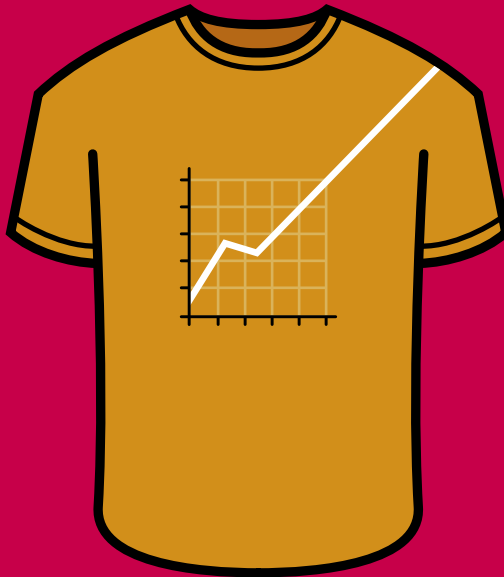


7

Counting Your Money

- This chapter emphasises the importance of understanding and monitoring your enterprise's financial health by looking at financial measures from three different perspectives.
- It also covers raising funds and the importance of generating future income streams both for investors and your own long-term financial security.



This financial section applies to not-for-profit organisations as well as commercial businesses. In fact in my own experience it sometimes requires more financial acumen to run a social enterprise, balancing creative or social ideals with economic pressures to achieve the required financial outcome.

When I ask businesses about their weaknesses, usually one of the first answers I receive is “we don’t have enough money!” Clearly, a critical lack of cash is a problem for any business or social enterprise – new or established – and it can present barriers to thriving or even surviving.

The financial barriers are real – or sometimes imaginary. ‘Imaginary’ in the sense that people often *imagine* that to start a new business requires immediately having all the assets and trappings of a well-established enterprise: equipment, offices, vehicles etc, when very often it needs less than they think. The question is not so much: How much money would we like ideally? A better question is: How little do we need to make the enterprise feasible? (either a new business or an additional venture). Waiting for the day all the money arrives, from the bank, a funder, or the Lottery could mean it never happens. Success stories often start from meagre beginnings. Equipment can be hired or borrowed rather than bought new, vehicles rented, offices can be shared (or virtual) and professional services can be traded. Growth can be organic rather than a sudden step-change and managing on low overheads can be not only a useful discipline in the early days but also the basis of a sustainable long-term financial strategy.

Being clear about how much is needed – for capital expenditure and working capital – is essential. Minimising purchases of equipment reduces funds tied up in fixed assets and cash remains free to provide the life-blood of a



business ie working capital – the money pumping through the bank account to enable essential everyday payments to be made. If this working capital is insufficient, the business could collapse despite having profitable projects in the pipeline.

Three Ways to Count Money

The three ways of looking at the finances of any enterprise are through **three financial windows**, the Income and Expenditure Account, the Balance Sheet and the Cash Flow. Each of these can be reports of past activity or projections anticipating a future situation. Each tells its own story and helps to plan a successful future: the creative entrepreneur needs to understand and use all three.

The **Income and Expenditure Account**¹⁷ shows the profit made over a particular period, usually one year. (Even for not-for-profit organisations this is a crucial concept. The co-operative movement prefers the word 'surplus' and this term can be substituted throughout the rest of this chapter if required.)

The **Balance Sheet** shows the total value (net worth) of a business at a particular point in time. It's a 'snapshot' of the assets, liabilities and equity of the owners. The balance sheet indicates the financial strength and capabilities of a business.

The **Cash Flow Report** shows where cash came from and went to in the past. Crucially, a cash flow projection indicates when cash is likely to come and go in the future, on a monthly or weekly basis in the foreseeable future. A cash flow projection is a vital tool of financial management.

Financial accounts are the reports for legal and tax purposes and tend to be produced long after the event. In contrast, management accounts are for managers to use in real time. It is the information you need, when and how you need it, to enable you to keep an eye on what's happening and guide the business through good and bad times.



Three financial windows

“
turnover
is
sanity
but
profit
is
sanity
”



Cash Flow – or lack of it – is the quickest killer so the management of cash flow must be of most immediate concern in day-to-day management. As long as cash flow is healthy then rises or falls in profitability can be survived, though unprofitable activities will hit cash flow sooner or later.

It's vital to manage the cash flow but essential also to understand the profitability that creates cash. An effective business person knows the profitability of each project in the enterprise, not just their combined total.

Each project or department needs to make a contribution to the overheads of the organisation as well as cover its own direct costs. Or to put it another way, a proportion of core costs need to be allocated to each project or department.

The balance sheet shows the value of the business at specific points, past, present and future. This is public information for a limited company and gives outsiders a statement of the net worth of a company in terms of fixed assets (equipment and property), current assets (cash and bills receivable), and current liabilities (overdrafts and bills payable). It is against these assets that the company might want to borrow funds.

Many creative and cultural enterprises focus on sales (turnover) instead of profit. As they say, "turnover is vanity but profit is sanity". Even for social enterprises where profit is not the prime concern, losses can be fatal. Clearly, profit is derived from the difference between income and expenditure so the control of costs is essential too.

Controlling Costs

There are two kinds of costs to control. Firstly **variable costs** (the costs that will go up and down depending on the level of sales), because reducing variable costs will help make activities and projects more profitable.

Secondly controlling **fixed costs** (the costs you are committed to paying whether you're busy or not) will help avoid cash flow

problems and potential disaster during the leaner times. Low fixed costs also enable you to be less dependent on constantly high sales and so less desperate to bring in cash at any cost – for example having to do unprofitable projects for non-target customers – see **Mando Group**. Use your cash flow forecast to see how soon a cash crisis could occur if business hits a temporary downturn with different fixed cost scenarios. Being able to survive the bad times sometimes amounts to having a philosophy of keeping fixed costs as low as possible.

One of the biggest costs is staff time and so this needs to be monitored to get useful management information, control costs and increase profitability. Romanian branding company Grapefruit uses an automated system to record staff time spent on projects, good practice learnt in the USA by the company's Chief Creative Officer, Marius Ursache.

Raising Funds

Raising funds is essentially a job of persuading investors that they will get a return on their investment.

This applies whether it's a bank that needs to know how you will be able to repay the capital and interest, or a shareholder who needs to predict a return on investment from profits and dividends. A public funding agency will need to be assured of your long-term survival so as to maintain 'public benefit' in order to justify their investment from the public purse. (Financial viability may include match-funding from other sources or a degree of self-generated income.)

So whichever way you are looking for funds, the starting point is not the application form but the creation of a feasible business formula, in other words a sustainable 'business model', which will provide predictable financial results. It is essential to get the business formula right in the first place before writing it up into a business plan. **Mando Group** obtained a number of loans on the basis of its business plan, as did **JAB Design**.

Predictions involve risk and the degree of predictability depends on the investor's attitude to risk. Investors are often

risk-averse and will require a charge on your assets. Intangible assets such as intellectual property are notoriously difficult to use as security. Banks will insist that the risk is partly yours by taking guarantees based on your business assets or personal property, whereas venture capital firms will generally accept more risk but expect a greater payback in terms of a large slice of your business.

Keep
an
eye
on
the
profitability
and
cash
flow
dials

There are numerous schemes to provide start-up grants or loans for specific types of business in particular regions. They change so frequently that it is not worth being specific here. Seek financial advice from professionals, mentors, friends and support agencies to apply to loan guarantee schemes, to take advantage of tax breaks or to obtain partnership funding. It's worth noting that as well as collecting taxes, HM Revenue and Customs also provide extensive help and advice. Business support agencies will have up-to-date advice and their contact details can be found on the website (**see the Further Information section at the end of the book**).

It should be noted that there are always conditions attached to grants and loans and the application process can take time and possibly delay projects. In the worst cases I have seen inappropriate grant aid push organisations in the wrong direction. Sometimes businesses ask for help to get grants and loans when what they really need is a different business model to make them stronger and less dependent on grants or loans. It is therefore advisable to assess the disadvantages as well as the advantages of grants and loans before deciding whether or not to apply for them.

Your Financial Control Panel

Finance and accounting are often regarded as the boring side of business by creative people, but those who ignore it are not in control of their business destiny. It's like driving a car without looking at the dashboard. Successful entrepreneurs don't need to look at all the detailed financial information but do need sight of the key financial measures. These are the equivalent of the car's dashboard instruments showing the



Financial Dashboard

important information such as speed, fuel and oil pressure. The financial equivalents are profitability (per project and overall), cash flow and net assets.

What each enterprise needs is a simple but effective **Financial Dashboard**, constantly visible when driving the business. More sophisticated measures include financial trends and ratios. Unless you have one eye on the profitability and cash flow dials, you're heading for a crash – or an empty tank in the fast lane!

Business Dashboard

see page 99

A more comprehensive **Business Dashboard** will take into account other vital indicators as well as the main financial measures.

Creating Financial Security

Financial security is derived from creating income streams that are not dependent on your continuous labour. These are the income streams that flow while you sleep. The things that create this cash flow can also be sold at a later date. In the creative industries, this is most obviously achieved through the utilisation or exploitation of your intellectual property. Intellectual property rights, managed skilfully, enable a creator to receive ongoing income from a variety of sources.

See Chapter 6: Protecting Your Creativity.

In a nutshell, the business of creativity is the art of turning creative talent into intellectual property that provides income streams for the owners of that IP.



Key Points

- 1** Don't wait for the day you have an ideal amount of money – it might never come.
- 2** Understand your business finances by looking at them from three different perspectives.
- 3** Use management accounts to monitor and plan your business, not just financial accounts to report on past events.
- 4** Keep fixed costs under control.
- 5** To raise funds you will need to show how your business formula will create sustainable income streams.
- 6** Decide what needs to be measured, then devise a financial dashboard so you can stay in control. Keep one eye on the dials so that you don't crash – or run out of fuel in the fast lane.
- 7** Get expert advice on taxation, VAT etc from an accountant.
- 8** It's not just about business profits – social enterprises need to generate surpluses too.
- 9** Be aware of the strings attached to grants and loans.
- 10** Create financial security through the exploitation of your Intellectual Property.



Ideas in Action

JAB Design Consultancy Industrial Product Design

JAB Design is an international award-winning product design company which works with innovators and manufacturers to develop commercially-successful new products. The company has experience in designing medical devices, lighting, furniture, laboratory automation, consumables, electronics enclosures and several other types of product.

Managing Director Jonathan Butters says: “Instead of specialising in just one field we work across conventional specialisms because it’s the interface between them that’s interesting and creative. For example we design medical equipment, traditionally used only by specialists, for use by patients in their own homes using our expertise of designing consumer goods. Similarly, the interface between psychology and engineering, or electronics and sociology also gives rise to creative new designs.”

“Good design cannot be the ego-centric creation of the designer working alone. Design is a process,” he emphasises. “The design process involves a dialogue with the client to address the needs of various communities of interest including the end user and those responsible for the product’s sale, maintenance and disposal.” Good designers can deal with customers’ needs and he points out that creative geniuses such as Caravaggio and Da Vinci worked mainly for customers, rather than in artistic isolation and were still able to put some of themselves into their creations without any contradiction between artistic integrity and clients’ requirements.

With a background in engineering, Jonathan started in business as a sole trader in 1999 and in 2001 devised a business growth strategy for a new company with the help of business support agencies including Creative Business Solutions. Their business plan identified growth areas to focus on, such as biotechnology, medical and safety equipment amongst others. In each area they have designed successful products which led to more work in that field. It’s a growth technique Jonathan describes as “using a small fish to catch a bigger fish”.

Business growth depended on loans and Jonathan found to his dismay (this was no surprise!) that banks and other funders were “on the whole a risk-averse bunch”. His own bank turned down his application for a loan and other institutions were equally reluctant at first. It wasn’t until he put his own money where his mouth was, by re-mortgaging his own home, that he was able to find funders willing to share the risk. “Funders want to know that you’re going to feel the pain of the challenge and put your all into making the business work.” The final funding package of around £200K was made up from loans from the Merseyside Special Investment Fund, the Small Firms Guarantee Scheme (through Lloyds TSB) plus re-mortgaging his own home. There was also grant money from Business Link and BusinessLiverpool.

Since then, JAB Design has grown into a thriving business with 9 staff, 20 clients and a turnover of around £750k per annum. Before employing



staff Jonathan invested in legal advice to ensure the company's contract of employment was comprehensive. Since then the company has been able to deal with some staff issues following the correct procedures without opening themselves up to appeals and counterclaims, due to having up-to-date contracts of employment.

No longer a one-man band, Jonathan now spends more time working on the business rather than in it, what he calls "occupying higher ground". His staff concentrate on design work using high-end technology – SolidWorks 3D CAD software and he supervises all projects "adding a qualitative layer over the top" as he puts it. One of his key tasks is liaising with customers, which includes writing the briefs and technical specifications, agreeing stages of work with the client and managing customers' expectations, all of which call for "United Nations level diplomacy at times" according to Jonathan.



The company's Terms of Trade (available on its website) were established early on with specialist input and Jonathan looks back at this as an important move. They have been amended twice since then, to clarify some issues raised by particular clients. JAB Design have since had a significant dispute with a client and managed to gain a settlement out of court because of the robust nature of their terms and conditions of trade.

Important clauses deal with the assignment of intellectual property to the client. Crucially, this release of IP is tied to client payments, thereby safeguarding cash flow. In recent developments, JAB Design has negotiated payments through royalties on product sales in exchange for a reduction in design fees.

Talking about the company's values, Jonathan says "we are enthusiastic about products that increase quality of life, not trivial stuff. Medical and safety equipment is important to us and quality of life includes sports and leisure products. We don't do military work." Another JAB Design project, a new safety product for the deep-sea fishing industry which is predicted to save 50 lives a year, was still subject to client confidentiality at the time of writing. Watch this space!

Links to related ideas and topics in book:

- * **Creativity Alchemy** (see pg 8)
- * **Business as a dialogue with customers** (see pg 38)
- * **Working on the business not in the business** (see pg 81)
- * **Raising funds and using support agencies** (see pg 66)
- * **Ownership and transfer of IP to clients** (see pg 56)
- * **Values** (see pg 11)

8

Keeping Good Company

- This chapter explains limited and unlimited financial liability and the pros and cons of setting up a limited company for your business as well as considering other corporate structures.
- Different organisational structures are outlined as well as concepts such as the 'virtual organisation'.



The vast majority of businesses employ less than ten people and the creative industries are no exception – many are one-person enterprises, operating on a self-employed basis as sole traders. Other creative businesses have set up as companies or social enterprises.

Financial Liability

Whilst self-employment has some benefits it also has disadvantages, including **unlimited liability** for the owner since in legal terms the business and the individual are one and the same thing. The owner's personal and business finances are all in one 'pot'. This unlimited liability also applies to partnerships (except in the case of a Limited Liability Partnership).

Limited liability is usually achieved through setting up a 'limited' company as a separate entity or vehicle for the business so that the liability of the investors (members) is limited to the amount they have chosen to invest in it. If the business goes bust, their losses are limited to their business investment, not their personal possessions. (This contrasts with 'unlimited liability' sole traders and partners who might have to pay off business debts with personal funds.)

Even with a limited company, a bank may require personal guarantees against a business loan if the business does not have sufficient suitable assets. The liability is then effectively transferred away from the company to the person guaranteeing the loan.

It's important that everyone involved in the enterprise understands their financial liability.



Limited Companies

Setting up a private limited company is straightforward and the pros and cons should be considered.

In law, a limited company is regarded as a separate legal 'person'. This separation is an essential element of providing limited liability for its members. It also means that it is the company that owns the assets – and can be sued in a court of law – not the individual shareholders.

One of several considerations for smaller enterprises is the 'image' of having limited company status, which may give the business more credibility than sole trader status, depending on the sector you are in, and customers' perceptions.

A company with shares provides a useful device for fundraising by issuing shares in the business to investors and bringing in other people as the business grows, either as shareholders, directors or both.

One of the disadvantages of companies is that they must submit details of directors and annual accounts to Companies House, where this information is made available for public inspection.

Social Enterprises

The benefits of limited liability also apply to not-for-profit organisations (or more precisely, non-profit-distributing organisations). These can register as a 'company limited by guarantee without share capital', which is a company just like any other but with no shares and therefore unable to distribute profits as dividends to shareholders. Companies of this kind can also become Registered Charities. A social enterprise – a business with primarily social aims – will usually register a company although some co-operatives are Industrial and Provident Societies. The new **Community Interest Company** status can be applied to companies with or without shares and has been introduced to provide a specific legal status for social enterprises.



Community Interest Company

Depending on the range of business activity you are involved in and taking into account partnership working with other individuals and businesses, there may be a case for using more than one structure for your business activities.

As companies grow, they may acquire other businesses, give birth to subsidiaries, or split into separate legal entities if new opportunities with different business strategies require alternative structures. Charities often set up a separate company as a trading subsidiary. Businesses set up separate companies for the sake of image and branding, ownership and involvement, sale of intellectual property or reduction of overall risk. See [The Windows Project](#) and [New Mind](#).

Ideas in Action — see pages 102 & 42

Organisational Structures

To work effectively in the project-based environment, organisations need to take on new forms. The traditional steady-state company with a fixed number of employees and a traditional hierarchical structure is not suited to this new environment. The information-age enterprises need new organisational structures, which have been called: Virtual, Network, Shamrock and Club Sandwich organisations.

Such organisational models are not special legal structures but concepts about flexible ways of organising business activities.



Virtual Organisation

A **Virtual Organisation** can be 'invisible' insofar as there is no identifiable headquarters; its members might be geographically remote and probably connected through the Internet. Virtual organisations can form quickly for a particular purpose from a number of individuals and organisations in a network. Often the majority of its work is subcontracted to associate companies. The virtual organisation co-ordinates this work and controls the intellectual capital and other intangibles such as branding. The virtual organisation can disappear as soon as the job is done, yet its individual members can rapidly reform in a different combination giving rise to a new virtual organisation.



A **Network Organisation** can describe several separate organisations or individuals working together for a common goal, for example a designer, manufacturer and suppliers. The term can also be used to describe a larger organisation in which the various parts inter-react in a more organic and autonomous way than in a traditional hierarchical structure.

A **Shamrock Organisation** is Charles Handy's¹⁸ name for a business of three parts – the core staff, freelance project workers and subcontracted firms. **Red Production Company** is a good example of this model. With a small core staff, it engages hundreds of freelance workers needed for TV drama productions and it outsources functions such as merchandising to a separate joint-venture enterprise.

Building on the shamrock model is my concept of the **Club Sandwich Organisation** which:

- A.** acknowledges creative individuals who need the social interaction and facilities of a 'members club',
- B.** provides a metaphor for the three 'layers' of core staff, freelance workers and subcontracted firms, and also
- C.** the different relationships and levels of bonding between the three slices which can be likened to the different fillings of a Club Sandwich.

Thinking through matters of corporate structures may seem like unnecessary hassle in the early days of a creative enterprise, but getting this part of the business formula right can prevent a lot of headaches later on and help you along your road to success.

In conclusion, decisions about organisational structures should support your business strategy, not drive it.



Key Points

- 1** Understand your financial liability.
- 2** Consider the pros and cons of setting up a company to limit your financial liability.
- 3** Consider having separate companies for different activities and projects to compartmentalise business risk.
- 4** Be clear about where you are going. Do you want a lifestyle business or an enterprise you can eventually sell? Use different structures to support your business strategy – don't let your structure dictate your business direction.
- 5** Social enterprises should consider the Community Interest Company option.
- 6** Getting the corporate structure right early on could save lots of hassle later.
- 7** Look at your structure from an image and branding point of view – the customers' perspective.
- 8** Take specialist advice as required from a business adviser or accountant.
- 9** Consider partnerships through virtual organisations.
- 10** Decide which aspects of your enterprise should be handled in-house or subcontracted.



Ideas in Action

Red Production Company TV Drama Production Company

Clocking Off, *The Second Coming* and *Casanova* are some of the TV dramas produced by the award-winning Red Production Company. *Queer as Folk*, written by Russell T Davies was its first success after Red was founded by Nicola Shindler, who already had a fine track record with productions such as *Hillsborough* written by Jimmy McGovern.

“TV production is a freelance world,” says managing director Andrew Critchley, and so Red engages freelance staff to expand and contract according to its productions’ needs. With a core of just 8 employees, and renting an office within another TV company, Red keeps its fixed costs to the minimum. A classic ‘project organisation’, Red can engage several hundred people on a freelance basis as needed for its various productions.

A successful enterprise in both artistic and commercial terms, Red’s profitability is derived mainly from its scale rather than its profit margins, according to Andrew Critchley. A £5m production with just 5% margin still represents a significant £0.25m profit.

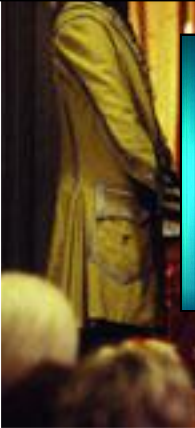
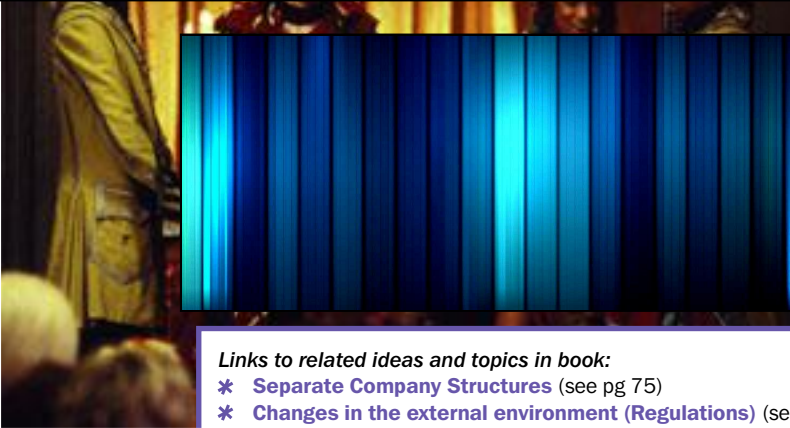
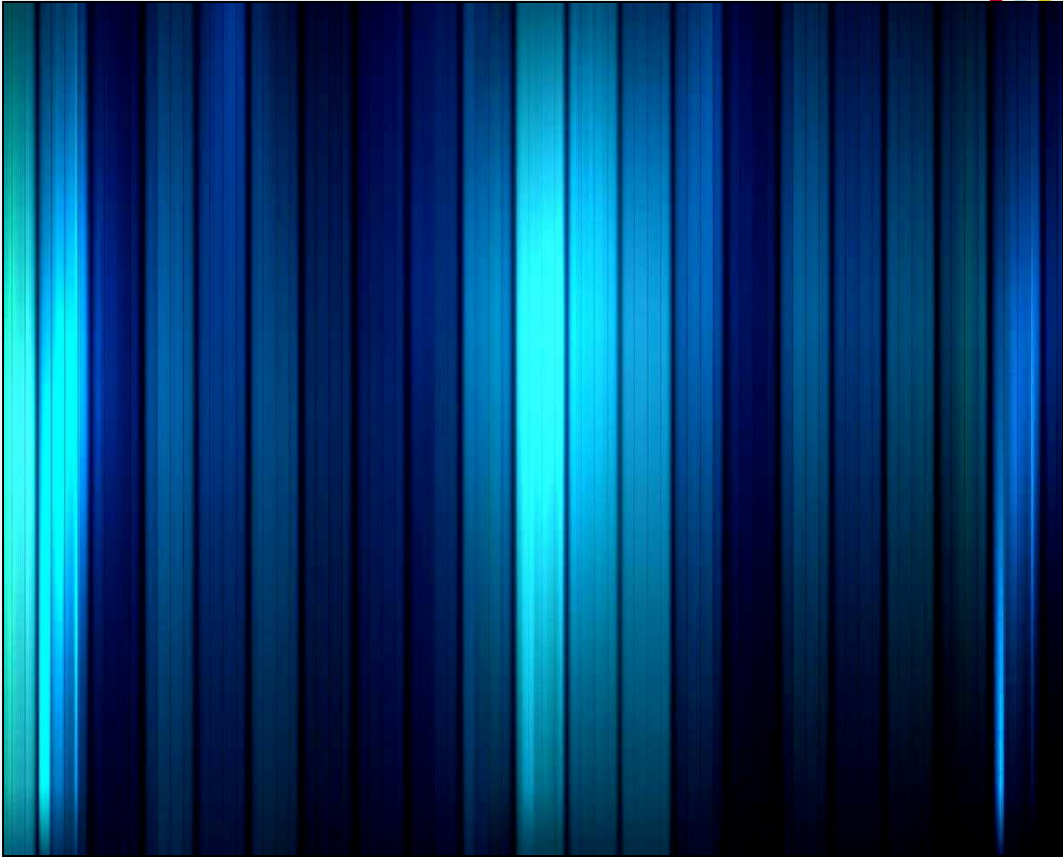
Red sets up limited companies for each production and these ‘single purpose vehicles’ (SPVs) enable Red to divide the business risks associated with each venture into separate compartments. Red Production Company Ltd

is at the centre of a number of other associated companies, such as Second Coming Ltd, Linda Green Ltd, Bob and Rose Ltd, each company an SPV for its associated production. The whole business of each production is put through its own company and the SPVs continue to be active in order to collect ongoing income streams from the sale of rights, format fees and DVDs for their respective productions.

Changes in the business environment for TV production has seen the terms of trade shift in favour of independent producers who now retain a greater percentage of intellectual property rights in their productions. This has come about due to the intervention of Pact¹⁹ and changes in Ofcom regulations.²⁰ Responding to this change and taking advantage of new opportunities, Red increasingly exploits the intellectual property in its productions through the sale of rights, format fees (such as the sale of the format of *Queer as Folk* to a US cable network) and DVDs of its TV series.

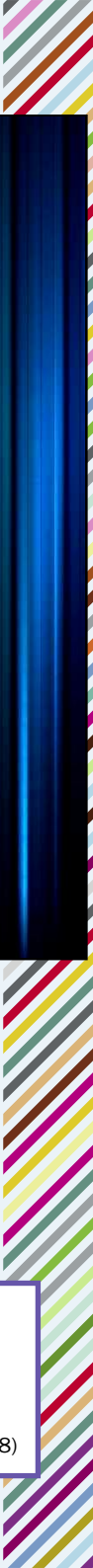
This marketing and merchandising has been achieved through the DVD label ‘inD’, a joint venture with production companies from different genres to form inD DVD Ltd.

www.redproductioncompany.com
www.ind-dvd.co.uk



Links to related ideas and topics in book:

- * **Separate Company Structures** (see pg 75)
- * **Changes in the external environment (Regulations)** (see pg 28)
- * **Low fixed costs** (see pg 65 – 66)
- * **Virtual Organisations** (see pg 75)
- * **Exploitation of Intellectual Property via merchandising** (see pg 58)



9

Leadership and Management

- This section looks at the change from working 'in' your business to working 'on' your business.
- It explores managing and leading people, both employees and others, using different leadership styles and dealing with change through leadership.
- It also looks at some aspects of employing people.



Management can be defined as ‘the achievement of aims through other people’ and the job of a manager therefore is to co-ordinate the activities of other people to get things done. For many people, the transition from ‘doing it yourself’ to managing others is a difficult one and this often applies to creative people who set up their one-person business and then employ other people as the enterprise grows.

The manager’s job as co-ordinator can be compared to that of an air traffic controller whose job is to make sure that planes come and go safely, without collisions. Their job is not to fly planes themselves. The frustration of being a manager is that you no longer fly planes because your job is now to co-ordinate others’ work to help them to do it well.

Working ‘in’ and ‘on’ the business

In most organisations, as people are promoted they tend to become more removed from the original job that attracted them in the first place and this applies to teachers, salespeople, nurses and others. It’s the same for creative entrepreneurs, who often tell me that as their business grows they have less time for creative endeavour directly and spend more time on administration and managing other people. Perhaps that’s one reason why many business people do not aim for business growth in terms of employing lots of people but want to build lifestyle businesses instead. Most people set up in business because they want to create a job for themselves working **in** the business, but it’s essential for an entrepreneur who wants to grow their enterprise to focus on working **on** the business. The captain of a ship needs to navigate from the bridge, not work in the engine room. If you want to build a business that you can eventually sell, you must construct it so that eventually you are not involved at all. It’s important to be clear about your aims and objectives.

‘
are
you
working
in
or
on
the
business?’

‘

The effective leader needs to use different leadership styles

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Getting things done through other people can be difficult for a number of reasons. At first it takes longer to train someone else than to do it yourself. The level of communication needed to make them fully aware of everything you know about the business is immense. Taking on the first administrator, for example, frees you of some paperwork but at the same time ties you into being a manager. Communication within a team is essential but can be extremely time-consuming. As the number of people in the business grows, the communication required between them expands exponentially. Deciding what people do and don't need to know, how they get to know, and who tells them, is a management job in itself.

Leadership

The word leadership often brings to mind some of the world's great leaders of nations and movements: Nelson Mandela, Winston Churchill, Mahatma Gandhi, Martin Luther King, etc and so it can seem much too grand a term for the boss of a five-person design firm. However, the requirements for leadership (as opposed to management) are still the same. Broadly speaking, management concentrates on telling people what to do, whereas leadership focuses on telling people where they are going, then inspiring them and enabling them to play their part in the journey.

Leadership Styles

The effective leader needs to know different **Leadership Styles** – and ideally to be fluent in all the ‘languages’ of leadership, using each of them appropriately at different times according to circumstances. My own terms for the leadership styles based on those suggested by Daniel Goleman²¹ are:

Dictator — the macho boss

Visionary — inspires with a vision

People-person — personable, communicator

Listener — consultative, democratic

Superman/woman — sets a fast pace of work

Nurturer — coaches and develops others

The trick is to be able to use all of the leadership styles – and know when it is appropriate to do so.



Emotional Intelligence

Just as it is often jokingly said that the business is ok but for its customers, leadership and management would be easy if they didn't involve dealing with people. People come in all shapes and sizes: employees, partners, customers, associates, suppliers etc and can at times be awkward, demanding, overenthusiastic, distracted, talkative, stubborn or just downright irrational!

To work well with people, it's essential to have a good measure of **Emotional Intelligence** which I define as 'an ability to manage ourselves and our relationships with other people effectively, by understanding our own and other people's feelings, recognising that we human beings have an emotional as well as a rational side to our make-up.'

It's no coincidence that the people who rise to become leaders of their businesses or institutions are those who have skills of communication and emotional intelligence as well as a creative, academic or technical speciality.

There are different types of leadership – it doesn't have to be about the charismatic macho stereotype. Some of the best leaders are personally modest whilst being also ruthlessly ambitious for their companies – what's been called the **Level 5 Leader**.²²



Level 5 Leader

Inspirational leaders provide what most employees say they want from their bosses – inspiration – though only 11% say they actually get it, according to a survey undertaken in the UK by the Department for Trade and Industry.²³

Lateral thinking leaders search for and listen to ideas from outside their own industry or culture to find great ideas or new techniques, then apply them imaginatively to their own enterprise. So this lateral thinking leadership in the creative industries would acknowledge ideas from outside the creative sector, and then apply creativity to using those ideas within it.

Managing Change

The ‘management of change’ is a perennial business topic since change itself is constant. But the management of change is to some extent a misnomer. I prefer the term ‘leading change’ because, importantly, change needs leadership as much as management and ‘change management’ tends to imply that change is an administrative or technical job. In reality it’s more about inspiring people towards a vision and giving them the freedom and support to do what’s needed to get there.

Employing People

Leading and managing people certainly applies to employees, but employing staff is not the only way to grow a business – or to lead people.

The pros and cons of employing people versus engaging freelancers needs to be considered carefully and some organisations use a powerful blend of both. **Peppered Sprout** is an example of a business which uses both contracted permanent employees combined with a database of freelance artists. Network businesses and virtual organisations are prevalent in the creative sector – **see Chapter 8: Keeping Good Company** for more ideas about structures.

The benefits of employing people are mainly in having constant and exclusive access to their time and expertise – and ownership of their creative output (**see Chapter 6: Protecting your Creativity**). On the negative side, there is the commitment to the fixed costs of salaries and the legal responsibilities of being an employer.

Freelancers can provide the skills you need, just when you need them without the fixed costs, though the hourly rate will be higher. The responsibility is less, but so is the control – of their time, availability and creativity.

The big step from being a one-person operation to taking on your first member of staff is a crucial one and marks a turning point from working **in** the business to working **on** the business.

Ideas in Action — see page 24

‘
what
most
people
want
from
their
boss
is
inspiration
’

JAB Design took legal advice about their contract of employment (as well as their terms of trade) at a very early stage. Keeping abreast of employment regulations, taxation and benefits, as well as operating good systems and procedures for induction, training appraisals, staff development, remuneration, grievances and disciplinary matters is just one more aspect of managing people within a successful creative enterprise.



Key Points

- 1** Are you prepared to become an ‘air traffic controller’?
- 2** To what extent do you work ‘in’ or ‘on’ the business?
- 3** Be a leader as well as a manager.
- 4** Are your employees some of the 11% who are inspired by their leader?
- 5** Are you a lateral thinking leader who learns from other industries then adapts their ideas?
- 6** Build in time for communication with your staff and between members of the staff team.
- 7** Learn – and use – the six different leadership styles.
- 8** Develop your emotional intelligence to be able to work with people even better.
- 9** Weigh up the pros and cons of employing people versus using freelancers.
- 10** Ensure your employment contracts and procedures are watertight and up to date.



Ideas in Action

The Team

Brand Communication Consultancy

The Team is ranked as the most effective brand communication consultancy in the UK by *Design Week* surveys 2002, 2003 and 2004. The company boasts an impressive array of clients from the private, public and not-for-profit sectors, including Vodafone, the NHS, Comic Relief, the BBC, the Chartered Institute of Personnel and Development, the Beatles and the Metropolitan Police.

Managing Director Julian Grice was one of the four designers who started The Team 20 years ago. "In those days it was really four separate businesses, with each designer adopting a different business model, dealing with different clients and focusing on different types of work," says Julian.

Eight years ago, The Team assessed its internal strengths and weaknesses and came to the conclusion that they were "leaderless". As a result, The Team redesigned its business and now has "a second generation management team with a carefully chosen mix of skills and experience. Eight people, each with a different voice," as Julian describes it.

The Team's success is a result of a deliberate integration of creativity and business. Julian's role as leader includes "carefully crafting an atmosphere where people's views are respected, whether they are in 'creative' or 'business' roles," he says. The Team is then able to bring together its various skills to focus on clients' needs. "We enjoy achieving things for clients," he adds.

In a sector that Julian believes is generally not good at managing customer relationships, The Team pride themselves on being "hugely pragmatic, applying creative thinking to real life situations." "Creativity is not on the Board agenda," he says, "because it's assumed to be in everything we do." Everything at The Team takes place in the context of clients' needs and they focus on particular market niches.

The Team moved consciously towards public sector clients in the late 1990s. This was partly because they found that their passion for communicating issues produced their best work in this sector and partly to avoid the economic cycle which affects the private sector. As the company has grown and invested in skills and systems, this move into the public sector has become more focused.

The Team is clear about its strategy, who its clients are and significantly, what it will not do. The company has a policy of 'saying no' to potential customers in the tobacco, defence and property development industries for ethical reasons. For more practical reasons, they will not take on projects if the company does not have a technical specialisation, such as in retailing or packaging. Risk Analysis is a factor too and The Team will decline business to avoid the business risk associated with some particular clients and projects.

In the area of personnel development, The Team again blends principles and pragmatism. To increase staff commitments and reduce staff turnover The Team has worked closely with the Chartered Institute of Personnel and Development (CIPD) to adopt best practices in human resource management. Every member of staff has a Personal Development Portfolio or PDP which, importantly, is driven by the employee, not the management. “We take the view that everything is a learning opportunity,” says Julian, to describe their ‘learning organisation’, mentioning a range of means by which people learn at work, adding that ironically, formal training is often the least effective of these.

The Team recruits staff from design colleges with which they have close links through key tutors. By providing placement opportunities for students, the company can assess potential employees, both in terms of their creativity and crucially in their ability to work pragmatically for clients – another example of The Team’s effectiveness in blending creative and business thinking.

Julian Grice



Links to related ideas and topics in book:

- * **Blending creativity and business effectively** (see pg 8)
- * **Evaluating strengths and weaknesses** (see pg 17)
- * **Market Segmentation** (see pg 37)
- * **Focusing on clients’ needs** (see pg 36)
- * **Leadership** (see pg 82)
- * **Saying No** (see pg 92)
- * **Risk Analysis** (see pg 100)
- * **Continuing Professional Development** (see pg 21)
- * **Personal Development Portfolios** (see pg 21)
- * **Learning Organisations** (see pg 22)