

Game Over, New Game: An ecological perspective of video game industry resilience in Liverpool

Dr Dane Anderton

Business School, Edge Hill University, St Helens Road, Ormskirk, L39 4QP

The main point taken up in this short paper is the evolutionary resilience of the Liverpool's video game ecology, a term used to conceptualise the sector agglomeration in a peripheral city region (Toulmin, 1990; Boschma, 2015). New trajectories of regional growth 'do not start from scratch but are strongly rooted in the historical economic structure of a region' (Neffke *et al*, 2011:261). Few studies have examined why different types of regions experience diverse path-dependent development (Isaksen, 2015). Furthermore, there has been much discussion over an evolutionary approach to regional resilience (Christopherson *et al*, 2010, Cooke *et al*, 2011). This paper examines the evolution of the video game ecology in Liverpool City Region and its ability to adapt and reconfigure industrial, network and institutional structures against the backdrop of external and internal shocks (Boscham, 2015). Rather than seeing resilience that is based on a return to equilibria or multiple equilibria, 'resilience is considered as an ongoing process' (Simmie and Martin, 2010:31). Evidence is derived from 25 primary qualitative interviews with video game firms' own-managers and supporting institutions at a local and national scale. Secondary data, both qualitative and quantitative, has also been used to supplement the analysis and inform the broader context.

Liverpool has had a turbulent history and seen dramatic industrial change (Southern, 2014). This was noted especially in the 1980's with the militant tendencies of the Labour lead council. However, the 1980's was also significant period for the video games sector. Rising interest and demand from the USA, Japan and Europe lead to an indie developer boom in the industry (Johns, 2006, Balland *et al*, 2013). The timing brought about the first developer studio in Liverpool 'Bug Bite'. From 1980 onwards an evolution began that lead to Liverpool becoming a European command centre for International Gaming Studios (IGS) such as Sony and Activision (Anderton, 2014). Between 1980 and 2000 the average firm life cycles was between 5 and 10 years. News firms would usually emerge from the dissolution of old ones.

The ecology saw several acquisitions by IGS that cemented Liverpool’s position in Europe (see table 1). Most notable was the acquisition of Psygnosis by Sony in 1993. The period 2000 to 2010 included two further acquisitions of SME’s by IGS to internalise particular franchises and capabilities.

Table 1 Video game acquisitions in Liverpool

Firm	Acquisition (\$ millions)	Acquiring Firm	Date	Source	Jobs
Psygnosis	Unknown	Sony	1993	Japan	100
Bizarre Creations	67.4	Activision	2007	USA	200
Juice Games	3.75 ¹	THQ	2006	USA	60
Evolution Studios	Unknown	Sony	2007	Japan	47

¹ Figure is approximate, based on 2006 annual report data regarding two acquisitions at \$7.5 million.

The resilience of the sector has been predicated on the M&A activity over the last 20 years, as small independent studios were acquired by larger IGS and operations expanded. Consequently M&A activity also led to new spin out firms emerging that would service the needs of the larger IGS in the ecology (Klepper, 2010). The nature of the industry meant that firms relied heavily on IGS and stayed very much in an exploitative state of organisational ambidexterity (Cadin and Guerin, 2006; Raisch *et al*, 2009). However, the shock of the 2008 global financial crisis hit the game industry hard resulting in a global reorganisation of IGS. At the same time technological changes were underway affecting the ways in which consumers accessed, purchased and played video games. This change came as a result of the convergence between mobile telephony and wireless Internet access, culminating in smartphone technology (Steinbock, 2003). By 2009 smart phone sales were rivalling sales of consoles, and by 2011 they has outstripped the new generation of hardware consoles by two to one as shown in figure 1.

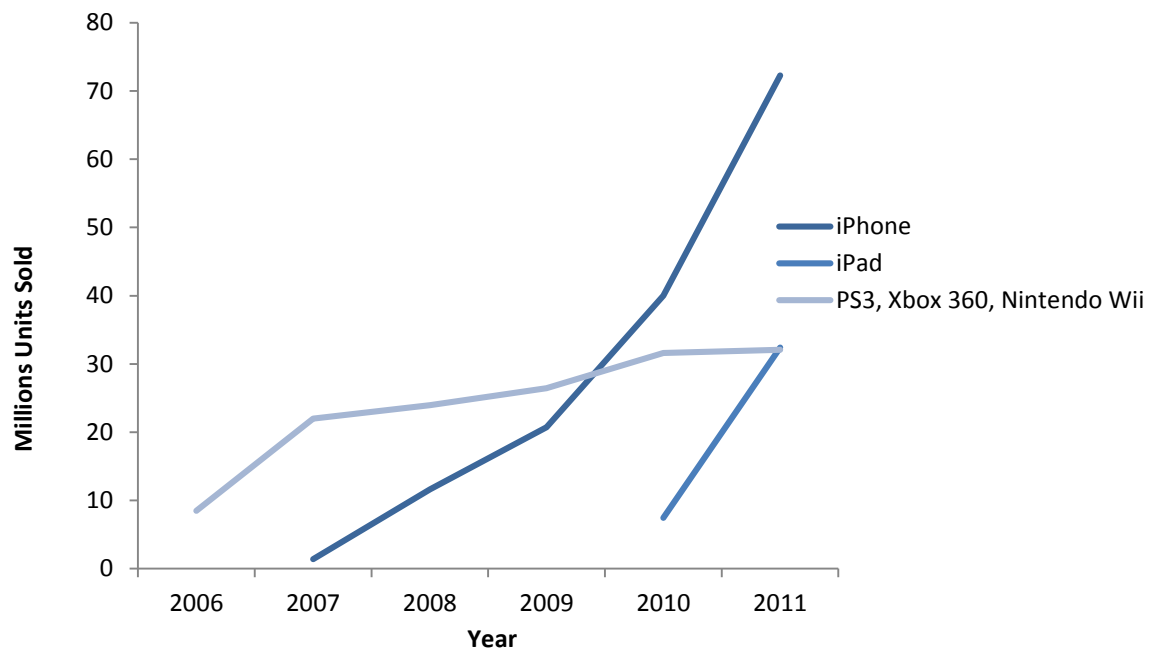


Figure 1 Unit sales 2006 – 2011 (Data Source: Apple Annual Report, Microsoft Entertainment Annual Report, Sony Computer Entertainment Annual Report and Nintendo Annual Report, 2006-2011)

As a result Liverpool’s video game ecology fell hostage to this reorganisation, losing three IGS and making over 100 people redundant (Liverpool Echo, 2011). The loss of three IGS are detailed in table 2.

Table 2 Firm closures in the Liverpool ecology

Company	Year of Acquisition	Year of Closure	Reason	Result
Sony	1993 (Psygnosis)	2012	Reorganisation of international operations	Five known spin outs located in the Liverpool ecology. A number of freelancers are still available in the Liverpool ecology
Activision	2007 (Bizarre Creations)	2011	No buyer found after the parent company decided to offload the struggling studio ¹	Three known spin outs located in the Liverpool ecology
THQ	2006 (Juice Games)	2011	Firm reorganisation and consolidation due to financial issues	Three spin out firms located in Manchester

Sources: Annual reports

¹Eurogamer (2011)

However, against this backdrop the sector has in fact grown from 9 firms pre-crisis to almost 30 in 2013. This resilience is contradictory to previous evolutionary processes whereby firms in Liverpool City Region remain dependant on IGS, avoiding exploratory states of organisation ambidexterity. Instead, external shocks have led to firms spinning out of the closure of IGS and a rhizomatic ecology emerging (Raisch *et al*, 2009). The breakdown of firms as of 2013 can be seen in table 3.

Table 3 Video game activity in Liverpool in 2013

Activity	Number of Firms	Micro	Small	Medium	Large	Number Interviewed
Developer	25	4(4)	20(11)	1(1)	0	16
Online Publisher	1	0	1(1)	0	0	1
Sound	1	1(1)	0	0	0	1
Visual art and graphic	1	0	1(1)	0	0	1
Outsourcing	1	0	1(1)	0	0	1
Multinational Studio	1	0	0	0	1(1)	1
Total	30	5	23	1	1	21

Firms were established within days of the IGS closures. Many of the new firm owner managers stated they used their own funds from redundancy or personal savings to establish a firm. The new firm formations are adapting to the new economic and technological contexts, yet still being able to utilise existing skills and networks. The new pathway for most firms was in smart phone game applications ('apps'). Rather than focusing on high budget big project 'Triple A' games, new business models focused on small budget 'apps' that required smaller project parameters. For many of the new firms in the city region app development is the predominant way of renewing the video games ecology. However, many of the smalls firms have to rely on contractual work from IGS to provide a cash flow in order to keep the business active and support the development of their own game apps. The firms are exhibiting an ambidextrous organisational form, returning to IGS for work they are familiar with and deemed normative, but also exploring new autonomous actions in 'app' development (Andriopoulos and Lewis 2009; Raisch *et al*, 2009).

“So we basically formed [a company] immediately after Bizarre Creations was closed, so February this year, yeah, so Bizarre was closed on the 18th February and pretty much the Monday after, so the 21st, we were up and running, kind of! Without any contracts or being able to pay staff, a group of us just decided like you know we’ll start a new company, we’re not going to get paid, so we’ll do it, we’ll give ourselves like three months of not getting paid to kind of see how things go basically, and try and win a contract” (Interview Developer 8, 30/11/11)

The quote above eludes to the challenges a new firm in the video game ecology faced, with individuals coming together without any projects to provide cash flow, only their ideas for future games. As another developer adds below:

“what we’ve been doing is when there’s outsource work to do, we’ll do that, and when there’s not we’ll work on our games.” (Interview Developer 3, 16/07/12)

Liverpool City Region had the support of the Regional Development Agency (RDA) until 2010 when the coalition government removed the regional institutions. The video games sector had support from the RDA, albeit relatively small compared to other sectors such as Life Science. However, the resilience of this sector is not predicated on hard infrastructures, institutional support or public money but on local reorganisation and self-funded entrepreneurialism (Rodríguez-Pose and Di Cataldo, 2014). The ecologies ability to renew after an economic shock is linked to the ability to utilise inherited connections and maintain soft infrastructures that are essential to creative ecologies (Howkin, 2010; Colapinto and Porlezza, 2012). Additionally, Liverpool City Region has provided a place in which these firms feel bounded to. The longevity of the ecology is yet to be determined as it sets of on a new trajectory without the successful IGS ability to breed successful firm spin-outs (Klepper, 2010). Further longitudinal research is needed to keep pace with the evolution and subsequent resilience of the sector in Liverpool, as well as situating the debate within the broader industrial and technological changes affecting the sector.

Reference

- Anderton, D. (2014) Firm Ecologies: Life science and video game industries in Liverpool. PhD Thesis. University of Liverpool.
- Andriopoulos, C., & Lewis, M. W. (2009). Exploitation-exploration tensions and organizational ambidexterity: Managing paradoxes of innovation. *Organization Science*, 20(4), 696-717.
- Balland, P. A., De Vaan, M., & Boschma, R. (2013). The dynamics of interfirm networks along the industry life cycle: The case of the global video game industry, 1987– 2007. *Journal of Economic Geography*, 13(5), 741-765.
- Boschma, R. (2015). Towards an evolutionary perspective on regional resilience. *Regional Studies*, 49(5), 733-751.
- Cadin, L. and F. Guérin (2006). 'What Can We Learn from the Video Games Industry?' *European Management Journal*, 24(4), 248-255.
- Christopherson, S., Michie, J., & Tyler, P. (2010). Regional resilience: theoretical and empirical perspectives. *Cambridge Journal of Regions, Economy and Society*, 3(1), 3-10.
- Colapinto, C., & Porlezza, C. (2012). Innovation in creative industries: from the quadruple helix model to the systems theory. *Journal of the Knowledge Economy*, 3(4), 343-353.
- Cooke P., Bristow G. and Porter J. (2011) Regional resilience literature review. Paper presented at Bordeaux, France, September 2011.
- Howkins, J. (2010). *Creative Ecologies*. London, New Brunswick.
- Johns, J. (2006) "Video games production networks: value capture, power relations and embeddedness", *Journal of Economic Geography*, 6(2), 151-180.
- Klepper, S. (2010) The origin and growth of industry clusters: The making of Silicon Valley and Detroit, *Journal of Urban Economics*, 67, 15-32
- Liverpool Echo (2011) 200 jobs to go at video games firm Bizarre Creations, Available: <http://www.liverpoolecho.co.uk/news/liverpool-news/200-jobs-go-video-games-3385736>, last accessed 27/10/15
- Isaksen, A. (2014). Industrial development in thin regions: trapped in path extension? *Journal of Economic Geography*, 15, 585-600
- Neffke, F., Henning, M., & Boschma, R. (2011). How do regions diversify over time? Industry relatedness and the development of new growth paths in regions. *Economic Geography*, 87(3), 237-265.

Raisch, S., Birkinshaw, J., Probst, G., & Tushman, M. L. (2009). Organizational ambidexterity: Balancing exploitation and exploration for sustained performance. *Organization Science*, 20(4), 685-695.

Rodríguez-Pose, A., & Di Cataldo, M. (2014). Quality of government and innovative performance in the regions of Europe. *Journal of Economic Geography*, 15, 673-706.

Simmie, J., & Martin, R. (2010). The economic resilience of regions: towards an evolutionary approach. *Cambridge journal of regions, economy and society*, 3(1), 27-43.

Southern, A. (2014). "Enterprise, wealth creation and place: A case study of the Liverpool city-region. *Enterprising Places: Leadership and Governance Networks*", *Contemporary Issues in Entrepreneurship Research*, 3, 227-257.

Steinbock, D. (2003). Globalization of wireless value system: from geographic to strategic advantages. *Telecommunications Policy*, 27(3), 207-235.

Toulmin, S. (1990). *Cosmopolis*, Chicago, IL: University of Chicago Press.