

## **PUBLISHING AS A SUBJECT OF THE CREATIVE INDUSTRIES IN THE CONTEXT OF ITS ECONOMIC PERFORMANCE AND PROTECTION OF INTELLECTUAL PROPERTY RIGHTS**

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**Abstract:** Creativity has been considered a new type of competitive advantage in recent years. It becomes the basis of a new direction, a new economic paradigm - creative economy. The aim of this paper is to evaluate the economic performance of creative industries in the publishing segment. The indicator dependence of profit on sales, with the exception of other publishing activities (issuing stamps, checks, banknotes, etc.), reaches Multiple R values close to 1, it confirms a strong addiction, it is moving in the range of 0.98-0.36. The strongest dependence is shown in other software publishing activities. The strong dependence of profit on sales is a signal for the companies to carefully monitor the causes of changes in their revenues, to use qualified tools to increase revenues such as discounts, rebates, delivery terms, etc. The dependence of profit on assets shows lower values, with the exception of publishing magazines and periodicals, Multiple R is in the range of 0.99-0.50. The protection of intellectual property thus becomes an elementary precondition for preserving the potential of the creative and cultural industries. There is a need to raise European citizens' awareness of the value of copyright, as well as the benefits for the development of a prosperous European legal market.

**Keywords:** Creative industries, Innovation, Intellectual property, Publishing, Regression Analysis

**JEL Classification:** L23, L86, M21

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### **INTRODUCTION**

In the current economic system, we record a gradual reduction in the share of traditional robust industrial production. This creates considerable space for the development of the so-called creative industries. The creative industries, with their unlimited growth potential, are seen as a path to sustainable development (Florida, 2002). Creativity has been considered a new type of competitive advantage in recent years. It becomes the basis of a new direction, a new economic paradigm - creative economy. This concept is considered to be a relatively new direction in theories of socio-economic development, which draws attention to the importance of human creativity in development (Buček, Rehák & Hudec, 2015). The creative industries have unlimited growth potential, making it a path to sustainable development (Florida, 2002). The developed countries of the world, including the European Union, have adopted a number of documents and strategies that underline the importance of these sectors. The creative industry is widely perceived as a combination of business activities in the field of art culture and other creative activities. Authors dealing with the concept of creative industries present various possibilities of their classification, through existing industries (Throsby, 2001; Hesmondhalgh, 2007), to the specific definition of this type of industry through the creative potential of people, the so-called creative class (Florida, 2002) or through intellectual property (Howkins, 2001). The Ministry of Culture of the Slovak Republic perceives the creative industries as those parts of the economy that create economic value on the basis of individual creative input or artistic talent. It is a sector based on the appreciation of intellectual property, which can include areas of creative activity such

as architecture, design, film, music, but also the creation of computer games and advertising. The Green Paper published by the European Commission in 2010 favours a concept that separates the creative and cultural industries into two separate areas.

## 1. DEFINITION OF THE NATURE OF THE CREATIVE ECONOMY AND THE IMPORTANCE OF INTELLECTUAL PROPERTY

The importance of the creative industries can also be observed in its connection with other economic sectors, to which it brings innovative elements important for the development of their competitiveness, especially in relation to information and communication technologies (European Parliament, 2012). Amabile and Khaire (2008) point to the fact that creative industries are also pioneers in other sectors of the economy. The creative industries are thus increasingly important in the "Business to Business" markets, such as advertising, design and architecture, as well as in the "Business to Consumer" markets for books, clothing and music. The experience and working methods of creative entrepreneurs in many areas have an impact and importance in other parts of the economy. The importance of the creative industries thus exceeds its playing and is a means of intelligent growth and their surroundings. It can be assumed that industries in the 21st century will increasingly depend on knowledge generation through creativity and innovation (Landry & Bianchini, 1995; Villalba, 2009).

The EU is of the opinion that European countries should support and invest in new sources of smart, sustainable and inclusive growth; in this context, the largely untapped potential of the creative and cultural industries in terms of creating growth and jobs should be unleashed, due to their significant impact in areas such as new business models, creativity and innovation, digitization and skills building. The Creative industries play a key role in the reindustrialisation of Europe and are a driving force for growth and their strategic position allows them to shift innovation to other sectors such as tourism, retail and digital technologies.

The issue of intellectual property is critical in the subjects of the creative industries, especially because these subjects move on the edge of art and industry. According to Bach et al. (2010): "Creative industries typically include industries that focus on the creation and use of intellectual property products, such as music, books, film and games, but the provision of creative services between businesses, including advertising, public relations and direct marketing. These creative industries largely integrate both artistic and industrial dimensions, reducing the gap between the use of patents (usually used in industry) and copyright (traditionally used in art)." In 2001, British author J. Howkins wrote "The Creative Economy: How People Make Money from Ideas", which deals with various aspects of the creative industries. Following the publication of this book, the term the creative industries became known globally. J. Howkins understands the creative industries as intellectual property, when defining it leads to an exhaustive definition. In his work, he analyses creativity and raises the idea of so-called universal creativity. He is the first to come up with the idea of creativity as the engine of economic growth. According to him, the creative economy (CE) is the result of the value of the creative product (CP) with the number of transactions T:

$$CE = CP \times T \quad (1)$$

Through the lens of intellectual property rights, the creative industries define themselves in four forms:

- patent industries,
- copyright industries,
- trademark industry,
- design industries.

According to J. Howkins (2001), creativity is the economic activity of the part of society that spends most of its time generating ideas. These are people who do not just do routine things that are repeated, but quite the opposite. For such people, generating ideas and making progress is the meaning of economic activity.

Intellectual property (IP) as an intangible asset of a company is in many respects similar to tangible assets, because it is the result of investment activity, means economic benefit, is identifiable, transferable and it

is possible to determine its value (Markovič & Rybárová, 2017). According to WIPO, intellectual property includes works of human art - inventions, patented products, literary and other works of art, as well as symbols, names, pictorial and drawing symbols and models intended for business purposes. Intellectual property is divided into two main areas. One of them is industrial property, which must be understood as inventions, new products with a patent, brands, industrial drawing symbols or models. On the other hand, it is a copyright involving literary and artistic works, whether they are novels, poems, plays, films, musical works, artefacts, paintings, photographs, sculptures and architectural creations. Extant literature offers mixed evidence on the influence of Intellectual Property Rights (IPR) on the economic performance and the growth of the companies. Falvey, Foster and Greenway (2006) suggest that strong IPR can stifle commercialization (by entrepreneurs) by putting too much power in the hands of inventors. Studies (Gould & Gruben, 1996; Chen & Puttitanum, 2005) that follow the conventional view consider inventions as public goods and therefore posit a positive association between strong IPR enforcement and the economic growth. The essence of intellectual property protection is to grant the innovators monopoly interests in a certain period of time so as to encourage them to invest knowledge, time, and capital in innovation activities (Dong, Zhu & Hu, 2015; Grossman Lai, 2004). Under the condition of constant innovation cost, the net income of innovation increases, and the enthusiasm of enterprise innovation also increases (Pathak & Muralidharan, 2020). Zhao (2020) mentioned in his study that intellectual property protection increases the cost of imitation by other enterprises. In a word, no matter from the perspective of improving the expected income of innovative enterprises, or from the perspective of increasing the imitation cost of backward enterprises to reduce imitation, strengthening intellectual property rights protection will provide innovation power for enterprises with strong innovation ability. However, the increase in the intensity of intellectual property protection will increase the cost of technology transfer and reduce the income transferee enterprises as well as social welfare (Tong, Yu & Wang, 2020). Gentile (2017) find that the relationship between IP protection and firm-level licensing of foreign technology is contingent on two factors: first, a firm's ownership structure, in particular, whether it is affiliated to a foreign company, or wholly domestically owned (i.e., unaffiliated); and second, the income level of the country that a firm operates in, which correlates with a host of development outcomes, such as institutional quality, human capital, and infrastructural development.

The literature review implies that our research may be able to reduce the knowledge gap related to the publishing sector of the creative industries. In this paper, we carry out an empirical investigation to assess the dependence of revenues on the size of assets, the dependence of profit on the size of sales, and dependence of profit on the size of assets. Under the assets evaluation we focused on the registered long-term intangible assets. There is a lack of studies, research or the literature sources focused on the analysis of the publishing sector belonging to the creative industries in Slovakia. Therefore, an empirical work is needed to eliminate the existing knowledge gap.

The most of publishing entities belongs to the small and medium-sized enterprises (SMEs) in Slovakia. Cinti (2008) While innovation is regarded as beneficial for SMEs, it is common to see SME owners-managers being reluctant to do it as they know that innovation is risky. Games and Rendi (2019) argued that SME innovation is risky because it is costly and there is no guarantee that it will enhance organizational performance.

This brief review of the theoretical literature leads to two important conclusions. First, there are many positive effects of stronger IP rights on SMEs in general, pulling in different directions: on the one hand, the increase of innovation; on the other hand, higher demand and costs on administration. Second, the net income of innovation increases, and the enthusiasm of enterprise innovation also increases, under the constant innovation investments.

## **2. MAIN AIM, METHODOLOGY AND RESEARCH METHODS**

The aim of this paper is to evaluate the economic performance of creative industries in the publishing segment.

## 2.1 The Object of Scientific Research

The object of scientific research is the sector of creative industry SK NACE 58, namely book and newspaper publishers. This sector can be considered a pillar of the creative and cultural economy. The book market, according to a survey by the Federation of European Publishers (FEP) with sales of almost € 80 billion in the European Union, contributes significantly to the European economy and is the fifth largest market ahead of the film industry and the performing arts. It is estimated that approximately 150 000 authors work in this segment and employ approximately 600 000 employees. However, it should be noted that the sector is facing relatively large problems of overall sustainability. This can be partly attributed to the digitization process that replaced the traditional manners of the press sale. On the other hand, it should be noted that the e-book market has not met concerns about the liquidation of the traditional printed book. This segment peaked in 2011 and since then e-book sales have been declining, with the largest decline since the advent of tablets. The global leader in e-book sales is Amazon, which controls more than 75% of the market, seconded by Apple Books and Google Play Books.

Digitization has a significant impact on the publishing services segment and has triggered reorganization of production and distribution. Businesses will have to restructure the costs of publishing books, newspaper and periodicals. Printing, storage and distribution costs currently account for only 15-20% of total costs, other costs, including editorial costs and marketing, are roughly the same in digital and printed form, so cost savings will only be felt in a dynamically growing market. And digital publishing requires a high initial investment.

Another important factor influencing the performance of this sector is the implementation of copyright protection and the Copyright Directive. The creation of various uncontrolled web platforms that work with plagiarism products, aggressive prices and overall social and ethical irresponsibility does not contribute to the development of this sector. In addition, this market is creating an uncontrolled position of several large players with a dominant position, leading to open access to non-personal data, including publicly available works, for which right holders have not reserved TDM<sup>1</sup> rights. European national book and publishing markets are disrupting global distribution companies, which currently dominate digital distribution and seize opportunities to optimize taxes. In competition with global companies, national European publishers are disadvantaged by language fragmentation, which limits the size of the market. However, linguistic diversity increases cultural diversity, so economic factors should not be the only ones that national cultural policies should take into account.

## 2.2 Methodology Used and Research Methods

The object of our research is the sector of creative industries SK NACE 58 - Publishing activity, while we focused on entities that had available financial statements for the year 2018. We drew data from the Finstat database ([www.finstat.sk](http://www.finstat.sk)). There were 13 920 entities that met this condition according to the Finstat database, based on the classifications of the creative industries according to SK NACE rev. 2 and from the methodology of the Department for Digital, Culture, Media and Sport (DCMS). DCMS identified 25 industries based on a creative intensity approach and then groups them into 7 categories according to their relationship - Advertising and marketing; Architecture; Design and fashion design; Film, TV, video, radio and photography; IT, software and computer services; Publishing; Music, performing arts and visual arts.

As a specific method in processing the contribution, we used the method of regression and correlation analysis, which examined the dependence of selected economic indicators such as profit, turnover and total assets.

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<sup>1</sup> "Text mining" or "text and data mining" (TDM) refer to a process of deriving high-quality information from text materials and databases using software. Researchers use text mining to extract assertions, facts and relationships from text, for purposes of identifying patterns or relations between items that would otherwise be difficult to discern.

Tab. 1: Turnover or Gross Premiums Written (in million euro)

Turnover or gross premiums written - million euro			
	2015	2016	2017
<b>European Union - 27 countries (from 2020)</b>			
Book publishing	21 845,2	20 460,2	25 056,4
Publishing of newspapers	31 221,5	29 799,6	29 493,7
Publishing of journals and periodicals	24 918,3	23 797,7	21 879,7
Publishing of computer games	4 161,7	4 668,6	-
<b>Slovakia</b>			
Book publishing	40,8	62,5	30,8
Publishing of newspapers	-	20,1	22,1
Publishing of journals and periodicals	107,8	116,1	100,4
Publishing of computer games	-	0,1	-

Source: Eurostat Database (2020)

In the Slovak Republic, we see that the volume of output in book publishing in 2016 increased by 53% compared to 2015, but subsequently in 2017 recorded a deep drop below the level of 2015 (Tab. 1). In publishing activities of newspapers and magazines we can state more or less balanced volume with a slightly fluctuating course (Eurostat, 2020).

### 3. RESULTS OF THE RESEARCH

Publishing activities in Slovakia are made up of 787 entities, which is 5.6% of the total number of 13,920 entities in the creative industries. This sector can be divided into several sub-sectors. See Table 2 for a list of publishing subsectors.

Tab. 2: The Structure of the Sector – Publishing activities

Code SK NACE	Name of the Activity	Number of Entities
58120	Publishing of directories and catalogues	10
58110	Book publishing	134
58130	Newspaper publishing	32
58140	Publishing of magazines and periodicals	152
58190	Other publishing activities	417
58210	Computer game publishing	1
58290	Other software publishers	41
	<b>Total</b>	<b>787</b>

Source: Own processing according to the Finstat Database (2020)

Most entities operate in the Bratislava Region, where entities also achieve the highest average sales (Table 3). This volume of sales is more than twice as the volume of sales reached by entities operating in the Žilina Region, which ranked 2nd in the average sales indicator. On the contrary, the lowest revenues are achieved by entities in the Prešov Region (Finstat, 2020). These data show large regional differences in the economic activity of entities operating in the Publishing segment.

Tab. 3: Regional Distribution of the Entities in the Publishing Segment

Regional Distribution	Number of Entities	Average Volume of Sales in Euro
Banska Bystrica Region	38	126 193
Bratislava Region	437	665 151
Kosice Region	64	107 498
Nitria Region	58	203 633
Presov Region	44	46 863
Trencin Region	29	59 832
Trnava Region	56	57 108
Zilina Region	61	321 263
<b>Total</b>	<b>787</b>	-

Source: Own processing according to the Finstat Database (2020)

The structure of ownership of the analyzed subjects of the publishing sector is shown in Table 4.

Tab. 4: The Structure of Ownership of the Analyzed Entities

Type of ownership	Number of Entities
Cooperative	5
Private - International	35
Private - domestic	671
Ownership of territorial government	4
Foreign	58
Associations of political parties and churches	14

Source: Own processing according to the Finstat Database (2020)

Most entities operating in the Publishing segment were domestically owned (85.2%). At the same time, however, it should be noted that Asseco Central Europe, a. s., which accounts for about 17% of the total revenues of the industry is in private foreign ownership and totally companies in foreign and international private ownership generate up to 66% of the total volume of revenues (Table 5). Despite the large number of domestically owned entities, these generate only 34% of total revenues. The following table shows the number of entities achieving a certain range of revenues. Most entities (595) achieve sales of up to 1 mil. €. What we consider alarming is the fact that up to 144 entities achieved zero sales, despite the fact that their financial statements for 2018 were available.

Tab. 5: The Structure of Sales of the Publishing Segment

Sales of the Publishing Segment	Number of Entities
30 mil. - 58 mil.	1
10 mil. - 30 mil.	3
5mil. - 10 mil.	7
1mil. - 5 mil.	37
0- 1 mil.	595
Zero sales	144

Source: Own processing according to the Finstat Database (2020)

In the following section, we will analyze the dependence of selected indicators. We will focus on the selected dependencies:

- Dependence of revenues on the size of assets,
- Dependence of profit on the size of sales,
- Dependence of profit on the size of assets.

We will also pay special attention to the registration of intellectual property rights as a form of long-term intangible assets.

The results of the regression analysis are summarized in Table 6. In the regression analysis, we adjusted the analyzed set from entities that reported a loss or reported blank or zero lines in the items of assets, sales and profit. The total population was reduced to 787 entities and these adjustments were made to 444 entities. The sample was examined as a whole SK NACE rev. 2 58, as well as by sector.

Tab. 6: Results of Regression Analysis focusing on the Entities of Publishing Sector

	58110 Books Publishing	58130 Newspaper Publishing	58140 Publishing of magazines and periodicals	58190 Other Publishing Activities	58290 Other Software Publishers	58 all publishin g activities
<b>Dependence of profit on the size of sales</b>						
multiple R	0,8829	0,6740	0,8542	0,3609	0,9845	0,7977
R Square	0,7796	0,4543	0,7296	0,1302	0,9692	0,6363
Adjusted R Square	0,7770	0,3997	0,7267	0,1272	0,9680	0,6354
Significance F	0,0000	0,0162	0,0000	0,0000	0,0000	0,0000
Number of Entities	90	12	97	286	29	444
<b>Dependence of profit on the size of assets</b>						
multiple R	0,5061	0,4925	0,9360	0,8149	0,9984	0,9129
R Square	0,2562	0,2426	0,8760	0,6641	0,9968	0,8334
Adjusted R Square	0,2477	0,1669	0,8747	0,6630	0,9966	0,8331
Significance F	0,0000	0,1038	0,0000	0,0000	0,0000	0,0000
Number of Entities	90	12	97	286	29	444
<b>Dependence of revenues on the size of assets</b>						
multiple R	0,7133	0,9727	0,9454	0,0865	0,9924	0,9284
R Square	0,5088	0,9461	0,8937	0,0075	0,9849	0,8619
Adjusted R Square	0,5033	0,9407	0,8926	0,0040	0,9844	0,8615
Significance F	0,0000	0,0000	0,0000	0,1449	0,0000	0,0000
Number of Entities	90	12	97	286	29	444

Source: Own processing according to the Finstat Database (2020)

As can be seen from the table above, the indicator dependence of profit on sales, with the exception of other publishing activities (issuing stamps, checks, banknotes, etc.), reaches Multiple R values close to 1, it confirms a strong addiction, it is moving in the range of 0.98-0.36. The strongest dependence is shown in other software publishing activities. The R Square indicator multiplied by 100 indicates the percentage of the regression line explaining the variability of profit from sales and ranges from 0.99-0.25. Other percentages express variability due to other unspecified factors and random effects. The strong dependence of profit on sales is a signal for the companies to carefully monitor the causes of changes in their revenues, to use qualified tools to increase revenues such as discounts, rebates, delivery terms, etc.

The dependence of profit on assets shows lower values, with the exception of publishing magazines and periodicals, Multiple R is in the range of 0.99-0.50. Unlike the previous indicator, the weakest dependency is in the newspaper and book publishing sector. In this sector, the dependence of profit on assets is explained only at about 25%. The analysis of this indicator would deserve more attention. It is possible to assume that the activity in publishing books and newspapers is tied to functional machines and equipment, advanced digital equipment. However, their activities also significantly affect the management of working capital, especially inventories (printing paper, printing inks, adhesives, etc.). In the publishing of magazines and periodicals, on the other hand, the dependence of profit on assets is strong. The importance of advanced technologies used in printing is probably even more evident here. The last indicator was the indicator of the dependence of revenues on assets. With the exception of industry 58190 (here the multiple R was only at the level of 0.08), this dependence was strong and ranged from 0.71-0.99. It is possible to derive the same analogy as for the indicator of the dependence of profit on sales.

In the next part we will focus on the analysis of the volume and type of long-term intangible assets in the analyzed entities of Book Publishing and Newspaper Publishing, especially with a focus on intellectual property rights (IPR). A survey was conducted from two source data. In the first step, based on the analysis of financial statements, entities that registered tangible fixed assets in the balance sheet were identified, and in the second step the registered type of these assets (trademarks, designs, utility models, patents, European patents) was identified from the database of the Industrial Property Office of the Slovak Republic. and supplementary protection certificates). It was an extremely time-consuming work, as it was necessary to enter each individual business entity separately in the register and thus find out, if at all, and if so, what kind of intellectual property right is registered.



Tab. 7: Long-term Intangible Assets and IPR in the Selected Entities

	<b>58110 Book Publishing</b>	<b>58130 Newspaper Publishing</b>
Assets reached – max.	12 760 484,00	32 612 132,00
Assets reached - min.	117	244
Selection criterion – total assets over	100 000	25 000
Number of Analyzed Entities with Assets over 100 000	52	22
Total number of registered Long-term Intangible Assets	7	7
Size of Long-term Intangible Assets – max.	8188	31 612 thousand
Size of Long-term Intangible Assets – min.	583	26 044 thousand
From the number of enterprises that had registered Long-term Intangible Assets how many have been registered at the Industrial Property Office	3	6
Number of Enterprises that have registered Long – term Intangible Assets at the Industrial Property Office	8	9
The Nature of the Registered IPR	trademarks	Trademarks
Which companies register IPR assets:		
from 1 to 500 000	3	5
from 500 001 to 1 000 000	2	0
od 1 000 001 to 2 000 000	2	3
od 2 000 001 to 5 000 000	1	0
od 5 000 001 to 10 000 000	0	0
over 10 000 000	0	1
whether the company with the largest volume of assets registers IPR	No	Yes
whether the company with the largest volume of revenues registers IPR	Yes	No

Source: Own processing according to the Finstat Database (2020)

#### 4. DISCUSSION

It was found that in the Book Publishing sector, the company with the largest assets did not register any IPR. Furthermore, it was found that the analyzed entities recorded long-term intangible assets on the balance sheet, most often software. Interestingly, no long-term intangible assets in the form of IPR were found in the companies that had a registered trademark (Tab. 7). This is evidenced by the fact that the companies have registered trademarks, but from the point of view of the registration of assets and their value, they do not take into account the value of these trademarks on the balance sheet at all. This underestimates the assets and thus the value of the company.

In the newspaper publishing sector, 9 companies had a registered trademark. Only one company had registered assets on its assets in accordance with the registered number of trademarks. Another company that had a registered trademark had very low IPR registered on its balance sheet.

It can be stated that this is a paradoxical situation in both sectors. On the one hand, the owners of these companies complain about the flagrant infringement of intellectual property rights, as we have said

in the previous sections, on the other hand, they do not themselves protect these rights. This is probably due to the complexity and high cost of the registration process and the fact that the correct recording of the value of intellectual property rights in the company's balance sheet requires a continuous process of revaluation of these assets and monitoring their impact on sales. Objective evaluation of the value of these assets requires a relatively broad knowledge not only of the issue of valuation of IPR, but also of the legislation governing these rights. Therefore, most entities value these assets through a cost approach, at the level of their acquisition costs, which, however, does not reflect their fair value. In this context, there are voices calling for the European institutions and legislators to increase their efforts to assimilate intellectual property rights in the digital age, which would allow the cultural and creative industries to take advantage of digital technologies and to consider ways to make creative content and archived materials easier to use. On the other hand, companies in the creative industries must also implement intellectual property rights policy into their business strategies and business models.

## CONCLUSION

The impact of the digital revolution, in addition to the undeniably positive effects on the development of creative and cultural enterprises, also causes changes in the distribution of cultural works. Copyright is infringed without exception in the countries of Central and Eastern Europe. Legal awareness of copyright protection is still very low. Entire works (books, films, videos, etc.) are often copied, and these copies are often used not only for personal use but also for commercial purposes. The cultural industries need protection from large commercial networking groups that sell culture "at a discount" and deprive creative artists of funding. Creative artists and authors are, on the one hand, the source of the value chain of the creative economy, but, on the other hand, they are also the most vulnerable part of this chain, because they are in fact the first "investors". They create works that often bring financial income only after its commercialization. Authors' rights thus reach the end of the chain of financial payments with a relatively large time lag and uncertainty of commercial success. The protection of intellectual property thus becomes an elementary precondition for preserving the potential of the creative and cultural industries. There is a need to raise European citizens' awareness of the value of copyright, as well as the benefits for the development of a prosperous European legal market.

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