and public sector flow (knowledge transfer)

# What?

- Seed and development funding (PPPs)
- Advocacy and research
- Policy development
- Development of education system
- Promotion of risk and innovation institutions
- Coordination failure mandate

# Fund model a superior vehicle for promotion of innovation & risk than public/political model

- Not primarily a venture funding model
- Not primarily a public research agency
- Risk and innovation **system** focused
- Creative economy

# Independence

- Like central banks
- A govt department of innovation will be conflicted and risk-adverse

Potts J (2008) 'The innovation deficit in the public sector' *Innovation*.

- Innovation is 'creative-destructive'
- Political forces can interfere to protect special or vested interests

# Funding models

Various possibilities

1. Large public seed, no ongoing support
2. Small public seed with ongoing public support
3. Public seed with ongoing private sponsorship
4. Private/philanthropic seed with ongoing public support
5. PPP seed, PPP ongoing support
6. Fully private/phil. seed and support

# The Fund & the creative economy

- Independent fund model a superior way to ‘promote’ the creative economy than government department
- Integrated with risk system and innovation system, rather than ‘industry’ support

# conclusion

1. Creative industries and the innovation system
2. Risk system and creative economy
3. Innovation fund as model for 'public' support

