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Unleashing Creativity

Fixing the finance gap in the creative industries

HASAN BAKHSHI, JOSH SIEPEL, LARA CARMONA, AMY TARR

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This research has been undertaken in collaborative partnership with the **Creative Industries Policy & Evidence Centre (Creative PEC)**.

Unleashing Creativity: Fixing the finance gap in the creative industries

Exploring access to finance in the UK's creative industries through findings from the frontline

HASAN BAKHSHI, JOSH SIEPEL, LARA CARMONA, AMY TARR

ABOUT CREATIVE UK:

Creative UK is the national membership body for the creative industries. We exist to champion creativity in its widest form - representing world-leading organisations from sectors as diverse as advertising, animation, architecture, broadcasting, crafts, design, digital, education, fashion, games, heritage, museums, music, performing arts, photography, publishing, theatre, TV, visual art and more.

We are an independent not-for-profit, which uses the insight and experience of our members to help shape relevant government policy and advocate for meaningful change. Change that will benefit UK businesses, citizens and communities.

Our vision is a world where creativity is valued and recognised as the driving force for our future. We're so passionate about this that we put our money where our mouth is. Through own landmark investment funds, we've directly invested millions of pounds into creative businesses over the last decade. Our team is based across the UK, and we work closely with creative partners, as well as Local and Combined Authorities to support creative talent, whilst delivering hands-on support – spanning business diagnostics, mentoring and investment readiness.

Our Filming in England service is a dedicated and bespoke production service to feature film and high-end TV productions looking to film in England, outside of London.

For more details, visit www.wearecreative.uk

ABOUT CREATIVE PEC:

The Creative Industries Policy and Evidence Centre (Creative PEC) works to support growth of the UK's creative industries through the production of independent and authoritative evidence and policy advice. Led by Newcastle University with the Royal Society of Arts and funded by the UKRI Arts and Humanities Research Council, the Centre comprises a core consortium of: Newcastle University, Work Advance, Sussex University and the University of Sheffield. The Creative PEC works with a diverse range of industry partners.

For more details, visit www.pec.ac.uk **and @CreativePEC**

This work is generously funded by YouTube, with support from the Creative Industries Council and Bloomberg Philanthropies.

Significant thanks are owed to all Creative UK's and Creative PEC's partners in this work, including those who promoted the survey to their networks, as well as the 898 creative industries leaders across the UK who responded to the opportunity for involvement in this important research, and took the time to share their expertise, experience and insights.

The survey instrument was designed in partnership with BVA BDRC who also undertook the fieldwork. Special thanks are also owed to Sarah Gregory at Creative UK and Shiona Davies at BVA BDRC for bringing their expertise to bear on the design of this work and Sawan Rathi of University of Sussex and IIT Bombay for assistance with data and analysis.

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@wearecreativeuk

Creative UK

@creativeuk.bsky.social

Foreword

‘Invest, invest, invest’.

It’s the rhetoric of growth, and an inspiring call to action in turbulent economic times. But what if the investment landscape as it stands isn’t fit for purpose?

This is the case for the creative industries - one of eight priority sectors named in the UK Government’s forthcoming industrial strategy. This research has found that, despite its enormous growth potential, the sector is currently being woefully underserved.

The value of the creative industries is well documented by now: worth around 5% of the economy and generating £124bn in GVA. In conducting this research, we’ve laid out a clear hunger from creative businesses to grow. But we’ve also found that ambitions are being stifled, and in the current market, our innovators, leaders and creators simply cannot access the finance they need.

At Creative UK, we know creative organisations inside out. Every day, we work with companies generating valuable IP, creating new content and nurturing the next generation of talent, all of which contributes to making the UK an international powerhouse - the envy of many worldwide. But, too often, we see exciting companies with bags of potential, who simply cannot access the finance they need to grow.

In addition to highlighting the barriers, we have laid out some real solutions. At this critical period for the economy, our creative organisations need a level playing field. They need an investment framework that gives support in ways which enable the creation and protection of intellectual property to build – and retain – value in UK holdings.

With advancements in technology and the growth of the creator economy, business models are being disrupted before our eyes. YouTube alone generates £2bn in GDP annually. If the UK Government’s Industrial Strategy it is to be successful, it must focus on sunrise – not sunset – organisations. It must develop a strategy fit for the IP-led businesses of this century, rather than the last.

What’s needed now from policymakers is active encouragement of new types of capital, alongside new finance providers and funders into the market. The UK won’t be able to compete on technologies alone. Our strength is in our people and their ideas, and investing in creativity has tangible benefits to a broad range of other sectors, from advanced manufacturing through to clean energy. It is the golden thread that maintains the UK’s USP of innovation and ingenuity.

This is a critical window of time in which there is a significant opportunity for the public, private and philanthropic sectors to come together and ensure greater investment and support for those creatives who are gunning for growth.

We just need bold new action, and above all, the necessary investment to truly appreciate the value of creativity.

We say invest, invest, invest in the creative economy. **The returns will be extraordinary**.

CAROLINE NORBURY OBE, CHIEF EXECUTIVE, CREATIVE UK

Executive Summary

The UK's creative industries are a success story, growing 1.5 times faster than the economy as a whole, and identified by the UK Government as a priority sector for its forthcoming Industrial Strategy. Notwithstanding this strong performance, if policy can address longstanding structural barriers relating to access to finance, the creative industries have potential for even higher growth.

Reliable and up to date evidence on the nature of these barriers has held back policy development, with the last dedicated survey undertaken by the Creative Industries Council in 2017.

This report presents the findings of a new survey on access to finance in the creative industries, conceived and initiated by Creative UK, and delivered in collaborative partnership with the Creative Industries Policy and Evidence Centre. Between July-September 2024 we surveyed 896 firms from all creative sub-sectors and located in all the UK's nations and regions, using weighting by sub-sector and nation and region to make the sample representative. Our main findings are as follows.

Finance and Growth

A key finding from this report is that creative organisations want to grow – but face real obstacles in accessing the right kind of finance to facilitate this.

Creative industries organisations have higher growth appetite than the general population, with data from the SME Finance Monitor in 2023 showing that 72% of creative businesses were anticipating growth, versus 59% of businesses as a whole. Our survey finds that within the creative industries, Fashion Design, FIlm & TV and IT & Software organisations are particularly likely to seek growth, and that organisations that hold intellectual property (IP) or produce events and experiences are more likely to report having long-term growth ambitions.

Despite these ambitions, however, creative industries organisations are more likely to view accessing finance as an obstacle to their growth. When compared with an equivalent sample of organisations in the whole of the UK economy using an identical question from the SME Finance Monitor survey, creative industries organisations are over four times more likely to say that accessing the right finance to fund their growth was an obstacle that their business needs to overcome.

The creative industries are unlike many of the other priority sectors identified for the UK's Industrial Strategy in being disproportionately made up of micro-organisations (those with fewer than 10 employees). 93% of creative industries organisations are micro businesses, compared with 86% in advanced manufacturing and 74% in life sciences.

Investment Readiness

Making the most of growth finance requires a combination of desire for growth, suitability for investment and ability to present and explain a business to investors. This combination is sometimes referred to as investment readiness. In our survey, we build on previous research to create a 15-point investment readiness index. We find, on this measure, that 24% of organisations we survey have high levels of investment readiness.

We also find that organisations that produce live events, performances or content (such as music, video games, film and TV, and online videos) are more likely to be highly investment ready than others in the creative industries. These organisations have a desire to grow and are more likely to seek growth finance.

However, our data also reveals that, overall, 22% of creative industries organisations intending to seek equity finance would not meet our investment-ready criteria. This underscores the need for more targeted business support to equip organisations with the tools and knowledge to increase their ability to achieve growth potential.

Market Failures

While it is not possible to definitively prove the existence of market failures using survey data alone, our data is suggestive that failures exist. For example, we present indicative evidence of market failures relating to creative industries organisations having incomplete information, with 30% feeling they lack the knowledge about finance to make informed decisions for their business and 27% of organisations feeling they do not know where to go for information about finance.

What is more, these findings are not limited only to the smallest organisations: 22% of creative industries organisations with 51-100 employees say that they lack knowledge about their financial options. Incomplete information is a substantial barrier to growth – 41% of respondents to our survey say they lack the necessary financial and managerial skills to grow their business.

We also find evidence of sizeable information asymmetries between funders and creative industries organisations, who do not understand each other's needs. Our findings suggest a perception among creative industries firms, many of which are reliant on intangible assets (such as intellectual property), that funders view them as 'too' risky.

More than half of organisations who responded to our survey (51%) - large and small alike - feel that they are perceived in this way. Of the organisations in our sample that report having applied for finance and being rejected, the perception of being too risky or the funder not understanding the business were the two most frequently cited reasons for rejection.

Discouragement is consistent with another form of market failure. This occurs when organisations needing finance decide not to apply at all because they believe their application will be unsuccessful. While we find only a small minority number of respondents (6% of those requiring capital) appear to be discouraged, a further 26% are potentially discouraged. These organisations acknowledge a need for finance but are uncertain whether to pursue it, reflecting a gap in confidence and accessibility.

Mismatch Between Finance Options and Sector Needs

Our survey also reveals a widespread perception by creative industries organisations that there are no suitable financial products on the market to meet their needs. As many as 41% of survey respondents say that this is the case, including 37% of organisations who report that they are comfortable with their knowledge of finance.

While the belief that there are no suitable financial products to meet their needs is held by organisations in all sub-sectors of the creative industries, it is particularly prevalent in those that hold intellectual property. When asked what would be the ideal characteristics of a financial instrument that would meet their needs, the most frequently cited is finance that is long-term and non-diluting. Companies with intellectual property, in particular, value financial options that help validate their credibility and reassure of their quality.

Our survey data only covers creative industries firms, so we are not able to say whether the problems we identify are any greater in the creative industries than in other sectors.

Access to Finance in Creative Clusters

Regional inequalities are a well-known feature of the UK's creative industries landscape, so it is perhaps surprising that our analysis suggests few statistically robust differences in the financing needs and experiences of creative industries between the nations and regions.

However, this initial inference masks significant differences at the level of clusters and micro-clusters. In particular, we can see that one of the most important factors influencing access to finance is whether an organisation is located in one of the UK's 55 identified creative clusters or one of the UK's 709 creative micro-clusters (defined as streets, neighbourhoods or towns with a disproportionate concentration of creative industries activity).

Organisations in clusters are, other things equal, 15% more likely than the general population of creative industries organisations to apply for finance. Being in a cluster appears to confer other advantages too, as these organisations are 14% less likely to report a lack of financial knowledge. In contrast, organisations in creative micro-clusters outside recognised clusters face greater challenges. They are 19% more likely to say that external finance is essential for their operations and are nearly twice as likely to identify access to finance as an obstacle to their growth. As a potential consequence, they are 25% more likely to rely on injecting personal funds into their operations.

Equal Access to Capital

Our analysis also suggests demographic factors related to the Chief Executive Officer's (CEO's) gender and ethnicity affects needs and the ability to access capital. Organisations with female CEOs are 10% more likely to anticipate needing funding and are 8% more likely to want to grow their business. However, they are also significantly more likely to report that they have insufficient knowledge about financial options.

Likewise, we find organisations with CEOs of mixed heritage or ethnic minorities are 9% more likely to want to seek growth and 21% more likely to view external finance as essential. However, they are also 12% more likely to view finance as a barrier to growth and 21% more likely to have injected their own funds into their operations.

Taken together, the findings presented in this report paint a picture of a creative sector facing a series of structural barriers that are inhibiting organisations from meeting their full growth potential.

Helping to dismantle these requires concerted efforts from policymakers. Our report therefore makes the following top-line recommendations:

01 **Increase public investment in the creative industries, to further catalyse private sector investment**

02 **Strengthen tailored business support for the creative sector**

03 **Develop targeted financial products for the creative industries organisations**

04 **Enhance support for financial literacy and advisory services in the creative industries**

05 **Develop and build a clear evidence base, which demonstrates the nature of capital flows into the creative industries**

06 **Extend the reach of bespoke advisory services - including financial, networking and mentorship support - to ensure place-based creative hubs can better serve micro-clusters and underrepresented regions and groups**

07 **Enable underrepresented groups and underserved regions to access dedicated funds, supplemented by tailored scale-up programmes and capacity-building initiatives**

More detail on all recommendations can be found on page 46

01 Introduction

The UK's creative industries are a growth success story: R&D-intensive and innovative, they are growing over 1.5 times faster than other sectors in real terms and in 2022 accounted for 5.7% of GVA.

Outward-facing and globally competitive, in 2021 they generated as much as 14.6% of all revenues from UK exports of services and 2.7% from UK exports of goods. They are also major employers, responsible for 2.4 million jobs, or 7.1% of the whole economy (DCMS, 2024) as well as providing work for a substantive proportion of self-employed and freelancing individuals (Easton and Beckett, 2021).

But imagine how much greater the contribution of creative businesses could be if policy could help remove the structural impediments to their growth.

UK policymakers have in recent years woken up to the sector's potential. In 2018, the creative industries secured a **Sector Deal** with the UK Government, brokered by the Creative Industries Council. In 2023, the creative industries were the focus of a UK government **Sector Vision**.

Last year, the UK Government identified the creative industries as one of eight priority sectors for its forthcoming **Industrial Strategy**, alongside industries like advanced manufacturing, life sciences and financial services.

But successive UK governments have not yet addressed what is perhaps the most longstanding complaint from creative businesses over time, namely that they struggle to raise the finance they need to grow (DCMS, 2008, Siepel et al 2024).

Finance is vital for unlocking even faster growth across the creative industries. The development of a new UK government Industrial Strategy presents a clear opportunity for policymakers to finally address key barriers and enact policy change. However, achieving this requires up to date evidence to drive active intervention. The last major effort to gather such data was survey work conducted by the Creative Industries Council in 2017 (Creative Industries Council, 2018).

This report builds on the earlier work, presenting new findings from a survey of 896 firms in all nine creative industries sub-sectors from right across the UK. The survey was commissioned by Creative UK, working in collaborative partnership with the Creative Industries Policy and Evidence Centre (Creative PEC), and was carried out by the research agency, BVA BDRC from July to September 2024. It took the form of an online

questionnaire, promoted via communication channels, including social media and augmented with a sample of businesses that had previously participated in the **SME Finance Monitor** survey.

The survey collects data from creative industries organisations on topics as wide ranging as innovation, exporting and plans for growth. This report highlights the main findings and draws out implications for what policymakers need to do to help more firms access more capital, thereby turbo charging the sector's growth.

Data and Scope

The survey instrument, which was designed by Creative UK and Creative PEC in partnership with BVA BDRC, was informed by the SME Finance Monitor, which BVA BDRC also administers, the earlier Creative Industries Council survey from 2017 and other survey instruments developed by the Creative PEC in previous survey exercises (**here** and **here**). Details on the methodology and survey sampling frame are provided in the Appendix.

The analysis we present here is primarily based on econometric analysis of the survey data, weighted by creative industries sub-sector [1] and region [2] to ensure the findings are sub-sectorally and nationally representative. While we control for sub-sector, this does not necessarily capture the heterogeneity of business models in the creative industries, which can transcend sub-sector. To address the latter, we also ask organisations about their business models and use the responses as further control variables in our econometric analysis, alongside sub-sector and region.

We also control for whether organisations completed the survey in response to promotion from our communications and social media partners, or whether they had previously participated in the SME Finance Monitor, to address potential selection biases in our survey data. That is, our econometric analysis recognises that organisations responding to our communications may have had different experiences of access to finance than the wider population.

In addition to our econometric analysis, in some cases we draw on findings from secondary data analysis to provide context and aid interpretation. Because our analysis is primarily based on our survey dataset, it necessarily relates only to the creative industries. A limitation of the exercise is therefore that we are unable as a rule to benchmark the data for the creative industries against other sectors. However, at some points we are able to make comparative statements based on the responses from BDRC's SME Finance Monitor, which collects data from all sectors, including, but not only, the creative industries.

1 The sub-sectors used in the analysis include: Advertising and Marketing; Architecture; Product and Graphic Design; Fashion Design; Video Games; Film, TV, Radio and Photography; IT, Software and Computer Services; Publishing; Museums, Galleries and Libraries; Music; Performing Arts; Visual Arts; Crafts; Social Median and Content Creation; and Other creative industries Activity. More details about the weighting strategy are presented in the Appendix.

2 The regions and nations used for the analysis were: North East; Yorkshire and Humberside; North West; West Midlands; East Midlands; East of England; South West; South East; London; Scotland; Wales and Northern Ireland.

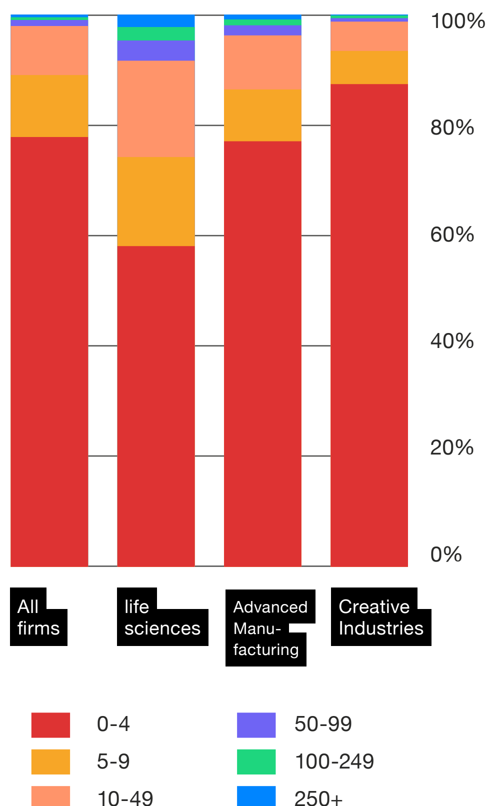
02 Finance and Growth Ambitions in Creative Industries Organisations

The inclusion of the creative industries as one of the eight priority sectors in the UK Government's forthcoming Industrial Strategy is a recognition of the sector's already impressive economic contribution and its further growth potential. The new survey data we have collected supports this view. It identifies substantial future growth potential for creative businesses, as well as important information on where there are barriers to realising that potential.

Finance in the creative industries

The creative industries have an industrial structure that impacts on the way that creative organisations access capital. Figure 1 shows how the sector is dominated by micro [3] businesses (those with fewer than ten employees) comprising 93% of all creative businesses. This proportion of micro businesses is significantly higher compared with other sectors, such as advanced manufacturing (86%) and life sciences (74%).

FIGURE 1:
FIRMS IN CREATIVE INDUSTRIES, LIFE SCIENCES AND ADVANCED MANUFACTURING BY FIRM SIZE
[Data: ONS UK Business Counts; available on Nomis]



3 For the purposes of this study we consider micro firms to be those with fewer than 10 employees, small firms to be those with 11-50 employees, medium-sized firms those with 50-250 employees and large with more than 250 employees.

The concomitant is that there are relatively fewer medium-sized organisations when compared with other sectors. So, even though there are estimated to be over 265,000 registered creative industries businesses in the UK compared with 98,000 advanced manufacturing businesses, there are more advanced manufacturing businesses with 50-99 employees (1,895) than creative industries businesses (1,880).

This has important consequences for creative industries organisations' use of finance. In particular, micro businesses typically have more modest capital needs and are more likely to seek funding from conventional sources of funding (such as overdrafts, credit cards, loans and working capital) (BVA BDRC 2024). From the perspective of growth capital, the comparative dearth of medium-sized businesses also means there are, in principle, fewer scale-up firms that are potential candidates for equity investment.

Which Creative Industries Organisations Have Grown?

Prior growth is not a perfect predictor of a company's need for finance, but it can be a good indicator of its prospects. Approximately half of the organisations we survey had experienced sales growth in the previous year, while 40% had experienced employment growth (Table 1). The remainder had seen their sales and/or employment remain stable or decline. We ask the organisations that had grown more than 20% in the previous year if they had experienced similar levels of growth over the preceding two years and characterise those that had experienced 20% annual growth in turnover or employment in three consecutive years as 'High-Growth Firms'.[4]

TABLE 1:
SALES AND EMPLOYMENT GROWTH

	Sales	Employment
High-Growth Firm (Grew 20%+ Every Year for 3 Years)	11%	10%
Grew 20%+ Last Year	7%	6%
Grew by 10-19%	11%	8%
Grew by up to 10%	21%	16%
Stayed the same size	32%	44%
Declined	19%	15%

["Thinking about your business turnover/number of employees, how has it changed over the last 12 months?" Companies replying turnover/employment increased by 20% or more were asked "And has your business/organisation turnover/headcount also grown by 20% or more in both of the previous two years (i.e. making 3 years of 20%+ growth)?"]

We find High-Growth Firms in every creative sub-sector and in every UK region and nation. However, in our sample, they are more frequently found in IT, Software & Computer Services, Advertising & Marketing and Fashion Design. Companies producing creative content and software specifically are also more likely to be High-Growth Firms.

Interestingly, our econometric analysis finds no evidence that having just experienced a period of high growth is necessarily associated with an organisation's desire to seek future growth, nor does it mean it has a long-term growth plan – a finding in line with the academic literature (Coad et al 2013). (Indeed, of the different dimensions of investment readiness discussed later in this report, in our findings

4 The OECD definition of a High-Growth Firm is: ""All enterprises up to five years old with average annualised growth greater than 20% per annum over a three-year period, and with ten or more employees at the beginning of the observation period". (OECD, 2010). For the purposes of our analysis, in contrast, we include all firms within our definition (that is, we include those firms with fewer than ten employees and those fewer than five years old). We do this because of the importance of micro businesses in the creative industries. A consequence is that our definition may include smaller companies whose high growth reflects business growth volatility.

only innovation and having a business plan are associated with organisations having experienced high growth). Consistent with this, High-Growth Firms in our sample are significantly less likely to anticipate needing finance or to have applied for finance in the previous year and are more likely to say that their current level of funding is sufficient. Taken together, these findings are a useful reminder that a firm's financing needs are driven by forward-looking considerations which do not necessarily correlate with recent episodes of growth.

A good example in our data are Creator Economy organisations, where 74% of respondents report sales growth in the previous year. But compared with other organisations they are less likely to report a further need for finance, and where they do use finance, they use less, all things being equal. By generating internal sources of finance such as cash reserves, for instance, growth in one period may act to reduce the need for (more costly) external finance in the next. Fortunately, in our survey we also ask firms directly about their ambitions for future growth.

Growth Ambitions

Previous research (Creative Industries Council 2018, Siepel et al 2020) has highlighted the growth potential of creative industries businesses, and the desire of many creative businesses to grow. Consistent with this, SME Finance Monitor data for 2023[5] suggests that 72% of creative businesses with 11-249 employees anticipated their business would grow in the next year, significantly higher than 59% of the general population.

In our survey, 42% of respondents anticipate growing employment or turnover by more than 20% in the coming year, with organisations producing creative content and/or software being especially more likely (15% and 17% respectively) than creative industries organisations as a whole to anticipate high growth, all things being equal. We also find that organisations led by ethnic minority CEOs are (9%) more likely to anticipate rapid employment growth, as are organisations holding intellectual property (IP) (also 9% more likely, all things being equal).

Anticipating growth is one thing, but actively seeking it is another. In our survey, we also ask organisations whether they have a desire to grow their business. As many as 56% of respondents state that they currently have a desire to grow, and 66% say they have a long-term plan to grow their business.

What is more, this desire for growth is expressed by micro and small/medium-sized creative industries organisations alike: 63% of firms with ten or fewer employees and 70% in the case of firms with more than 11 employees. When considered against the creative industries as a whole, organisations in Fashion Design (19% more likely), Film & TV (17% more likely) and IT & Software (15% more likely) are significantly more likely to seek growth, all things being equal.

Organisations with mixed heritage and/or ethnic minority CEOs are 9% more likely to seek to grow their business, while female CEOs with mixed heritage or ethnic minority background are 11% more likely to wish to grow. In terms of product focus, organisations that hold IP are 14% more likely than others within the creative industries to have a long-term plan for growth.

5 For the purposes of this project, BDRC provided the authors with some detailed analysis of the SME Finance Monitor data to allow for comparison between creative industries and the general population. Where relevant we report these comparisons.

Obstacles to Growth

Our survey explores the barriers that creative industries organisations face in trying to realise their ambitions. Figure 2 shows those commonly cited by respondents. While the economic climate and increases in costs are, perhaps unsurprisingly, the most prevalent given the UK's current conjuncture, access to finance is the third most-frequently cited barrier to growth, by 48% of organisations. This is significantly higher than the 34% of survey respondents citing access to finance as an obstacle in the Creative Industries Council's 2018 survey findings.

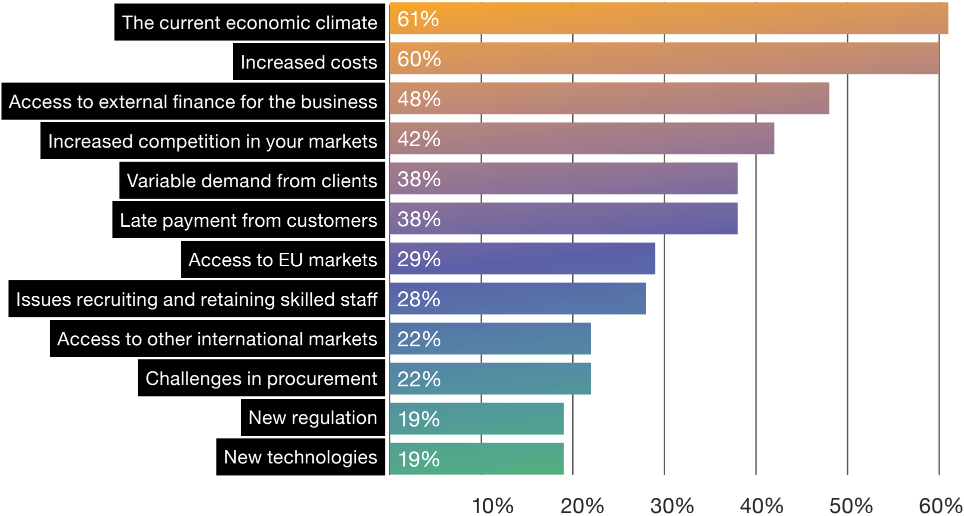
Our survey focuses exclusively on organisations within the creative industries, but we can benchmark this finding against the broader economy, using SME Finance Monitor data for 2023. The latter found that 7% of firms reported access to finance as a barrier to growth, based on responses to an identically worded question to the one we used in our survey. In contrast, 28% of creative industries organisations in our sample who had previously participated in the SME Finance Monitor identified finance as a significant obstacle. This highlights a much greater challenge for the sector when compared with those operating within the wider landscape.

According to our survey findings, while access to finance is a key growth barrier across all of the creative industries, organisations in some sub-sectors are particularly likely to cite that this is the case. These include Film & TV (60%), Video games (58%), and Fashion Design (57%) - all sub-sectors which are recognised as areas of UK creative strength.

In general, we find that companies holding IP are 9% more likely to view finance as an obstacle than other firms. These IP-rich companies are also more likely to view new technologies as an obstacle. Companies with CEOs from mixed heritage and/or ethnic minority backgrounds are also 9% more likely to view new technologies as a barrier.

FIGURE 2:
OBSTACLES TO GROWTH

["To what extent do each of the following present an obstacle to you running your business as you would want in the next 12 months?"]



One thing that would help...

"We work in the animation sector, and the landscape has become increasingly challenging... At our peak, we had over 60 staff members, but now we're struggling just to keep the lights on.

"One fund we applied for has taken nearly a year to reach the approval stage, despite initially being told it would take three months. We've faced endless paperwork and questions throughout the 12 months, and we have stressed the importance of quicker decisions."

One thing that would help...

"Flexible, affordable funding. I have been quoted as much as 122% APR on a secured loan. The interest costs are making it impossible to achieve the required ROI on funding. It's devastating."

Northanger Abbey
JANE AUSTEN

03 Investment Readiness

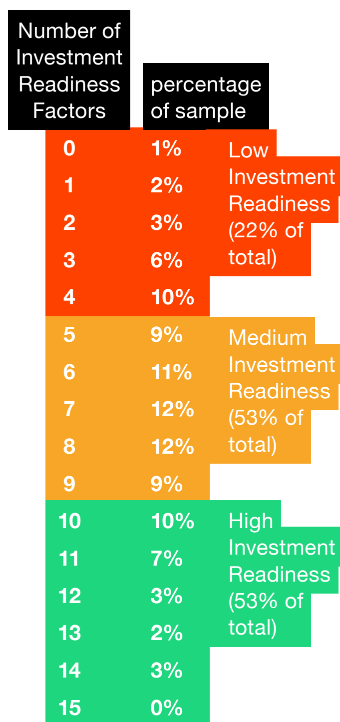
Investment readiness refers to a company's desire to grow, its suitability for investment and ability to present key information about the business to potential investors (Mason and Kwok, 2010). There is little point in policymakers trying to stimulate more access to finance if organisations are not investment ready to use the finance productively.

Despite its importance, quantitative evidence on investment readiness in the creative industries is hard to find, which is particularly surprising given the long tradition of policymakers and development agencies in the UK seeking to provide business support to the creative industries (DCMS, 2008). See Siepel et al (2024) for a discussion.

An exception is the 2017 Creative Industries Council study (Creative Industries Council 2018), which this work builds upon. This study used a range of survey responses as proxies for investment readiness, creating an index that suggested around 30% of respondents were investment ready. We take a similar approach here but draw on a broader set of fifteen dimensions of investment readiness to give a more comprehensive account.[6] We use our index to group organisations according to whether they have high, medium or low levels of investment readiness, as in Figure 3 below. An organisation that meets up to four of the measures is considered low, one that has five to nine is considered medium, and one with ten to fifteen of the measures is considered high. On this measure, 24% of organisations have high investment readiness (though none of the respondents meet all fifteen measures, indicating their breadth) and 22% have low investment readiness, with the rest landing in-between.

6 These comprise of: having a written business plan; producing regular monthly/quarterly management accounts; holding intellectual property; having a business mentor; maintaining a risk register; having sought professional advice about external finance previously; having a focus on improving product margins; having non-executive directors; engaging in innovation (including product, process, organisational or marketing innovation); exporting; having grown in the previous year; having a desire to grow the business; having a long-term plan for growth; preferring to use external finance to grow faster; and viewing external finance as essential to the business mode. The first eight in the list were in the original investment readiness index from 2017. For our index we include innovation, exporting, prior growth, and attitudes to growth. These additions allow us to to capture a desire to grow rather than factors that are associated with providing positive signals to investors (such as having a business plan) or that help investors to better assess a business (such as producing monthly/quarterly management accounts).

FIGURE 3: INVESTMENT READINESS LEVELS OF CREATIVE INDUSTRIES ORGANISATIONS SURVEYED



The factors we use to assess an organisation's investment readiness reflect different aspects of its ability to secure and utilise external growth finance. For example, some factors (such as having written a business plan, or having sought professional financial advice) relate to professionalisation of activities; others, such as innovation and exporting, are associated with growth; while others still, including having a long-term plan for growth, relate to an organisation's desire to grow.

In practice, many of these factors tend to coincide, with two notable exceptions: whether an organisation has experienced sales growth within the past year and whether it exports. This is perhaps unsurprising, given that sales growth within any specific period can be volatile (see earlier discussion), and exporting may be influenced by factors unrelated to other dimensions of investment readiness.

Interestingly, while most of the investment readiness factors are associated with organisations having previously applied for finance, only some are associated with having been successful in their application. A case in point is that those who produce regular management accounts are 20% more likely to have been successful in receiving funding following application, indicating the value of such reporting to funders and investors. This is particularly relevant as our analysis finds that organisations with CEOs from mixed heritage and/or ethnic minority backgrounds are 11% less likely to produce these regular management accounts.

Which organisations are investment-ready?

Although investment-ready organisations are found in all creative sub-sectors and all regions or nations, our survey data points to several clear patterns.

Organisations classified as having high investment readiness, for example, are more likely to produce creative content, or to produce live performances and events, all things being equal. Organisations in Fashion Design are also more likely to be high investment-ready.

Overall, while investment-ready organisations are statistically more likely to be High-Growth Firms (at least insofar as they have grown their sales by 20% each year in three consecutive years), not *all* have experienced rapid growth in the past year. Having the configuration to grow, it seems, is a better predictor of growth than a single year's growth performance.

Investment-ready organisations tend to have clear plans in terms of their financial needs: they are more likely to seek equity or loan finance, but less likely to seek crowdfunding,

working capital or grants from creative specialist organisations. This is consistent with the view that investment-ready organisations are more likely to seek larger scale financial products, and indeed, according to our survey data, the mean average value for new capital anticipated by investment-ready firms is £1.3 million, compared with £511,000 for other firms.

These demands also mean that investment-ready organisations may find themselves looking outside the UK to meet their financial needs. In our sample, 25% of respondents report having acquired at least some finance from overseas; for high investment-ready firms that figure is 35%. We ask our respondents the reasons why they have sought funding from overseas. High investment-ready firms give three main reasons: because they haven't been able to get the funding they need in the UK (45% of high investment-readiness firms); because overseas finance is necessary to expand overseas (44%); and because overseas investors provide better expertise (44%).

By contrast, the organisations that are less likely to be investment ready are those with self-reported gaps in business skills, financial literacy and access to tailored support. They also tend to be smaller (and particularly firms with fewer than five employees).

One substantial challenge relates to organisations' ability and desire to seek finance, particularly equity, that can allow them to grow rapidly. Here, investment readiness may be a particular problem: for instance, as many as 22% of respondents that intend to seek equity in the future do not meet our categorisation of high investment readiness, suggesting that these organisations would struggle to access capital if they did go on to apply.

At the same time, only 55% of organisations with high investment readiness intend to seek equity, even though they should be the strongest candidates for this type of funding.

Our analysis highlights that these high investment-ready organisations face important challenges, particularly smaller organisations with gaps in financial literacy, and/or lack of access to tailored support. More generally, while investment readiness is a strong predictor of a company's ambition and capacity for growth, our survey data suggest that many creative firms intending to seek equity finance need further support to do so and currently lack the preparation required to succeed.

One thing that would help...

"Growth and scaling support, and access to funds which are actually useful to the creative sector.

"I had another business in products (cocktails). We were constantly given opportunities and access to money (and cash incentives with R&D tax credits). In the services sector - particularly creative agencies — none of this is realistically relevant to us and we are seen as less glamorous businesses, often deemed "easy" to run."

One thing that would help...

"A long-term mentor on hand to ask questions and guide me through the growth process, provide accountability and a sounding board."

04

Sources of Financial Market Failure in the Creative Industries

Market failures exist when a free market does not produce optimal returns collectively for market participants. In such cases, intervention from the government and/or public sector may be able to rectify these issues (van der Schans 2015). There are good reasons for believing there are market failures when it comes to finance in the creative industries (Fraser and Lomax 2011; creative industries Sector Deal 2018, Siepel et al 2024).

Identifying market failures can be challenging empirically, but one aim of our survey was to capture data that would allow us to better characterise at least three potential sources of market failure for the creative industries, namely incomplete Information; information asymmetry; and discouragement.[7]

While our analysis is indicative, it is nonetheless strongly consistent with the presence of these three market failures.

Incomplete Information

Incomplete information exists where lenders and/or firms have incomplete information about each other, resulting in firms failing to access the capital they require. From firms' perspective, one element of incomplete information relates to awareness of what financial products are available, and where and how they can access them. Our survey asks respondents if they feel they know where to go for information on finance [8]: 27% of respondents report that they do not. They are also asked if they have enough financial knowledge to understand the best types of finance for their business. 30% of organisations feel they do not have sufficient knowledge. As many as 20% of respondents face both challenges – unsure as to where to go for financial information, and lacking sufficient financial knowledge.

It is notable that IP-backed firms are significantly less likely to report having these problems (14% of such survey respondents are less likely to lack knowledge about finance and 11% less likely to not know where to seek information about finance). Among IP-backed firms, video games businesses perform particularly well on these measures, suggesting they are better equipped to navigate financial options when

7 As van der Schans (2015) notes in his discussion of the UK Government's approach to market failures, there are several other forms of market failure in the SME finance market, including market power, externalities, coordination failure and regulatory failure, in addition to imperfect information.

8 The survey asks the respondents whether they agree with the statement "We know where to go for information on finance" and "We feel that we have enough financial knowledge to understand the best types of finance available for our business". We use the former as a proxy for lack of information and the latter to capture lack of financial knowledge.

considered alongside other creative industries sub-sectors.

The possibility of a knowledge and skills gap within organisations is also evidenced by the finding that 41% of respondents say they do not have the financial and management skills to grow into a large organisation[9]. These views are most prevalent among the smallest businesses, where half of firms with fewer than five employees feel they lack financial skills to grow. But a sizeable 27% of respondents with 11-50 employees and 22% of respondents with 51-100 employees also have these views, indicating that knowledge and skills gaps are barriers for larger organisations as well.

The belief that they lack management and financial skills to grow is less common in creative content and software businesses but is more frequently cited by creative businesses that run events and experiences. This belief can also be multifaceted: for instance, businesses in Creator Economy sub-sector with an interest in growth are 23% more likely to view lack of financial and management skills as a growth barrier, while those firms without a desire for growth are unlikely to report this being a factor.

Considering these findings together, over half (53%) of organisations we survey, including 31% of organisations with 11-250 employees, feel that either they do not know where to seek information on finance, they lack knowledge about finance, or that they lack the financial knowledge and skills to grow into a large organisation.

Among organisations with 11-250 employees reporting these barriers, there are no systematic trends across organisation type, sub-sector or region, indicating that these issues are present in all creative sub-sectors and in all parts of the UK. An exception to this finding is that these organisations with incomplete information (that is, they either lack information on finance, lack knowledge about finance, or lack financial knowledge to grow) are 18% more likely than other firms of the same size to need funding, while the amount of funding they report that they require is significantly lower than firms that do not face these information barriers. This raises – though does not prove - the possibility that a lack of financial knowledge may be leading some creative industries organisations to underestimate the extent of their financial needs.

Information Asymmetries

Another source of market failure is information asymmetry, which arises when one party has more information than another, increasing the risk of moral hazard and adverse selection.[10] In the context of finance, an organisation invariably knows more about its true prospects than a lender or external finance provider. This imbalance can lead finance providers to charge higher costs of capital, require collateral (in the case of debt finance), or refuse lending altogether. Information asymmetries are a particularly salient issue in the creative industries because, in general, investments are more likely to be in intangible assets where the risks are higher (Caves, 2000) and outside investors especially unsighted. These intangible assets such as intellectual property may be more difficult to value for the same reason, e.g., limiting their use as collateral with prospective lenders (Fraser and Lomax, 2011).

These potential market failures are related to concerns identified in the 2017 Creative Industries Council study that funders do not understand creative firms' business models

9 The question asks respondents whether they agree with the statement "We don't currently have the management and financial skills to grow into a big business/operation."

10 Moral hazard, applied to SME finance, refers to possibility that a company, having received external finance, will engage in riskier behaviour than it would have otherwise, knowing that it will not have to bear the full costs of failure. Adverse selection, known also as the 'market for lemons', refers to cases where lenders cannot differentiate between 'good' borrowers (who are likely to repay a loan) and 'bad' borrowers (who are unlikely to repay a loan), potentially leading to a situation where only 'bad' borrowers seek finance as they know they will not need to repay the loan.

and perceive firms to be riskier than they really are. Our survey reinforces these concerns, with over half (51%) of firms reporting that they believe funders view them as too risky. Moreover, this belief appears not to be limited to small organisations or organisations who are less comfortable with their financial knowledge. Rather, 35% of organisations with 11-250 employees and 49% of organisations that are comfortable with their financial knowledge also hold this view.

Further support for this interpretation comes from organisations who applied for finance and were rejected. Of the 88 respondents to our survey who were rejected for loans, 40% say they were told by the lender that their business was too risky, while 22% were told that the funder did not understand the business. For the 84 organisations in our sample who had sought and were rejected by equity funders, 36% reported being rejected because the business was perceived to be too risky, and 44% reported rejection because the funder did not understand the business.

One thing that would help...

“A regional screen agency to suppport our creative sector in the North West. Having worked with a Northern Ireland producer and NI Screen inthe last six months I have seen the importance of regional screen agencies in developing the whole ecosystem of their creative sectors.”

One thing that would help...

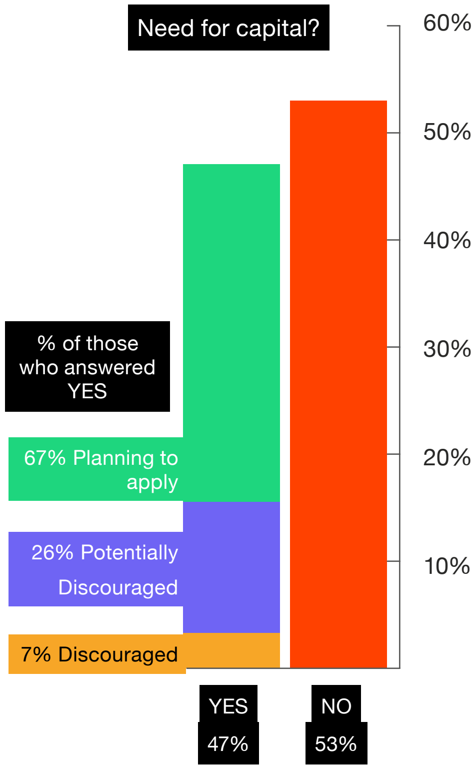
“Accessible funding where you speak to a skilled and knowledgable person that fully understands the sector we are working in.”

Discouragement

A third type of market failure arises relating to the phenomenon of discouragement, which occurs when firms that could in principle access capital choose not to apply altogether because they feel they are unlikely to be successful (Kon and Storey 2004). There is longstanding evidence (Fraser and Lomax 2011), including in secondary analysis of the 2017 Creative Industries Council data (see discussion in Siepel et al 2024), that discouragement is a problem in the creative industries, and reinforced by common perceptions amongst firms that funders do not understand their financial and business models.

In this report, we explore discouragement by using a model adapted from the academic literature (Cowling et al 2016) that involves two stages: first, in considering whether companies have a need for capital or not, and second, if they do, whether they decide to apply. Figure 4 presents the figures from our survey.

FIGURE 4 SCHEMATIC FOR IDENTIFYING DISCOURAGED FINANCE SEEKERS



["As you look forward to the next 12 months, do you expect the business /organisation to need any extra external funding (whether you plan to apply for it or not)?; Do you think you will actually apply for external funding to meet the finance need?]"

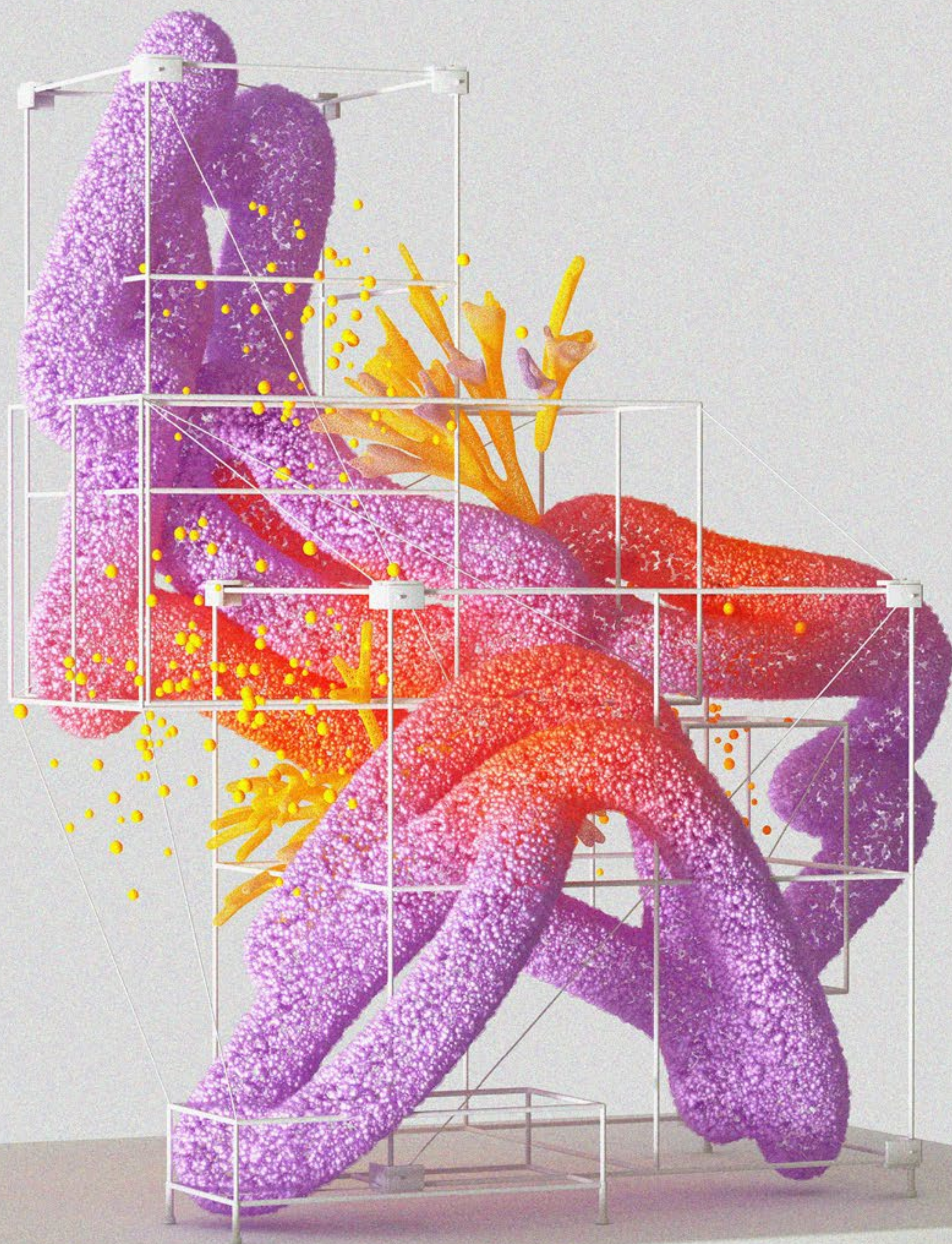
In our sample, discouraged organisations make up 7% of the firms that have a need for capital. While the sample is not large enough to make statistically robust claims, it is notable that this group includes those that have experienced high growth, have engaged in innovation and who have previously received R&D tax credits, suggesting that discouragement is not only associated with the smallest and least developed firms.

The 26% of organisations that have a need for capital but are unsure whether they will seek finance to meet this need, generally report a desire to grow, but lack a long-term plan for growth. These potentially discouraged organisations are more likely both to lack financial knowledge and to not know where to get information about finance.

They are therefore less likely to be investment-ready, and among the criteria for investment readiness, are significantly less likely to have access to a business mentor. We identify few regional or sub-sectoral trends among businesses that are potentially discouraged but do find that organisations with female CEOs are 8% more likely to be potentially discouraged. Female CEOs from mixed heritage and/or ethnic minorities are even more likely (12%) to be discouraged, indicating particular disadvantages for these leaders and clear opportunities for strengthening support for these CEOs to access the finance they require.

One thing that would help...

“An understanding of social value as well as financial return. I’ve been advised not to pursue financial investment as creative businesses that are charitable or social enterprises are not investible. I don’t think this is true.”



05

Mismatch Between Finance Options and Sector Needs

It is commonplace to hear organisations in the creative industries talk of there being a mismatch between their financial needs and the financial options made available to them by lenders and financial institutions (see Di Novo et al 2022, and Siepel et al 2024 for a discussion of demand for alternative models of finance).

We find that this mismatch is a widespread concern for the creative industries organisations we survey too. As many as 41% of survey respondents feel that there are no financial products available tailored to their particular financial needs. This does not seem to be simply a matter of lacking financial skills or of being too small: even 37% of the organisations surveyed who are comfortable with their knowledge of finance and 33% of firms with 11-250 employees report feeling this way. The perception that the available financial products are not fit for purpose is heard across all creative sub-sectors, with the single biggest explanatory factor for this perception being whether a company holds intellectual property: companies holding IP are 8% more likely to report there not being sufficient financial options, all things being equal.

One thing that would help...

"A flexible low rate business loan (much like the Bounce Back Loan) which allows for repayment over a longer term, and re-financing options in the duration (to allow early repayment or additional borrowing based on company performance)."

One thing that would help...

"Reliable, low cost, high value (£250K-£1M) non-dilutive funding to help us reach operating breakeven and beyond."

“We’re a mobile games company. The main variable cost that will constrain our growth will be our marketing/ user acquisition budget. There are commercial providers for this, though primarily based in the US. It would be great to have local alternatives, especially if they were grant based or non/low-profit making providers. Every pound or equity percent matters in our next phase.”

One thing that would help...

“A real understanding of - and support for - SMEs and entrepeneurs in the UK across government and the banking sector.”

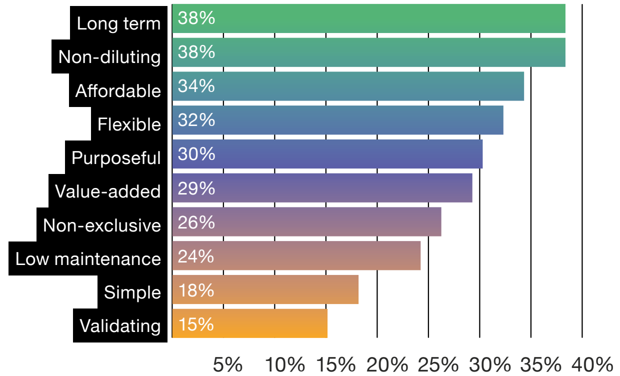
“Directors of SMEs not being expected to take all the risk and supply all the funding to grow a business. The cost of finance in the UK is ludicrous. I should point out that we sold our home, borrowed personally and took little salary to fund our business.”

Desired characteristics of finance

The survey asks respondents about which characteristics of finance they particularly value. This is helpful in that it may point to where there may be gaps in the financial instruments currently open to the creative industries. Figure 5 shows that the characteristics of finance most desired across the overall sample are long-term and non-diluting finance.

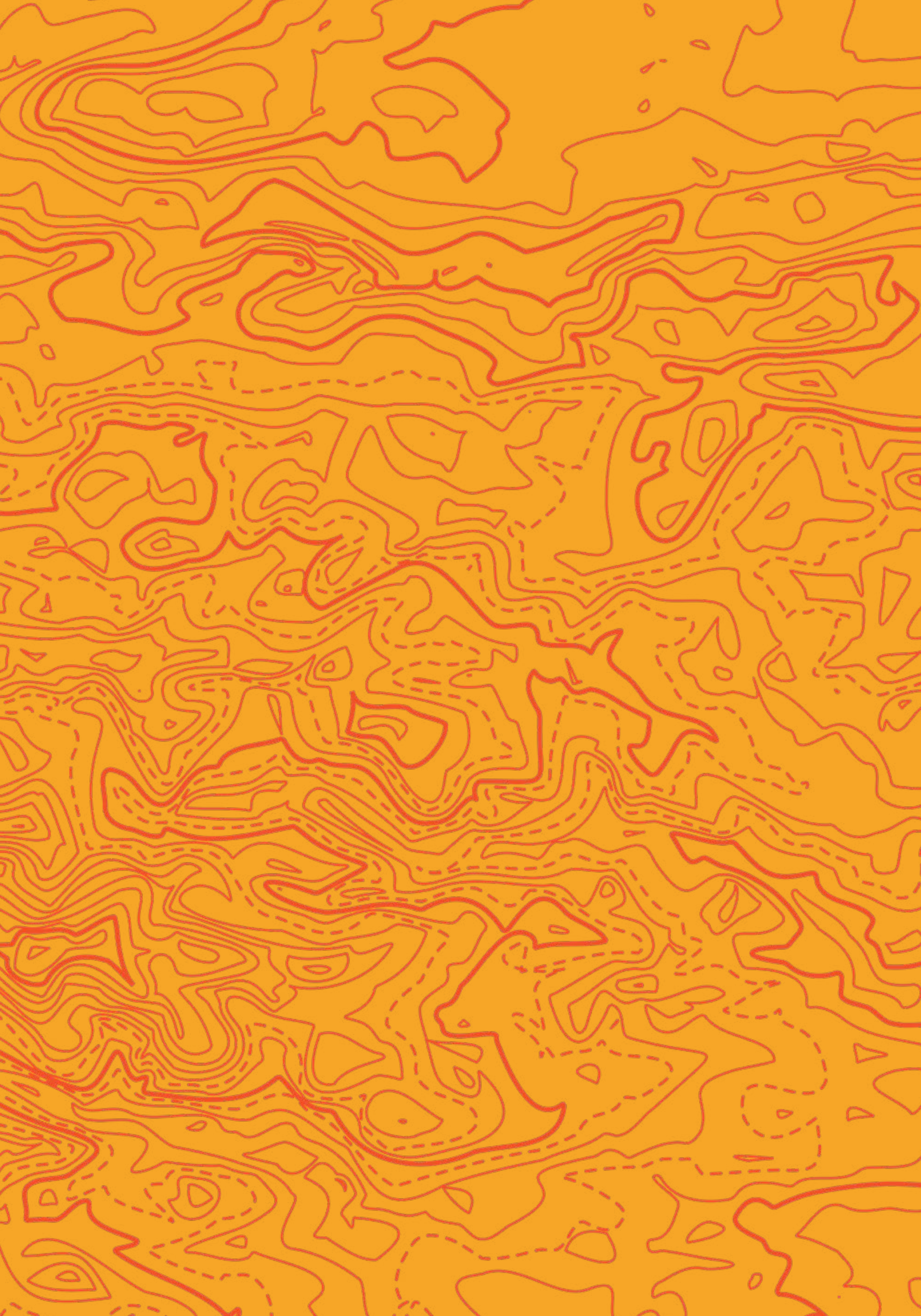
FIGURE 5 DESIRED CHARACTERISTICS OF FINANCE

[“Here are some possible features that might describe an ideal form of external funding / solution. Please read through and then pick up to 3 that would be most appealing to you”]



This is especially the case for organisations with high levels of investment-readiness. Interestingly, organisations holding IP are significantly more likely to prioritise types of finance that validate their value (that is, finance that signals quality to investors). This underlines the importance to such firms of financial instruments specifically designed to recognise the true value of their IP assets.

Companies led by female CEOs are also more likely to identify validating finance as important, consistent with them having to work harder than their male counterparts to access finance. Companies with CEOs of mixed heritage and/or ethnic minorities are 10% more likely to seek value-added forms of finance (that is, finance where the funder provides additional support and advice alongside capital) and less likely to desire non-diluting (not watering down the founder’s share of ownership) and low maintenance (not requiring extensive oversight and engagement with funders) forms of finance.



06

Geographical Disparities in Access to Finance

At the regional level, it is well known that creative industries activity is disproportionately concentrated in London and the South East of England (Mateos-Garcia and Bakhshi 2016). These regional inequalities are reflected in financial investment patterns too, with for example 63% of all venture capital (VC) and angel investments in the creative industries occurring in these two regions (Siepel et al 2024). This poses an obvious challenge for creative industries businesses located outside these areas, which programmes like the UK Government's DCMS's Creative Scale Up and Create Growth aim to address by improving investment readiness for businesses in targeted geographical areas outside of London.

It is perhaps surprising therefore that econometric analysis of our survey data, which controls for nation and region, reveals few significant regional differences. This differs from previous analysis of Creative Radar data (see Siepel et al 2023), which did identify some regional differences between businesses in the North of England in particular and the rest of the UK. In our survey data, we find that in terms of geography, all things being equal the most important explanatory factor relating to access to finance is whether an area is in a creative cluster or micro-cluster, rather than the region or nation in which the organisation is located.

One notable exception is, other things being equal, the lower prevalence of high investment readiness in our sample in Scotland, Wales, the West Midlands and the North-West of England. As both the Scottish Government and Welsh Government have had dedicated programmes supporting investment readiness (CultureXcelerator in Scotland and several sector-targeted programmes through Creative Wales in Wales as two examples) and that the West Midlands and Manchester have been supported through the UK Government DCMS's Creative Scale Up and Create Growth programmes, this suggests that efforts to boost investment readiness in these areas would benefit from further support.

In other areas where the DCMS Create Growth programme is active, including West Yorkshire; the North East; Hull and East Yorkshire; Hertfordshire; Nottingham; Norfolk, Suffolk and Cambridgeshire; North Yorkshire, and parts of the South East, we do not have enough data to assess differences in investment readiness.

One thing that would help...

"Financial understanding and planning. By this, I mean actually knowing what funding is available, whether it's appropriate and how to access it. Often I seem to find funding opportunities when they only have about three days until they close applications, by which point it's too late."

Clusters and Microclusters

By now a large body of evidence has established that creative industries firms tend to co-locate in clusters and micro-clusters. Building on Nesta's mapping (Mateos-Garcia and Bakhshi 2016), the DCMS has identified 55 creative clusters across the UK at the Travel-to-Work-Area level [11] (DCMS 2022). These creative clusters make up the vast amount of creative industries activity in nearly all regions and nations of the UK (Siepel et al 2023). But while clusters are invariably identified at the city level, previous research by the Creative PEC has also highlighted the contribution of creative micro-clusters – that is, groupings of fifty or more creative organisations at the street, neighbourhood or town rather than at the city level. Siepel et al (2023) found that companies in creative micro-clusters that were located outside of creative clusters were more likely to grow but were also more likely to view access to finance as a growth barrier.

Our survey data suggests that while there is little significant variation at the level of region and nation, creative industries organisations' experience of finance varies widely depending on if they are based in clusters or micro-clusters. Specifically, we find that, other things being equal, organisations in creative clusters are 15% more likely to apply for finance, 14% less likely to report having a lack of knowledge about finance, 17% less likely to be discouraged and 45% less likely to feel that they are presented with a lack of acess to suitable financial products. These findings suggest that the well-established view that creative clusters are hubs for innovation (Chapain et al 2009), knowledge spillovers (Bakhshi, Lee and Mateos-Garcia 2014) and deep labour markets (Bakhshi and Dorsett 2023) extends to finance too.

While being in a creative cluster confers financial benefits on firms, these benefits are lacking for firms in micro-clusters, particularly those not located in creative clusters [12]. In particular, we find that while organisations in creative micro-clusters outside creative clusters are 19% more likely than the general population of creative industries organisations to say that external finance is essential for their business, all things being equal, they are nearly twice as likely to identify access to finance as a barrier to growth. Potentially as a consequence, they are also 25% more likely to report being forced to inject their own funds into their business.

11 Travel-to-Work-Areas refer to areas, typically around cities or towns, within which people will both live and commute to work.

12 Micro-clusters may be located anywhere in the UK. To give a concrete example, micro-clusters inside creative clusters refer to creative hotspots in a city or town that already has high levels of creative industries activity. For example, Manchester is a creative cluster, and the Northern Quarter area of Manchester is one micro-cluster among many (others, for instance, include around Salford Quays area). An example of a micro-cluster outside creative clusters would be the micro clusters in Blackburn, which is outside of Manchester.

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you
Boots
pharmacy
beauty
GAP

07 Equal Access to Capital

There is now an established body of evidence suggesting that the demographic characteristics of firm CEOs and owners, including gender and/or ethnicity, may influence both perceptions of capital and firms' ability to access capital (see Asadieu et al 2012 on gender and ethnicity, Wilson et al 2007, Liu and Cowling 2023 on gender and Smallbone et al 2003 and Bates and Robb 2017 on ethnicity). For the creative industries specifically, despite a large literature identifying equality, diversity and inclusion (EDI) issues in the workforce (O'Brien and Oakley 2015; O'Brien et al 2020; Carey et al 2023; Carey et al 2024), there has been less published research on EDI and access to finance.

Our survey data includes information on CEO/owner demographics and reveals some concerning inequalities. This includes that organisations with female CEOs are 10% more likely than creative industries organisations more generally to anticipate needing funding and 8% more likely to want to grow their business but are also 18% more likely to report not having sufficient knowledge about their financial options. Moreover, they are 22% more likely to feel that they would be unlikely to access all the finance their business requires[13].

This gap in available finance is demonstrated by the substantial gap in uses of finance between female-run and non-female-run organisations: the average female-run organisation in our sample uses £227,000 of finance, compared with £591,000 for non-female-run organisations, a difference that is statistically robust to the inclusion of controls. When respondents are asked to estimate their anticipated finance needs in the future, those of female-run organisations are £608,000 lower, all things being equal. Even though female-run organisations are likely to anticipate needing more modest amounts of capital, female CEOs are 23% more likely to feel unlikely to get the finance they need.

These findings are mirrored for organisations with mixed heritage and/or ethnic minority CEOs, who are 9% more likely to want to grow their business and 21% more likely to view external finance as essential, all things being equal. However, they are 10% more likely to have been rejected for finance following an application. Perhaps relatedly, they are also 12% more likely to view finance as a barrier to growth and 21% more likely to have injected their own funds into their business. Previous evidence (Di Novo et al 2022) has suggested that creative businesses that struggle to access finance may inject personal capital to keep the business going, but our survey

13 This question asks respondents whether they agree with the statement "If we wanted to, we would be able to access all the external funding we wanted (in terms of amounts and sources)"

suggests this is particularly the case for mixed heritage and/or ethnic minority-led organisations.

The challenges that we identify for female- and for mixed heritage and/or ethnic minority-led organisations have some distinctive features. For example, unlike female-led organisations, mixed heritage and/or ethnic minority-led organisations anticipate similar needs for finance to the wider creative industries population and use similar amounts of capital.

While these results present a stark picture of the challenges facing female-led and mixed heritage and/or ethnic minority-led organisations, our survey data does not suggest that they are less likely to be any less investment ready. The median female- and mixed heritage and/or ethnic minority-led organisation meets six of the fifteen investment readiness criteria, the same as the median organisation in the entire sample. And the share of high investment-ready organisations amongst female- and mixed heritage and/or ethnic minority-led firms is statistically indistinguishable from the overall population.

One thing that would help...

"Being taken seriously as female leaders here in the South West. We are repeatedly rejected from funders despite having extensive experience, clear, ambitious and deliverable plans and match funding from various sources."

"We have been stunted in our growth while watching our less experienced male peers launch ahead. With no accountability from funders who we have questioned."

WHAT
NEXT?

08

Policy Recommendations and Conclusion

Conclusion

The creative industries are a growth engine in the UK economy, contributing to innovation, exports and jobs, and powering local economies across all nations and regions. However, the full growth potential of the sector is being stymied by market failures, relating to both the supply of, and demand for, finance.

This report demonstrates that creative industries firms are more likely than firms in other sectors to report having ambitions for growth. But these ambitions are hampered by systematic barriers which exist within the current investment and policy landscape.

Businesses in the UK's creative micro-clusters and those with female and mixed heritage or ethnic minority leaders have growth appetite, but our survey data suggests that there is a long way to go to ensure that there is sufficient support to realise their full potential.

A key problem is that existing finance solutions are simply not fit-for-purpose, and do not meet the unique needs of the sector. Broadly, the creative industries rely heavily on IP, have a disproportionate risk profile in relation to other growth sectors, and distinctive business demographic and growth patterns – including a high proportion of micro businesses.

Historically, public investment has focused heavily on technology and infrastructure, and has not prioritised the creative sector's need for investment in content, ideas and talent alongside new technologies.

We find that up to half of creative industries firms face some type of barrier due to lack of financial knowledge or information, and many firms with a desire to grow may not be sufficiently investment-ready to take advantage of external finance.

There is also evidence that organisations struggle with the perception that funders view them as too risky, with a small proportion discouraged, dissuaded from seeking finance by the perception that their applications will be unsuccessful.

There is, therefore, significant room for policymakers to intervene constructively to drive growth, by responding to address systemic barriers.

Recommendations

Addressing the investment gap requires a reimagined investment framework that aligns more closely with the sector's needs, leveraging partnerships between public and private capital, targeted EDI policies, and place-based investment strategies.

Such a framework would help unleash the sector's full economic potential for the UK economy while advancing inclusion and regional balance.

To help achieve the creative industries' growth potential, we therefore make the following policy recommendations.

Addressing Finance and Growth

1. INCREASE PUBLIC INVESTMENT IN THE CREATIVE INDUSTRIES, TO FURTHER CATALYSE PRIVATE SECTOR INVESTMENT.

The creative industries require a tailored investment approach which responds to the needs of the sector: particularly in relation to IP, innovation and content creation. As part of a broader strategy for growth, a diverse range of public funding and finance options should be directed into the sector, which will (as we have seen evidenced through programmes such as InvestEU) stimulate further private investment.

A revised investment framework should expand the number and range of finance options, improving coordination and involve collaboration across key UK departments and organisations, including – but not limited to – national arts councils, UK Research & Innovation and the British Business Bank (BBB). By leveraging ongoing partnerships with sector stakeholders, this approach would enhance public value and support sustainable growth.

This includes incentivising new and diverse fund managers and fostering partnerships with those who have sector-specific expertise, with the BBB helping to bridge information gaps into creative enterprises and encourage new specialist fund managers.

Addressing Investment Readiness

2. STRENGTHEN TAILORED BUSINESS SUPPORT FOR THE CREATIVE SECTOR.

First established in 2023, the UK Government's Department for Culture, Media & Sport (DCMS) Create Growth Programme (CGP) is one example of a successful investment-readiness programme for the creative sector.

Going forward, programmes such as this should evolve and scale to address information gaps that hinder creative businesses from effectively measuring and showcasing their value and investment potential. They should also support investors to develop a nuanced understanding of the sector's financial potential – whilst simultaneously building the appetite and capacity of business angels and investors.

The next phase of CGP, from 2026 onwards, should include regional networks of mentors, investment-readiness advisors and partnerships with Combined Authorities to provide targeted guidance, training and resources. When combined with complementary capital investment initiatives which recognises the distinctive features of the creative industries, these efforts would better equip creative organisations to secure the investment they need to scale sustainably.

Addressing Market Failures

3. DEVELOP TARGETED FINANCIAL PRODUCTS FOR THE CREATIVE SECTOR.

Financial institutions should be encouraged to design and pilot flexible financial products which suit the needs of early-stage creative enterprises. This could include revenue-contingent loads, where repayment is linked to borrower revenue and developing equity-hybrid models that provide structured growth support.

4. ENHANCE SUPPORT FOR FINANCIAL LITERACY AND ADVISORY SERVICES IN THE CREATIVE INDUSTRIES.

The creative sector needs targeted financial literacy resources and advisory support, through online platforms and regional hubs, advisory and by strengthening existing capacity building initiatives (such as the UK Government's DCMS CGP).

Financial institutions should play a key role in the development and deployment of financial literacy and advisory services, with a dedicated focus on tailored support for underrepresented groups and underserved regions, including bespoke scale-up programmes, capacity building initiatives, or access to dedicated funds.

Addressing the Mismatch Between Finance Options and Sector Needs

5. DEVELOP AND BUILD A CLEAR EVIDENCE BASE, WHICH DEMONSTRATES THE NATURE OF CAPITAL FLOWS.

The creative industries need a capital observatory function whereby data on capital moving into and across sub-sectors within the creative industries, including private capital flows and returns, is compiled and published.

Investors must also have access to data on financing needs, growth opportunities and risk-adjusted return profiles from creative organisations at sub-sectoral and regional levels, to support strategic capital allocation.

The creation of this function involves tracking not only where capital is being deployed, but also benchmarked performance against adjacent sectors and data on typical holding periods, valuation trends and liquidity events.

Such an observatory function would go some way to strengthen investor confidence, address misperceptions and rightfully position the UK's creative industries as a key focus for lenders, equity investors, institutional investors and innovative forms of finance such as social impact investment.

Addressing Access to Finance in Creative Clusters

6. EXTEND THE REACH OF BESPOKE ADVISORY SERVICES - INCLUDING FINANCIAL, NETWORKING AND MENTORSHIP SUPPORT - TO ENSURE PLACE-BASED CREATIVE HUBS CAN BETTER SERVE MICRO-CLUSTERS AND UNDERREPRESENTED REGIONS AND GROUPS .

Place-based creative hubs play a vital role in driving local economic growth - particularly for smaller creative clusters and regions outside of London. Encouraging neighbouring clusters and micro-clusters to maximise their potential, through pan-regional frameworks, such as One Creative North, should be prioritised, alongside increased devolved investment to enable Community Development Financial Institutions (CDFI) and specialist sector investors to intervene at the grassroots, realise economies of scale and attract more investors.

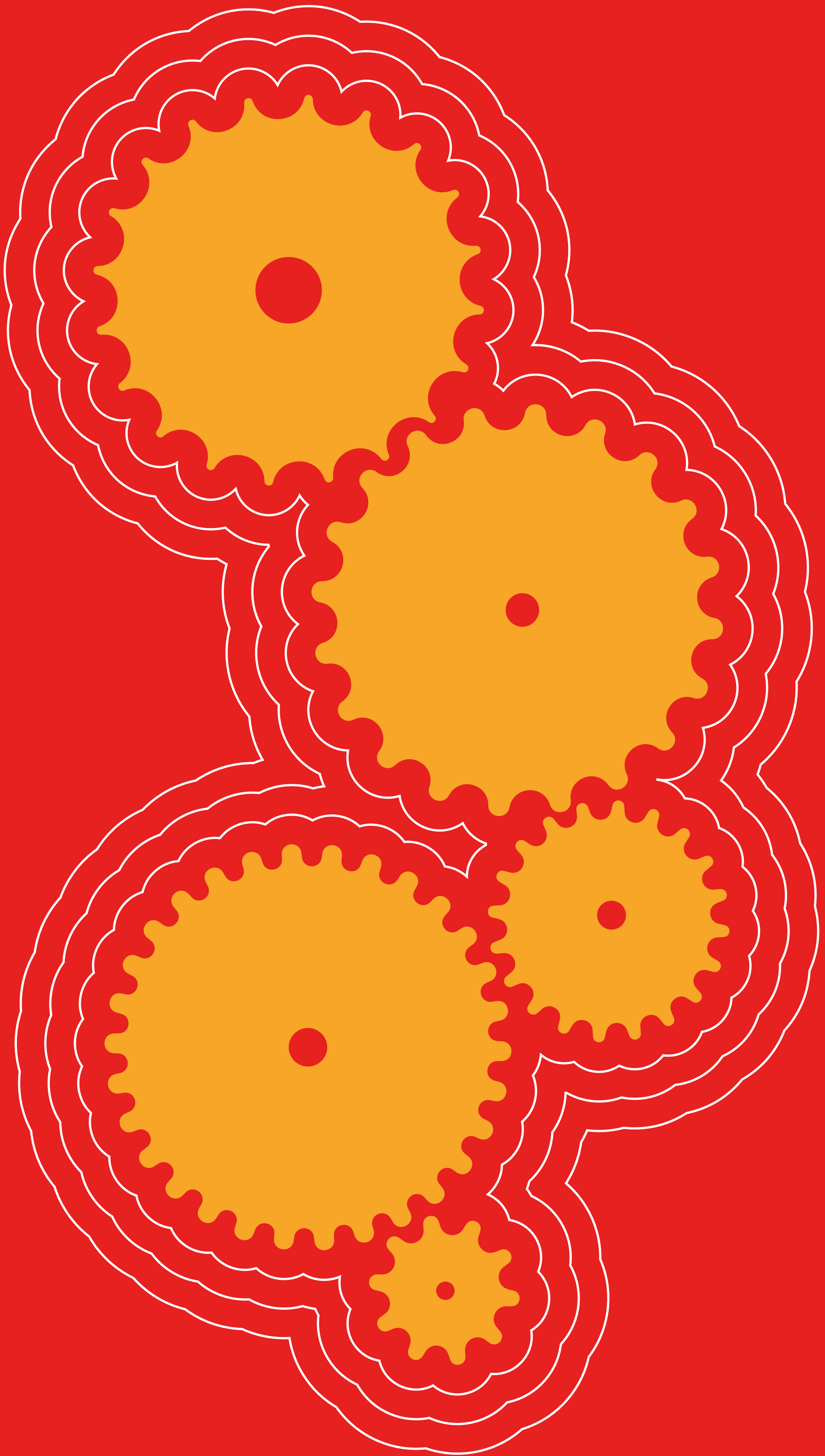
This strategy would strengthen creative micro-clusters by extending the reach of bespoke advisory services and targeted grants or loans for creative organisations. It would also facilitate structured networking and mentorship, helping to address the issues this report highlights around financial literacy and resilience.

The DCMS's CGP and the AHRC's Creative Industries Clusters Programme are clear examples of the success of collective working through local and regional partnerships. Engaging local councils, regional authorities, industry bodies, universities and financial institutions in creating and funding these interventions would help to ensure that place-based investment supports local economic growth. This approach would build upon the insights from creative clusters, which in general score above the UK average when it comes to indicators of access to finance.

Addressing Equal Access to Capital

7. ENABLE UNDERREPRESENTED GROUPS AND UNDERSERVED REGIONS TO ACCESS DEDICATED FUNDS, SUPPLEMENTED BY TAILORED SCALE-UP PROGRAMMES AND CAPACITY-BUILDING INITIATIVES.

This report has highlighted real demographic and geographic disparities which exist in relation to accessing finance. New thinking is needed from the UK Government around inclusive investment, to ensure that the growth potential of businesses and projects led by diverse groups or based in underserved regions is unlocked. Where gaps to financing exist, public and private sector resources should be utilised.



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10 Appendix

Methodology

Our survey was commissioned by Creative UK, working in collaborative partnership with the Creative PEC, from BVA BDRC. BVA BDRC run the quarterly SME Finance Monitor study and previously carried out the 2017 Creative Industries Council survey of access to finance in creative industries. The survey instrument was designed in partnership between the Creative PEC, Creative UK and BDRC, including elements of the SME Finance Monitor questionnaire to enable comparisons, the 2017 Creative Industries Council (CIC) survey and other Creative PEC survey instruments, including Creative Radar (Siepel et al 2020) and the Createch R&D (Siepel et al 2023) surveys.

The sample frame for the survey was all businesses in the creative industries, defined as those within the fifteen sectors listed in footnote 1. Companies were asked to classify the sector to which they belonged. For those companies that chose 'Other' and provided a brief description, these were manually categorised by the Creative PEC team into other categories, leaving the 'Other creative industries' category mostly including businesses providing services to creative industries (such as consultants). These would not meet a strict definition of 'creative industries' per the DCMS SIC codes but work as part of the sector so were included.

The survey ran online from July – September 2024 with a promotional push from Creative UK, the Creative Industries Council and many trade bodies and other organisations through email and social media. These approaches to firms yielded 658 responses, or 73% of our final sample. Along with these, BDRC directly contacted creative businesses that had previously participated in the SME Finance Monitor survey and had agreed to be recontacted for further research. This 'boost' sample produced 238 responses, or 27% of the sample. Importantly, because the firms in the boost sample had previously participated in the SME Finance Monitor survey, it allowed us to make limited direct comparisons between creative firms in the SMEFM and the population of firms from SMEFM overall. It also allowed us to control for potential self-selection into the sample by companies in our econometric analysis.

Because the survey was online, it was not possible to stratify the sample to set targets, so our final sample was not necessarily representative of the UK population of creative industries firms. We therefore needed to weight the data. We used an iterative proportional fitting, or raking approach, whereby we iterated between adjusting the distribution to be representative by sector and region, which produces gradually narrowing weights until they are representative for both sector and region. We weighted the data based on population data on sector and

region, as provided by the ONS's Nomis labour market data platform.

All sectors were assigned to the appropriate SIC codes, except for Social Media Content Creation sub-sector (which does not have a SIC code) and the Other creative industries sub-sector (which includes businesses such as consultants who would not normally be in creative SICs but are active in the sector). The share of each of these sub-sectors was assumed to be consistent between the sample and the overall population for creative industries, at 5% for Social Media Content Creation and 4% for Other creative industries. This is not an unreasonable assumption – if we take the estimate that 40,000 people in the UK were employed working in YouTube content creation alone in 2022 (Oxford Economics 2022), this is more than the 26,500 employees estimated to be working in the UK video games sector in the 2023 Nomis data. The raw and weighted sectoral and regional distributions are presented in the appendix.

Our data on location was based on region, which was collected for all respondents. But respondents were also invited to provide their postcode, which allowed us to code for whether the business was in a creative cluster or micro-cluster. 50% of respondents provided a useable postcode, so our analysis of clusters and micro-clusters is based on that subset of firms.

Econometric analysis

All results presented in the text were robust to econometric analysis, unless otherwise stated. The core econometric strategy was to assess the relationship between an independent variable and the dependent variable, usings a broad range of controls. Our standard controls consisted of binary variables for employment, creative sector, UK nation or English region, business model, and sample source. For business models we had asked respondents whether they generated income from sources including content creation, software, services, events and experiences, sales of physical items, or other sources. Using these controls in addition to the sector dummies allowed us to capture the variety of business models within creative sectors. We controlled for sample source as this allowed us to capture potential selection biases due to companies actively choosing to participate in the survey in response to social media promotion. Because some companies were included in the sample because they had previously participated in the SME Finance Monitor survey, controlling for these allowed us to address potential selection biases. In some cases, particularly when sample size was smaller (for instance when the analysis concerned a subset of the overall sample) a simplified model was used, considering only business model and a simplified group of regions (Scotland, Wales and Northern Ireland; the North of England; the Midlands; London; and the South of England).

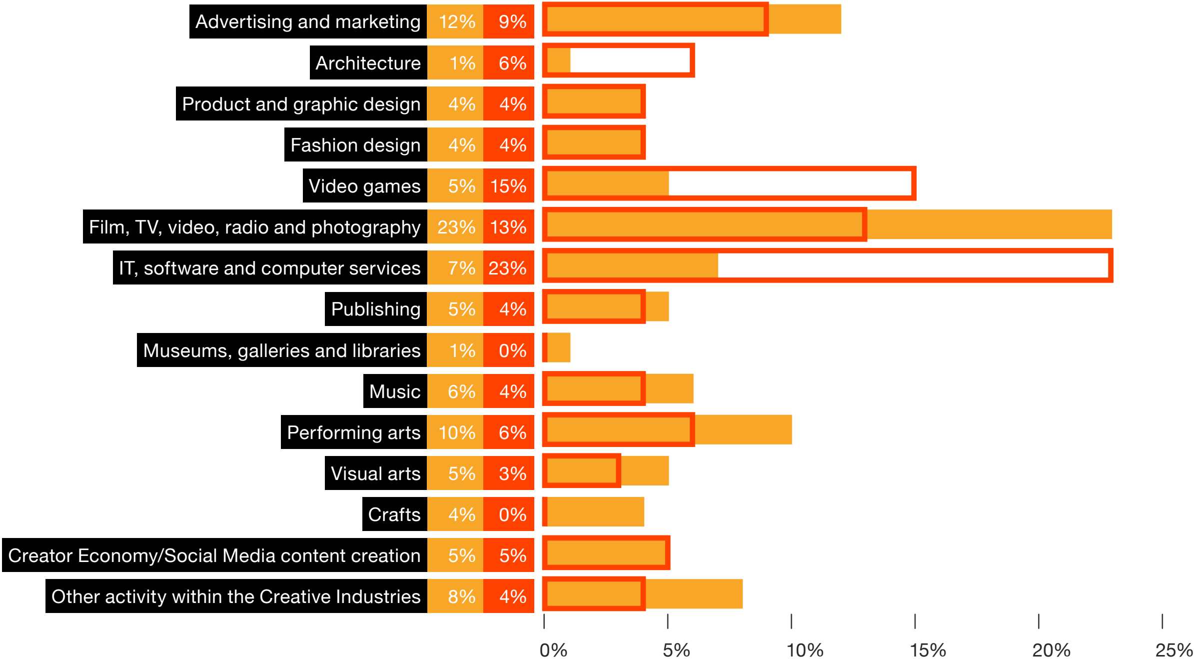
The models used for the econometric analysis varied based on the variables and questions being used. Probit models, featuring the controls discussed above, were used for binary variables. For these variables we report marginal effects from these models. We used standard OLS regressions for continuous variables. For questions where we were testing for agreement with a statement, our survey instrument included a five-point Likert scale had been used (from 1 = strongly disagree to 5 = strongly agree). For some of these cases we used ordinal probit models.

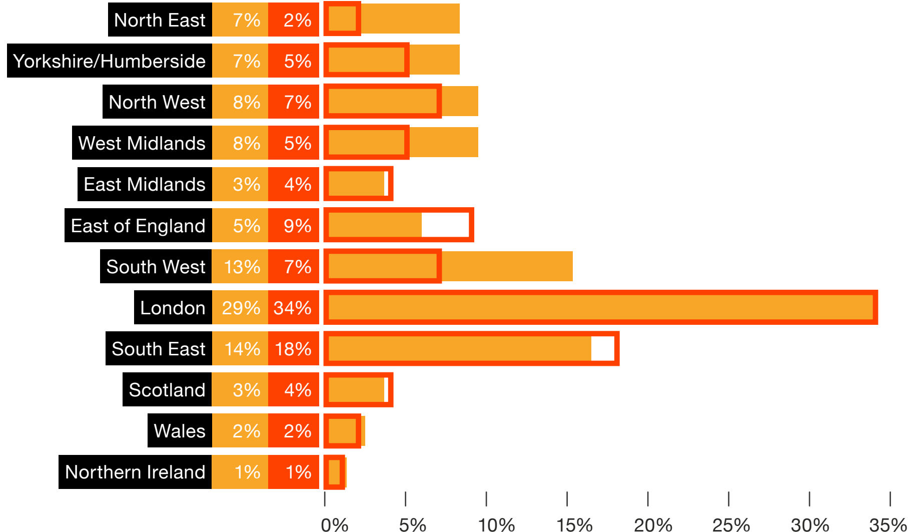
For some the analysis, particularly relating to the success of applications for finance or for discouragement, there are selection effects in play, so for these we used a Heckman style selection model, consisting of using a model to capture a selection coefficient that was then included in the final model.

Full results are available upon request made to the authors.

Sample details

Share of respondents by sector, unweighted and weighted





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