

# Experimental Music: Innovation, Projects, and Dynamic Capabilities in the Pop Music Industry

Mark Lorenzen\* and Lars Frederiksen\*\*

*\*Danish Research Unit on Industrial Dynamics (DRUID)  
Research Center on Dynamic Market Organization (DYNAMO)  
Department of Industrial Economics and Strategy  
Copenhagen Business School  
[mark@cbs.dk](mailto:mark@cbs.dk)*

*\*\*Learning Lab Denmark  
and  
Danish Research Unit on Industrial Dynamics (DRUID)  
Research Center on Dynamic Market Organization (DYNAMO)  
Department of Industrial Economics and Strategy  
Copenhagen Business School  
[lf.ivs@cbs.dk](mailto:lf.ivs@cbs.dk)*

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## ABSTRACT:

The paper treats the organization of innovative activities, building a theoretical argument about those cases where innovation is organized as *experimentation in project networks*. The paper suggests that the way project networks are coordinated on a market — by people holding the dynamic capabilities to set up and manage them — influences the nature of product innovation on that particular market. The paper exemplifies the explanatory power of its argument by analyzing the pop music industry in a novel way. In order to account for the nature of product innovation in the Danish pop music industry, the paper investigates product innovation types, project coordination tasks, and the market organization of project networks, in the pop music industry in general, and on the Danish market in particular.

Keywords: Product innovation; experimentation; coordination; market organization; projects; competences; dynamic capabilities; clusters; creative industries; music; record companies; Denmark.

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# 1. Introduction

This paper seeks to add to our understanding of the determinants of *organization of innovation through experimentation*. More specifically, it sketches out some elements of a theory of *dynamic capabilities of project organization*. Theoretically, it combines the competence- (or resource-) based approach within organizational economics with insights from organizational theory, economic sociology, as well as economic geography. Empirically, the paper analyzes the organization of product innovation in *the Danish pop music industry*.

The point of departure of the paper is that the scope for organizing product innovation is different for different industries, for reasons related to dominant technologies and customer demand types. However, in an industry, within this scope, innovation may still be organized in more or less efficient ways. We adopt the point made by Carlsson and Eliasson (2001) that in industries with great market uncertainty, innovation takes place as *experimentation*, i.e., open-ended search processes where testing — market selection between good and bad solutions — is key. Such experimentation may be organized in different ways. The paper focuses upon industries where product life cycles are short and product innovation rates hence need to be high. In such industries, temporary *projects* constitute an organizational form allowing for a high level of experimentation. Project organization — and particularly, projects on markets (i.e., inter-firm project *networks*, as opposed to intra-firm project *teams*) — currently attracts increasing attention within the literatures on economic organization on one hand (Ekstedt et al., 1999; Davis and Brady, 2000), and economic geography, on the other (Grabher, 2002). Theoretical insights on projects as a distinct form of market organization are still sparse and heterogenous.<sup>1</sup> Hence, this paper dedicates attention to developing such insights. It stipulates that there are different ways of organizing projects on markets and that, depending on industry context, some ways of *coordinating* them are more efficient than others.

To empirically illustrate the power of its theoretical arguments, the paper analyzes project-based experimentation in the Danish pop music industry. As the pop music industry shares some characteristics of project organization with a range of other industries, our analysis may not only explain the organization of innovation within this particular Danish industry, but also inspire analysis of organization of product innovation in other industries. Creative industries (Caves, 2000)<sup>2</sup>, like the pop music industry, constitute excellent examples of product innovation through experimentation, as markets for creative products are characterized by ambiguous customer tastes, with very few products succeeding to sell on a large scale (Negus, 1992; Vogel 1998). Generally, creative industries rest upon configurations of, on one hand, competences related to creating artistic product 'content' (OECD, 1997; Castaner and Campos, 2002), and, on the other, competences related to the 'humdrum' activities of manufacturing, marketing, and distributing products (Caves, 2000; Davis and Scase, 2000). As such different competence types are not easily integrated into single firms, creative industries consist of complex networks of specialized agents. How such networks are organized and facilitate product innovation often differs between market contexts.

The need for experimentation is particularly acute for the pop music industry, where life cycles of the main pop music products (i.e., music contained on CDs and various new media) are short and consumer tastes are ambiguous. The paper

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<sup>1</sup> But see Goodman and Goodman (1976) and Hobday (2000).

<sup>2</sup> Caves (2000: vii) defines creative industries as those where "...the product or service contains a substantial element of artistic or creative endeavor".

analyzes the organization of product innovation within the pop music industry (that is, addressing how music is *commercialized* in new ways on e.g. CDs — not how it is created in artistic processes). One prominent feature of the organization of innovation of pop music products is that it takes place in project networks. However, how these pop project networks are organized differs between national and regional contexts. For example, there are significant differences in how different industrial players interact in pop project networks in e.g. the UK, the US, Sweden, and Denmark. This is, of course, due to different national histories, home markets, and institutional set-ups in national innovation systems (Lundvall, 1992; Nelson 1993; Braczyk et al., 1998) — for example, national educational systems, legal regimes, and industrial policies related to the music industry. We touch upon these issues in analyzing the organization of product innovation in the Danish pop music industry.

The paper is structured as follows. Section 2 outlines our theoretical framework, outlining the problems of innovation, experimentation, projects, coordination, and market organization in turn. Section 3 then provides an overview of the pop music industry, outlining the main innovation types, competences and coordination tasks, as well as the organization forms that are found within the industry. Section 4 presents our case study of the Danish pop music industry, analyzing its particular organization of project-based experimentation. We claim that the dominance of global major record companies in connection with a lack of experienced project coordinators creates a particular pattern of product innovation in this national industry, which may limit the scope for utilizing new market opportunities. Section 5 discusses the contribution of the paper and makes some concluding observations.

## 2. Innovation, Project Organization, and Coordination

For the innovation as well as production of goods and services, the economy brings together single agents holding particular competences needed for the specialized tasks involved (Smith, 1776; Richardson, 1972): Competences (or, in Hayek's (1945) formulation, knowledge) are distributed. A high degree of specialization, i.e., when competences are widely distributed, has important impacts upon the organization of product innovation. Some of these impacts will be discussed in what follows.

### **Innovation and Projects**

#### *Experimentation and projects*

In industries where markets are characterized by high uncertainty, innovation can be described as experimentation — i.e., economic agents undertake learning and search processes, and successes are separated from failures through selection processes (Carlsson and Eliasson, 2001).

How does experimentation related to product innovation happen? In many (predominantly mature) industries, product innovation may be incremental and take place 'by-doing', as an integral part of production within firms. If higher product innovation rates (and more radical innovation types) dominate (for example, when product life cycles are short) and/or if innovation rests upon radically other competences than those employed in production, innovation may be allocated to dedicated R&D laboratories (internal to firms or outsourced).

Firms and R&D laboratories are typically long-lived organization forms (some R&D laboratories have grown to become more famous than the companies that set them up).

To facilitate some other types of product innovation, however, it is fruitful to set up temporary constellations (task forces) of competent agents: Projects (Goodman and Goodman, 1976; Ekstedt et al., 1999; Davis and Brady, 2000; Hobday, 2000; Grabher, 2002). This may be in the case of making one-shot products (for example, highly customized products as in the construction or advertising industries). Project-based innovation may also be an appropriate solution to facilitate open-ended invention and testing of new products, marketing methods, etc., on uncertain markets, over limited (if often flexible) test periods. Project-based innovation is of course necessary within new industries where a demand has to be created from scratch. It is, however, also very common within mature industries with volatile markets and ambiguous consumer demands, such as creative industries like film or pop music.

Contrary to firms or R&D laboratories, projects are temporary organization forms. Hence, in industries where experimentation is undertaken in projects, selection between successes and failures may take place at project level (through setting up and termination of projects), rather than at firm level (through entry and exit). Such project-based experimentation allows for both 'not keeping losers for too long' and 'not losing winners' (Carlsson and Eliasson, 2001: 6), as a high level of selection may be upheld in an industry without it losing useful competences (as would be the case if mistakes should be weeded out through exit of firms rather than the termination of projects).<sup>3</sup>

#### *Project teams and project networks*

We shall distinguish between two types of projects with different types of ownership: Project *teams* and project *networks*, respectively. In some cases, all the competent agents needed for a project can be found internally in one firm. A project can then be regarded as a project team internal to a firm (Middleton, 1967). Some competences, however, are not easily integrated into the same firm, due to lack of scale or scope advantages. This is true, for example, for the creative industries, where product innovation projects consist of configurations of 'artistic' and 'humdrum' competences that are rarely integrated into the same firms (Caves, 2000). In cases such as this, projects need to cross firm boundaries, because they need to incorporate competences held by agents who are freelancers or employed in different firms. Such projects take the form of temporary market-based networks of competent agents: Project networks. Even if project teams are under unified ownership and project networks are market-based, they both constitute forms of market organization that are distinct from firms (Maskell and Lorenzen, forthcoming 2003).

### **Project Coordination**

#### *Coordination costs of projects*

While project networks hence ideally allow for experimentation, product innovation, and market creation, this form of market organization is only successful when its innovative benefits are not offset by high costs of

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<sup>3</sup> Of course, entrepreneurship — the entry of new economic agents — is also needed in project-dominated industries, to introduce new competences. The point is that project organization may make a lower exit rate viable, even with high demands for experimentation.

*coordination*. Coordination costs can be defined as the resource costs (money; time) of poorly aligned information; conflicting interests; or lack of shared knowledge.<sup>4</sup> The costs of coordination related to projects in general include:

- Search costs and other costs related to poor information among participants;
- Transaction costs related to interest conflicts among participants (Williamson, 1985);
- Communication costs related to cognitive distances among participants — i.e., the resource costs of misunderstandings among participants with different mindsets or expectations (Foss and Lorenzen, forthcoming 2003).

Such costs may be severe, due to the high specialization of project participants, who often, besides possessing different competences, also have different sources of information, interests, and differ 'culturally' in terms of beliefs, languages, norms, and practices.

While interest conflicts and cognitive distances may be present in all project types (including those inside firms in teams), they may be particularly severe in project networks that cross firm boundaries. First, because 'organizational' differences between different firms that may employ the project participants can aggravate the information costs and cognitive distances among them. Second, because such projects are not internalized under the same ownership, they are not able to draw upon one firm's governance and incentive structures in order to lower the costs of interest conflicts.

Furthermore, as project networks on the market are temporary in nature, they rarely develop strong informal institutions (such as networked trust and shared 'codebooks' for communication) similar to those of more stable market networks like supplier networks or strategic alliances (Lorenzen, 2002).<sup>5</sup>

#### *Coordination by specification*

How, then, are project networks on the market coordinated?

Sometimes project networks are set up by one dominant agent who, even without ownership of the competences, takes on a role coordinating them — typically, determining the 'variety range' and time allowed for experimentation, and imposing rules, payment structures, or other governance mechanisms that bring down the costs of differing incentives among project participants. In the creative industries, for example, museums, major record companies, or TV production companies sometimes set up project networks, hiring a range of external specialists, with relatively clearly specified tasks and paid by the hour.

However, some project networks are initiated jointly by (most) participants, and many simply cannot be governed by specification in the above manner, as they are set up in order to facilitate experimentation. In the latter cases, tasks may be open-ended and hence difficult to specify, and project participants may shift over

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<sup>4</sup> It should be noted that most projects run past the time that was originally set for their completion, and exceed their budgets, due to their experimental nature. Hence, it may sometimes be difficult to determine whether a project has *excessive* costs or not.

<sup>5</sup> A firm-based project team may also, due to its temporary nature, develop fewer and weaker institutions such as routines, rules, codebooks, and information structuring institutions (such as information 'gatekeepers'), relative to a stable team. Hence, it may have to rely upon the general governance and incentive structures in the firm in which it is based, and these may be poorly suited for coordinating the specialized tasks of the project (in fact, the need for alternative coordination mechanisms may be the very reason that a project is administratively separated from the rest of the organization).

time, as the competences needed for the project may also shift over time. Projects set up to experiment need to be coordinated flexibly.

#### *Coordination and cluster effects*

For coordination of such projects, *positive network externalities* — from earlier projects, or other types of networks — play a central role.

Many projects cluster together in 'ecologies': Relatively stable groups of people participating to shifting projects (Grabher, 2002; Engwall, 2002; Davis and Brady, 2000). Such ecologies may be found at the level of national industries, or more importantly, in geographically proximate urban or regional industrial *clusters* (Staber et al., 1996; Porter, 2000; Maskell, 2001; Lorenzen, 2002). In such ecologies or clusters, it is, *ceteris paribus*, less likely that agents are total strangers before they enter into a project with each other, and uncertainty is, in some respects, lower. First, agents may have met before, through participation to earlier projects; through other professional activities (such as earlier employment; education; conferences; etc); or in social life. This facilitates a higher level of shared knowledge, meaning that the participants to a new project do not start from scratch when they want to coordinate their tasks: Cognitive distances may be lower, and they may even have built mutual trust already. Second, agents may also be linked by 'weak ties' — personal networks of 'friends' friends' (Granovetter, 1973). Such ties facilitate broad information sharing, bringing down uncertainty. For example, information sharing facilitates reputation effects (social sanctions against agents who behave opportunistically) and social trust (a general willingness to trust other members of the cluster), and this brings down the overall level of coordination costs for the majority of the cluster's project networks (Lorenzen, 2002).

#### *Project coordinators and dynamic capabilities*

Another important feature of clustered ecologies of projects is the existence of pools of experienced *project coordinators*. After a project is dissolved, collective experiences and knowledge assets are often dispersed. However, some single project participants (seek to) capture particular assets. Notably, over time, a select few people are usually able to accumulate the capabilities needed to coordinate projects, and hence often come to play a central role for coordination of new projects. Such project coordinators are able to:

- Spread information among project participants;
- Mediate interest conflicts among project participants, through facilitating negotiation or through imposing or suggesting rules or actions;
- Compensate for cognitive distances among project participants, through stimulating mutual learning or through imposing or suggesting solutions to cognitive coordination problems (Foss, 2001).

Project coordinators typically combine strong personalities with long experience with participation to a diversified range of projects. The result is that they hold knowledge of all the distributed competences and tasks included in particular project types, and all the tasks (and potential problems) related to coordinating them. For example, in projects in the creative industries, project coordination often necessitates knowledge of the different tasks of creating, marketing, and distributing artwork, in order to foresee the conflicts and communication problems among project participants with each their peculiar competences and interests, related to artistry, marketing, and distribution, respectively. Furthermore, project coordinators often possess knowledge of which agents may

be suitable for new projects ('know-who'), and have access to updated information (typically, through their personal networks) about different agents' current competences and availability. Hence, project coordinators are also capable of managing the *time* aspect of project coordination: If market opportunities change rapidly, projects need to be set up, changed, or terminated with short time limits.

In a resource-based terminology (e.g. Penrose, 1959; Wernerfelt, 1984; Barney, 1991; Peteraf, 1993), what is needed to set up, coordinate, dissolve, and set up anew project networks, at the appropriate time and place, can be an example of *dynamic capabilities* — i.e., the abilities to constantly combine shifting assets (internal as external) in new valuable ways (Kogut and Zander, 1992; Leonard-Barton, 1992; Teece et al., 1997) — we might add: While keeping coordination costs down.

Some project coordinators derive some of the above-mentioned all-round knowledge of the various competences and tasks involved in a project from a 'scientific logic' (Grabher, 2002), achieved, for example, at management schools. School courses need, however, to be highly tailored to specific industries and specific types of projects in order to provide students with the necessary insights.<sup>6</sup>

The majority of project managers, in fact, have learned their competences from another source: Hands-on experience. Many have learned about the different competences and tasks involved in particular projects by having 'been around' a range of different functions throughout their career, through employment in a range of different firms undertaking different project tasks. Such careers of learning project coordination competences through 'apprenticeship' in the industry are particularly frequent within clustered 'ecologies' of many firms and projects, offering people a broad range of job opportunities within the same industry. Another way of learning project coordination competences is through having a job that allows for *contact* with a range of different specialized agents who typically participate to projects (this is also the way coordinators build the personal networks that give them access to information).<sup>7</sup> For example, many 'Artist & Repertoire' (A&R) workers in record companies learn some aspects of project management on-the-job, as they sign new artists and arrange for the production of their records, while also having to present the product to the company's marketing and exploitation departments.

## The Organization of Innovation

### *Organization of innovation and organization of project coordination*

It follows from the above that, for industries relying upon project organization for experimentation and innovation, we can rephrase the important question *How is innovation organized on the market?* to *How are projects organized?*, or more specifically:

- To which extent are dynamic capabilities of project coordination in an industry held by *freelancing* coordinators (typically, acting as consultants)?

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<sup>6</sup> Notably, in some clusters, specialized courses are set up to teach project coordination competences addressing particular industries. For example, the Danish pop music industry now boasts two "Music Management" courses, one in each of the urban clusters where pop music projects are abundant (Copenhagen and Århus).

<sup>7</sup> Hence, 'gatekeepers' of information in firms or networks are often the same persons who possess project coordination competences.

- To which extent are project coordinators in an industry *employed* by firms (Davis and Brady, 2000)? Which firms?<sup>8</sup>
- To which extent is an industry *clustered* geographically, and what role do information sharing, reputation effects, and social trust within such clusters play for project coordination?

As mentioned, we would expect some general factors — such as technological possibilities and world market developments — to influence the scope for market organization of innovation within any industry. For example, it is the specialized nature of many process technologies that means that there are no economies of scope of integrating them into the same firms. Further, it is high demand uncertainties that render outsourcing (capacity subcontracting) a necessity for firms selling to particular consumer markets.

#### *National and regional differences in organization of innovation*

However, many industries exhibit stable differences with regards to market organization across nations, or even regions. For these industries, there are national or regional differences in the degree to which projects are internalized into single firms; and in the extent to which freelancers; large firms; or small firms hold the dynamic capabilities of project coordination. The central question here is, of course, which impact such differences of market organization of innovation have upon the product innovation rates and economic performance of these national or regional industries. Can we say that some national or regional industrial systems are organized sub-optimally with regard to innovation?

The following sections address this question empirically, for the pop music industry. Section 3 sketches out some of the general traits of market organization in the global pop music industry. Section 4 addresses the particular market organization of the Danish pop music industry, uncovering national peculiarities with respect to how product innovation is organized, in terms of where dynamic capabilities of project coordination are created and where they reside in the industrial system.

### 3. Product innovation, Coordination, and Organization in the Pop Music Industry<sup>9</sup>

This section addresses the question of product innovation in the pop music industry (and hence excludes from the analysis innovation of facilitating technologies — such as digital compression and distribution technologies — that also impact this industry (Tidd et al., 2001)). The section outlines some general product innovation types in the pop music industry, the different competences

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<sup>8</sup> Here, industry structures and entrepreneurship clearly play roles for the organization of projects, because these factors influence the number of independent project coordinators as well as the nature of the firms that may employ them.

<sup>9</sup> The empirical illustration provided in sections 3 and 4 rests on the research projects *Economic Organization and Innovation in the Entertainment Industries: The Industrial Dynamics of the Pop Music Industry*, managed by Lars Frederiksen (Copenhagen Business School, Denmark) and funded by Learning Lab Denmark; and *Behind the Music: A systems Approach to the Dynamics of the Nordic Music Industry*, managed by Markus Bugge (STEP, Norway) and funded by Nordic Industrial Fund. The principal data on the Danish pop music industry is constituted by statistics from Statistics Denmark; Danish Music Information Center; IFPI Denmark; KODA; and Danish Musicians' Union; plus 20 semi-structured interviews of managers and freelancers, carried out in 2002 and supplemented by web and literature studies 2001-2002.

related to them, as well as the critical tasks arising when these competences are to be coordinated in projects. The section also presents the different types of agents in the industry who participate to the organization of projects and product innovation — albeit in different configurations in different national industries.

## **Product Types**

### *Intellectual property rights*

In the pop music industry, the central asset, around which all products are created, is the property right to music (Andersen & Miles 1999; Silva and Ramello, 2000). Such rights belong to the artist who writes the music, and are secured institutionally through national and international collection agencies.<sup>10</sup> However, in order to profit from his rights, the artist needs to access the pop music market through other agents who are better equipped to create and market music *products* (such as record companies and publishing companies, discussed in detail in the section below on “The Organization of Project Networks”). This means that the artist sells the rights, usually, for a limited period of time and for specific markets, to utilize the music in a range of different products, in return for a share of the earnings.

### *CDs*

The most important such product today is ‘recordings’, i.e., mostly music CDs. The so-called ‘mechanical royalties’ from music — the sales of music CDs — constitute the main source of earnings in the pop music industry (although the bulk of these earnings are captured by the agents that market the music, rather than the artists).

### *Performance and licensing*

To a smaller but growing extent, royalties from radio and TV airplay (‘performance royalties’, which to much larger extent benefit the artists), and the sales of music to other industries, such as the computer game and mobile phone industry, also create value. Property right holders also make some earnings by licensing of property rights to other artists, whereas concerts, events (such as award shows), and use of music in movies mainly serve for marketing purposes rather than sources of earning in their own right.

## **Innovation Types**

We shall discuss the innovative processes forming the basis for the above products in the pop music industry: First, *invention* of artistic content (that is, music), and then commercialization of this content through three central product *innovation* types: CDs with new music; CDs with existing music; and the exploitation of existing music in other media.

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<sup>10</sup> Examples are ASCAP and BMI in the US, MCPS in the UK and NCB in Scandinavia.

### *Invention: Musical content*

The first and central process feeding into to product innovation within the pop music industry is *invention of 'art'*, i.e., new musical content: New pop songs.<sup>11</sup> On one hand, invention of musical content is a core process around which all product innovations revolve: Songs give rise to music property rights and feeds into all music product types (CDs; royalties; new media, etc.). Constant invention of musical content is necessary, as product cycles for most songs are short on the markets for pop music. As consumer tastes on these markets are also highly ambiguous, invention of musical content is open-ended and characterized by experimentation. Record companies continuously search for new songs that are ongoingly launched on markets in order to test whether they have sales potential.

On the other hand, invention of musical content need not lead to a product innovation in an Schumpeterian sense (Schumpeter, 1939) — e.g., a CD creating Schumpeterian rents.<sup>12</sup> Consequently, we shall not discuss further how e.g. new musical styles arise (for a discussion, see Shuker (2001)). In stead, we shall focus only upon the cases where musical content is *commercialized* in products.

### *Product innovation, I: CDs with new music*

The testing and exploitation of new music content on markets is mainly done through a first type of product innovation: *New CDs with new musical content*. The innovation and exploitation strategies concerning this product type differ. Some record companies aim at experimenting mainly with single *songs* ('hits') from artists that may not necessarily release a full album later, releasing CD singles and compilation albums. Single songs are also what may later give rise to royalties from licensing recording rights to other artists. Most record companies, however, aim at finding and signing *artists* who, in the longer run, turn out sellable songs as well as albums on a regular basis. In this case, companies release CD albums (which may be supported by CD singles), aiming for slower but lasting sales of CD albums from a broad catalogue, backed by the few hits and quick sales that may arise in the process. Like single songs, however, many artists also have relatively short life cycles, necessitating record companies to constantly search for new artists. A few particularly successful artists may be branded as lasting pop 'stars', creating long-term sales of CD albums from the catalogue, as well as non-music merchandize (such as posters, clothing, etc.), which also create earnings for some companies.

### *Product innovation, II: CDs with existing music*

Another type of product innovation is *new CDs with previously released musical content*. This innovation type exploits existing material and property rights through new marketing initiatives. The products that are introduced on the market are typically re-releases of old albums (for example, CD versions of LPs or remixed versions of CDs from the catalogue), or new compilations ("Best of..."; "Hits of the 90s", "Summer Hits", etc.) These products are not based on musical inventions, but on marketing innovations.

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<sup>11</sup> Note that this definition of *invention* of musical content does not rest on a qualitative evaluation of the music's artistic 'quality' (an impossible exercise!). To be an invention, a song simply needs to be new (even if it is sometimes hard to judge when music is new and when it is plagiarism) — not necessarily stylistically trend setting.

<sup>12</sup> For pop music, there is a limited 'design space' for inventions, as pop music consumers have low cognitive capacity to appreciate radical musical inventions ('avant-garde' music).

### *Product innovation, III: Exploitation of existing music in other media*

A third product innovation type is *exploitation of previously released musical content in new media*. First, new technologies invented in other industries may be used in the pop music industry, providing new customer value — related to distribution, flexible use, etc., of music. Well-known examples are MP3 technology (even this technology has not yet be leveraged as a distribution platform by the pop music industry, which has mostly regarded it as a threat to sales), and web-based sales of CDs, sheet music, merchandize, etc. Second, music may be sold by agents in the pop music industry to other industries for incorporation in new types of products. Examples include DVDs; computer games; or ring signals for mobile phones. This latter type of product innovation is almost exclusively used in order to exploit the property rights to well-known hits.

## **Coordination Tasks**

Which competences are needed to undertake these types of product innovation, and what happens at the interfaces between the people who hold these competences? In other words, which are the critical coordination tasks? We shall focus upon the coordination tasks connected to the main sources of earnings, i.e., musical invention and product innovation as release of new music in CDs.

### *Coordination tasks related to invention*

In the invention of musical content, the coordination tasks encompass:

- *Coordination within songwriting*. This is rarely an activity area with much coordination needed, because mostly, single artists undertake songwriting as a one-man activity. In the few cases where several artists write songs jointly, they do so in small, tightly knit, and often long-term partnerships or collectives — i.e., bands, or in some cases, 'fame factories' (specialized art firms or groups producing and selling songs within particular styles).<sup>13</sup> Within such tight musical collectives, personal friendships and trust help lowering coordination costs, and shared artistic visions constitute a codebook facilitating cognitive coordination. Furthermore, the well-defined international intellectual property right regime clearly determines payment structures among cooperating songwriters.
- *Coordination within performance*. In the cases where several artists cooperate about performance — i.e., bands —, personal friendships, trust, shared artistic visions, as well as pre-specified property rights to songs also facilitate coordination. Another coordination task within a band may be the distribution of income generated by CD sales. This distribution is mostly specified in the contract signed by the band's record company.
- *Coordination between songwriting and performance*. In the cases where performing artists also write the songs, there are of course no coordination tasks in the interface between these activities. Whether this is the case often depend upon musical style. Whereas e.g. Rock or Hip Hop performers mostly write their own songs, this activity is sometimes outsourced to specialized songwriters within Mainstream pop, Country, or R&B music. In most cases, such songs are bought on an international market, where international music publishing companies administer the publishing rights to songs for

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<sup>13</sup> Examples are Sweden's Cherion or firms in Nashville's Music Row.

songwriters.<sup>14</sup> This relatively centralized administration makes search tasks relatively easy, and eases the task of agreeing upon price and payment structures. In many cases, performers do not even interact with songwriters, as record companies and music publishing companies handle deals. In the few cases where songs are written directly for a particular performer, it takes more communication to the songwriter in order to solve cognitive coordination problems and get the style, lyrics, etc., right, but personal interaction between performer and songwriter is still relatively rare.

- *Coordination between songwriting, performance and recording, production, remixing, etc.* How much coordination is needed among these activities depends upon music style. In R&B, Hip Hop and Dance music, songwriting, recording, production, and remixing are often integrated activities. Within these styles, a producer may also be a remixer, a performer may also be a producer, a producer may also write songs, etc. Where different people undertake these activities, frequent personal interaction is usually necessary to solve the complex cognitive coordination problems concerning styles, musical expressions, and sound design. Concerning prices and payments, a few activities are sometimes undertaken as personal reciprocal favors, with no payments (typically in 'underground' musical milieus within industrial clusters with abundant personal networks and reputation effects).<sup>15</sup> Mostly, however, recording, production, and remixing services are bought by a band or a record company and paid by the hour. It should also be noted that there is usually less integration between performance/songwriting and production (much less, remixing) within Rock music.

#### *Coordination tasks related to the release of new music on CDs*

As mentioned, this first type of product innovation constitutes the main source of earnings in the pop music industry. It is characterized by much more complex and critical coordination tasks. For CDs with new musical content, the critical interface — in fact, the most critical coordination interface in the entire pop music industry — is between music invention and marketing/distribution activities (the latter constituting the 'humdrum' activities of the industry (Caves, 2000)).

- The first task in the interface between musical invention and humdrum activities is *coordinating music to markets*. Even if pop music markets are uncertain and necessitate experimentation, the costs of failed experiments would undermine profits in the industry if there were no ways of coordinating new musical content and the marketing of it. As some music sells better than other, and as it is difficult for record companies to control which new music is invented<sup>16</sup>, these companies are very dependent upon well-functioning A&R ('Artists and Repertoire') activities: The scouting for and signing of the songs and artists with the largest market potential. The competences needed in order to coordinate music to markets though successful A&R is, first, (some) knowledge of artistic activities and content invention. Second, a constant high level of updated information on market developments (amounting to a 'feeling' for styles, audiences, clubs, etc.). Third, successful A&R also rest upon knowledge of the humdrum aspects of marketing methods (and, to a lesser extent, also distribution).

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<sup>14</sup> Examples are EMI Music Publishing, BMG Music Publishing, or Warner-Chappell Music.

<sup>15</sup> For discussions of geographical clustering of the pop music industry, see Scott (2001); Malmberg, Hallencreutz, and Lundquist (2001); or Power & Hallencreutz (2002).

<sup>16</sup> The (infamous) cases, where record companies try to influence the invention of music, inducing artists to write, perform, or produce music with higher expected market value, are rare.

- The second major task relates to *coordinating marketing to music*. In the pop music industry, many record companies try to lower the high market uncertainty through influencing consumer preferences through marketing and promotion efforts. As some marketing efforts are more successful in selling some music than other, record companies constantly strive to adopt the most appropriate marketing methods for particular songs or artists. Music marketing has a central *time aspect* to it. First, the recording and production of CDs need to be timed to marketing initiatives. Sometimes, the finishing of a CD album needs to be speeded up if a released first CD single proves to be a hit. Secondly, and most importantly, initiatives concerning TV and radio promotion; press releases and interviews; Web-based promotion, tours, and other events all need to be coordinated in time. The competences needed for coordinating marketing to musical content is, first, knowledge of marketing methods, and second, knowledge on markets, meaning a basic insight into musical content and styles. Third, and notably, coordinators of marketing to music need a constant high level of information on the artists that are to be marketed (in other words, ongoing A&R activities).

Innovations of other product types, i.e., release of new CDs with previously released musical content (e.g., compilations), and for the sales of music for use in games or mobile phones are not characterized by coordination tasks related to finding and signing new songs or artists. Here, coordination tasks related to marketing are central. However, in the long run, these product innovation types of course also feed upon constant signing of new musical content.<sup>17</sup>

## **The Organization of Project Networks related to New CD Releases**

How may the above-mentioned coordination tasks related to product innovation within the pop music industry be solved? We again focus upon the release of new music on CDs, and ask: What is the scope for organizing this most important product innovation activity (Lopes, 1992; Huygens et al., 2002)? In order to understand why there are national differences in how innovation of new pop CDs is organized, we shall take a look upon the *agents* — freelancers and firms — participating to this innovation activity. It is in their relative size, power, and mutual relationships we find the most interesting national differences.

### *The importance of pop music project coordinators*

Of central importance for organization is the fact that, as illustrated above, very different specialized competences — spanning from songwriting skills to marketing skills, and including coordination skills — are involved in the release of new music on CDs (Lampel et al., 2000). Hence, the production and marketing (and often also the writing) of each new CD is organized as a temporary project that brings together these competences for a limited period of time. The configuration of networks of specialized agents in the pop music industry is not

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<sup>17</sup> A few observations on coordination tasks related to Web-based marketing, sales and distribution can be added. Here, there is a need for holders of the mechanical royalties to music (i.e., record companies) to coordinate their normal marketing activities with Web page designers and ASP providers. This has proved notoriously difficult for even major record companies. And whereas most record companies experiment with using the Web as an add-on for their usual marketing and promotion activities, few are ready to embrace new Web-based distribution technologies, such as MP3.

stable value chains, but rather a value 'soup', floated with projects.<sup>18</sup> Each project constitutes an experiment with new artistic content and, sometimes, new marketing methods or channels.

The people who hold the different specialized competences needed for a CD project cannot be found within one firm. For example, on one hand, a record company holding marketing skills would enjoy no scope economies of integrating activities such as songwriting, performance, production, remixing on one hand, or video production, photography, distribution, ASP provision, etc., on the other.<sup>19</sup> On the other hand, most agents who write, perform, record or mix music pride themselves of not belonging to an 'economic' logic (which would allegedly 'contaminate' their artistic competences)(Lampel et al., 2000). Hence, the division of labor between independent agents within the pop music industry is large. It is the tasks of coordinating these agents that are central for the innovation of new music CDs.<sup>20</sup> Who, then, undertakes the tasks of coordinating CD projects?

As in other creative industries, experienced project coordinators play a central role. Within national (or regional) pop music industries, there is a select number of experienced people who hold knowledge of both music content, market developments (a 'feeling'), and the humdrum aspects of marketing and distribution, as well as having access to good information through their professional and personal networks. They have typically developed these competences and connections through their participation to a range of different CD projects, often with different roles (some project coordinators have worked both as musicians, producers, managers, talent scouts, salesmen, etc.) Project coordinators may be employed in record companies — small independent labels, or global major labels.<sup>21</sup> They may also, albeit more rarely, work as independent managers or consultants. Exactly this organization of project coordinators — for example, the degree to which record companies have appropriated their competences through hiring them — is a key aspect of the organization of product innovation within the pop music industry. Further, it is one important aspect in which some national pop music industries differ.

There are distinct advantages and disadvantages of different ways of organizing project coordinators with respect to product innovation. We shall discuss the advantages and disadvantages of the organization of project coordinators as employed by global major record companies; employed by independent labels; and as independent consultants, in turn. Basically, whereas independent labels often possess project coordination competences making them able to coordinate both music to markets (talent spotting) and markets to music (addressing demanding and specialized consumer markets), they lack the economies of scale related to 'humdrum' activities of finance, distribution, and marketing, possessed by the major companies.

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<sup>18</sup> Contrary to a value chain, in such a 'value soup' with shifting configurations of agents in networks, 'value' is also added in constantly shifting places.

<sup>19</sup> However, Web design is often integrated into record companies, as there are significant time aspects to coordination in the interface between this function and marketing, and as some scale advantages of integrating it may be found.

<sup>20</sup> For that sake, most of these agents are also needed for other product innovation types, such as compilation CDs.

<sup>21</sup> Examples are EMI, Universal, BMG, Time Warner, and CBS.

### *The role of global major record companies*

Global major record companies are present in most national pop music industries, and in some markets, they have come to completely dominate sales (often through acquiring several existing smaller national labels). The major assets of these majors are their access to finance and distribution through their global networks, as well as their (relative) size on home markets. This provides them with important competences within marketing and promotion. On export markets, they enjoy the possibility of using the marketing contacts and knowledge as well as the distribution channels of other national branches of their mother company. On home markets, they often enjoy scale advantages in marketing (there are several such scale advantages of promoting and distributing several artists at a time). They also have the financial strength (and, often, brand value) to be able to capture (buy or persuade) artists or bands from other national labels to sign with the major company instead.

Majors may also be competent within A&R. Normally, they hire experienced project coordinators as A&R staff (and as there is often competition over these people in national industries, majors may pay extravagant wages in order to appropriate this important asset). A&R staff may then combine their personal knowledge of music invention and information channels (personal networks to artists) outside the major record company with the information on marketing and distribution they may access internally in the company.

The typical procedure when a major record company coordinates a CD project is that it deploys a wide range of its internal marketing and promotion people (who work simultaneously on many projects, dedicating part time to the project in question, over a longer period) and hires external project participants (who work more dedicated on fewer (or just this one) project over a briefer period) for music writing and performance, music production, video production, graphic design, etc. Whereas performers work on contract (as mentioned, typically stipulating a division of shares from mechanical royalties), the other external project participants are typically paid by the hour or work for a flat fee. Whereas the major's marketing people typically hire external participants taking care of marketing-related functions (drawing upon their personal networks), A&R staff typically hires those working on processes related to the invention of musical content.

However, with extended employment in a major company, some project coordinators lose their knowledge of music inventions, as well as personal networks to artists in the industry. Furthermore, many majors also suffer from internal coordination problems — between the A&R function and marketing and distribution functions. The important flows of information between A&R and marketing may be clogged, or efficient coordination between these functions may be hindered by imposed work tasks or rigid rules. Poor coordination means that much new music is put through 'standardized' marketing, or worse, that some music is signed for which the major does not hold the appropriate marketing competences. In both cases, it amounts to poor sales, and eventually termination of contracts with artists.

Such coordination problems seem to be particularly severe in the majors that, as a result of the declining sales of CDs through the last three years, now restructure internally. According to some observers, these majors now focus upon solving those of their internal coordination tasks that relate to cost cutting and reduction of slack, rather than the coordination tasks that may align marketing and music inventions and boost product innovation. Allegedly, has a negative impact upon the majors' product innovation rates and sales.

### *The role of independent labels*

Where majors increasingly have their strength within marketing and distribution, independent labels usually rely on their competences of product development (often, within very specialized musical styles). Independent labels coordinate much fewer CD projects at a time than majors, and the staff gets deeper involved in each project, often including its content-related processes (recording, production, even sometimes songwriting or performance). This means good coordination and better market targeting, albeit for much more narrow markets than those addressed by majors.

Independent labels are usually extremely cost-efficient 'laboratories' for experimentation with new musical content, for three main reasons. First, their costs are low, as many use part-time or volunteer labor, and enjoy personal favors from friends in the industry who are producers, own recording studios, etc.

Second, they have efficient A&R competences and hence coordination to the invention of new musical content, because their staff possess very deep knowledge of particular musical styles. Often, their manager (and, often also owner) functions as A&R staff, sometimes drawing upon earlier artistic experience and abundant personal networks.

Third, independent labels rarely suffer from internal coordination problems between A&R and marketing and distribution. One reason for the few coordination problems is that the companies are often very small (down to one employee), and people are multifunctional and multi-competent (at least, the manager usually possesses very high project coordination competences). Another reason is that employees are usually very motivated and slack may be kept low without rigid rules that inhibit coordination boosting innovation. Finally, information is also often distributed freely and informally within the firm.

Some independents may have good marketing competences within their narrow target market, as a result of their very deep knowledge of customer tastes, as well as personal networks to small and specialized distributors. However, independents do not have the competences — nor the financial strength or global distribution networks — to address markets on a large scale. Hence, some national industries (for instance, the US and the UK) have developed '*food chains*', where independents 'feed' newly invented musical content (songs, artists, or bands with the potential of making big sales) to major record companies. The independents say that they outsource marketing and distribution to majors, while the majors view it as they outsource A&R to the independents.

This cooperation may be organized in several ways. First, it may be done as a licensing deal, where an independent simply pays a part of the mechanical royalties stemming from CD sales to the major in return for its marketing and distribution efforts. This is usually a particularly useful deal for the independent, and some majors make these deals with strategic intent of preparing the ground for a more profitable deal later on (or, in some cases, an acquisition of the independent).

Second, the independent may sell to the major the property rights stipulated in the contract signed with the artist in question, 'handing him over' to the major.

Third, majors may as mentioned, acquire independents. Sometimes majors, in fact, acquire small independent companies in order to appropriate just one of their signed artists with a particularly high sales potential (in extreme cases, even just one hit song), and close down the operation of the label relatively quickly thereafter. Sometimes, the idea is to retain the independent management of the acquired label in order to utilize its A&R competences and innovative potential. After some years, many such acquired independents however seem to merge into

their mother organization anyway, losing some of or all of their original competence.

It should be noted that it is typical that even independent labels that are not acquired also have a limited life span, given their dependence upon one owner and a few employees. Even with acquisitions, mergers, and closures, some national pop music industries however manage to preserve the food chain type of organization, as there is a constant rate of start-ups of independent labels. Often, this happens through spin-off or with active support from existing firms.<sup>22</sup>

#### *The role of independent project coordinators*

Project coordinators playing a role for coordinating projects related to the release of new music CDs may not only work for record companies, they may also be working as freelancers. Such independent project coordinators may work primarily with management of artists or bands, occasionally setting up a CD project for them (this is typical for some of the famous managers in the UK or US pop music industry). They may also be consultants who live from setting up various projects — not only related to CD releases, but also other music products that depend upon project organization, such as concerts, tours, award shows, etc.

In all these cases, freelancers are often one-man firms, whose main competences are related to project management. For each new project, they hence have to find and hire a range of specialized project participants on the market. The relatively high potential coordination costs of doing this are kept down by the very high project coordination competences of the independent coordinator. In fact, when bands or record companies hire consultants, it is on account of their speed, relatively low costs in setting up and coordinating projects, and, notably, their flexibility and ability to customize a project fully, using only external, selected project participants.

The relative power of, and the division of labor among, major record companies, independent labels, and independent project coordinators vary across national pop music industries. While all national configurations are able to undertake some product innovation — for example, release of a limited number of new music CDs annually — , some configurations are more efficient than others, and this can be traced in the innovation rates.

The following section will illustrate the importance of the market organization of product innovation, outlining the case of the Danish pop music industry.

## 4. The Case of the Danish Pop Music Industry

In the following, we shall first outline the performance of the Danish pop music industry, focusing upon the relatively modest revenues during the last few years. We then try to explain this potential problem of the Danish pop music industry through focusing upon how product innovation is organized in a national

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<sup>22</sup> Many independents want to support as many new music projects as possible, but are at the same unwilling to change their size or stylistic focus. Hence, they may support the formation of new firms rather than undertaking too many new projects themselves, through allowing employees to spin off and sometimes also providing finance or advice for newcomers. Entrepreneurship and 'co-opetition' (i.e., a balance between competition and cooperation) hence plays an important role for project organization in the music industry.

configuration of independent project coordinators, major record companies, and independent labels.

### **The performance of the Danish pop music industry**

The Danish music *industry* (that is, including firms working with music of all musical styles — but excluding those many artists not employed in business firms) had a 1999 size of 856 USD turnover (0.4 % of the Danish economy); 1,918 firms; and 3,057 employees.<sup>23</sup> The industry creates value from traditional use of property rights (mechanical royalties from CD sales) rather than from supplying international artists with songs, or exploiting music in new media such as movies, games, or ring signals. There are also relatively few Danish industries related to the music industry, such as instrument or software producers. This means that today, the key performance issue for the Danish pop music industry is *product innovation* in the traditional sense: The release of music on CD. In Denmark, record sales in 2000 amounted to 19.5 million units with a value of 233 USD.<sup>24</sup>

However, product innovation in the Danish pop music industry is not organized properly to make Danish firms able to grasp new market opportunities. One example is rock music. Compared to other Scandinavian countries, Denmark is “rock country”.<sup>25</sup> The institutional set-up of the Danish rock scene is strong, with long amateur music traditions; several urban musical milieus; powerful national organizations supporting rock performers and clubs; and music education in the abundant local music schools and regional rhythmic music conservatories feeding into the talent mass. Furthermore, Danish pop consumer tastes are generally conservative. Even during the last five years with Dance and Mainstream pop dominating on the world scene (and e.g. Electronica emerging as a new style), there has been a quite stable Danish demand for pop rock and rock (even experimental rock has had a small, but stable following).<sup>26</sup> According to observers, demand for ‘real, hand-played’ rock is again rising visibly on both European and US markets. However, even if both national and international markets hence may offer the Danish pop music industry increased sales possibilities, it has not been able to commercialize the ample supply of local talent and boost sales — in any musical style. Even with increasing sales of recorded units in Denmark during the last 5 years, from 17.9 millions in 1996 to 19.5 millions in 2000, the sales value has declined from 306 million USD to 233 million USD during the same period.<sup>27</sup> Amongst other things, this reflects that many releases consisted of midprice or discount releases from the back catalogue

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<sup>23</sup> Source: Statistics Denmark. The industry is here defined as firms with NACE codes 92310 (performing artists); 22140 (publishers of sound recordings); 22150 (other publishers); 22310 (reproduction of sound recordings); 24650 (manufacture of prepared unrecorded media); 51433 (wholesale of CDs, tapes, records, videos); 52453 (stores for records and videotapes); 52454 (stores for music, instruments and music sources); 92320 (theater and concert halls, etc.); 36300 (manufacture of music instruments). This says little about the artists creating musical content who are not employed in business firms. There are around 7,500 registered music artists in the Danish Musicians’ Union and Danish Artists’ Association in 2002.

<sup>24</sup> Source: IFPI.

<sup>25</sup> It should be noted that Denmark also has strong institutions supporting Jazz music and a highly acclaimed — and growing— talent mass of Jazz musicians and composers. Some observers also claim that talent within Dance music or Electronica is evolving quickly.

<sup>26</sup> Danish media — notably, national radio and TV — is often accused of airing only Mainstream pop. With more attention dedicated to promoting alternative music — as well as local music — , it is likely that the home market for Danish rock would be even bigger.

<sup>27</sup> Source: Statistics Denmark.

rather than new, fullprice, CD releases. Furthermore, even if the total export value of the music industry grew from 95.7 million USD in 1995 to 96.7 million USD in 1999<sup>28</sup>, revenues of CD sales have not grown accordingly: The figure dropped from 38.4 million USD in 1998 to 28.1 in 1999.<sup>29</sup>

Success Dance artists like Aqua or Safri Duo have enjoyed large scale sales and exports, but are isolated cases in what may be referred to as a Danish 'pop innovation crisis': Relatively few new Danish artists are released, fewer are attempted marketed abroad — and even fewer have been successfully 'broken' (i.e., achieved large-scale market penetration).<sup>30</sup> Let us illustrate this somewhat simplistically. In the period 1998-2000, the music *invention* rate, measured by the number of new songs registered by Danish artists at the Danish collecting society KODA<sup>31</sup>, was quite stable. For various reasons, during that period, there was a general decrease in the number of new songs registered in KODA by both Danish and foreign artists, but the decrease was much less pronounced for Danish artists.<sup>32</sup> By contrast, the *product innovation* rate, measured by the number of new CD releases with Danish artists, according to observers, fell markedly in the same period.<sup>33</sup>

In order to explain this modest performance of the Danish pop music industry in terms of product innovation, let us look at how this process is organized.

### **The organization of product innovation in the Danish pop music industry**

The Danish pop music industry is characterized by a handful of dominating major record companies, very few independent project coordinators, and a population of relatively weak independent labels. While the major record companies, due to global strategies, are cutting down on local product development activities in Denmark, they also seem to become less efficient in coordinating new projects (particularly when it comes to spotting new musical content with export potential). On the other hand, there are very few independent Danish labels that are capable of supplying the majors with such musical content in food chains. The result is a modest product innovation rate and, arguably, loss of opportunities.

In the following, we shall outline this organization of product innovation in the Danish pop music industry in more detail.

#### *Very few independent project coordinators*

Compared to other national pop music industries, the Danish industry boasts very few independent project coordinators — most project coordination is done by record companies. Only a handful independent consultant firms<sup>34</sup> currently include coordination of CD projects in their portfolio of activities (which also

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<sup>28</sup> Source: Statistics Denmark.

<sup>29</sup> Source: Danish Music Information Center.

<sup>30</sup> Attempts at utilizing music in new media — such as the 'virtual', Web-based band TriGirlz — have not been broken on the market either, and consequently failed.

<sup>31</sup> Unfortunately for our purpose, the figure includes all musical styles, not only pop music.

<sup>32</sup> Whereas new registered songs measured as a percentage of total already registered songs dropped from 8.9% in 1998 to 6.6% in 2001, the Danish share of total already songs increased from 41.8% in 1998 to 42,8% in 2001. Source: KODA.

<sup>33</sup> We have to rely on qualitative assessments of the product innovation rate here, as robust quantitative data do not exist in Danish bibliographical databases such as DANBIB.

<sup>34</sup> Some observers claim that there may only be one or two such firms.

include coordination of TV shows, awards, concerts, or music production and remixing). The cases where independent project coordinators set up a CD project are often CDs with narrow target markets, and range from the release of artists who use the same coordinator as producer or remixer, to when a major record company outsources the coordination of a CD project, because of time constraints or because of lacking scale economies of fitting it into other activities. The few Danish independent project coordinators cluster in the major cities (mostly Copenhagen), as they need proximity to their different customers within the music and other entertainment industries.

Partly, the reason for the limited number of Danish independent project coordinators is the small size of the Danish pop music industry. For example, there are very few Danish professional managers of artists, and none of these currently function as project coordinators (as is the case in e.g. the UK). However, part of the reason also lies in the fact that project coordination competences have been internalized in record companies, as shall be described below.

### *Dominating major record companies*

The majority of individuals holding competences of project coordination are employed by major record companies (mostly as A&R personnel). The five major global record companies — EMI, BMG, Sony, Universal and Warner — are all represented in Denmark, currently with 45, 25, 40, 45, and 25 employees, respectively. They all consolidated in Denmark during the 1990s through acquisition of the largest local independent labels. According to observers, the five majors today account for as much as 90% of record sales in Denmark (EMI alone stands for 48% in 2001). Paradoxically, the majors are dominating the Danish pop music industry today because the Danish independent labels that they acquired were unusually powerful. Before the wave of acquisitions, Danish independent labels accounted for up to 80% of sales. For that reason, the Danish branches of major record companies are large relative to the size of the Danish market (and are now, with the general decline in global sales in the pop music industry, all undergoing personnel cutbacks).

The dominance of the five majors has three main consequences for project coordination and product innovation in the Danish music industry. First, *foreign ownership limits product innovation rates*, as local branch offices of major record companies — particularly on small national markets — to a growing degree are forced by the global strategies of their mother companies to focus upon leveraging their marketing competences rather than developing new products. This means that the five majors in Denmark — with the one which acquired the former largest Danish independent as a notable exception — come to serve more as local sales offices for foreign music than innovators, releasing and reissuing music from their back catalogue on the Danish market rather than signing and marketing Danish music at home or abroad. Whereas the major that stands out releases up to 50% local music (highly unusual for a branch office of a major), the four other majors to varying degrees currently cut back on product development and new CD projects with Danish musical content.

Second, *the majors' project coordination competences related to product innovation are weakening*. On one hand, problems are emerging of *coordinating music to markets*, i.e., coordination problems between A&R personnel and artists. For coordinating CD projects with music in new Rock (or emerging styles in Denmark, such as Hip Hop and Electronica), some competences of the majors' A&R personnel are becoming obsolete. Increasingly, successfully spotting, signing, and advising new talent takes knowledge of new musical styles and the club scene which can be achieved only through active participation to the scene,

complex personal networks, and 'street credibility'. The majors' A&R personnel, much of which has enjoyed stable employment in these companies for many years, do not possess these competences. Increasing cutbacks and rationalizations in the majors also make A&R personnel spend less time on updating project coordination competences. On the other hand, the majors' ongoing cutbacks and rationalization dictated by global mother companies create problems of *coordinating marketing to music* (i.e., coordination problems between A&R personnel and marketing personnel). Increasing compartmentalization inhibits communication between these functions, and the growing focus upon foreign music of course also limits the time marketing departments may spend on coordinating their efforts to ongoing A&R activities related to Danish music. The result of these emerging coordination problems is traceable in a lower release rate of Danish artists, and fewer results of even large-scale marketing efforts.<sup>35</sup> Revenues have dropped dramatically: During the period 1997-2001, it dropped from 40,769 million DKK to -17,754 for EMI; from 12,852 to 1,566 for BMG; from 26,308 to 575 for Sony; from 17,051 to 9,370 for Universal; and from 3,262 to -4,171 for Warner. The Danish majors have traditionally dedicated little effort to outsourcing A&R functions in food chains with independent project coordinators or labels. Now, with the pop innovation crisis, at least two of the majors experiment with new licensing and distribution agreements with some of the innovative independent labels (however, they also signal that they are interested in acquiring these independents in the longer run, thus following the traditional acquisition strategy rather than a food chain and partnership strategy).

The third consequence for project coordination and product innovation of the dominance of a few major record companies is that it *limits the abundance and diversity of project coordination competences* in the Danish pop music industry in the longer run. Virtually all the experienced A&R people and music managers in the industry with project coordination competences are long-term employed by majors (which usually pay so well that there are few incentives for people with project coordination competences to spin off and start up own firms). At the same time, the majors offer few possibilities for upgrading of competences through in-job training or other activities. Hence, the majors appropriate project coordination competences in the Danish pop music industry, but are relatively poor at replenishing them.

#### *Weak independent labels*

As mentioned, up to the 1990s, the Danish independents were relatively powerful. Even if their acquisition by the majors concentrated power in the Danish pop music industry further, the majority of the Danish record companies continue to be independents. There has been a significant growth in the number of Danish record companies<sup>36</sup> — from 61 in 1992 to 450 in 1999.<sup>37</sup> The major boom took place after 1997 (when there were 198 Danish record companies registered), as new technological possibilities have since made small-scale production of CDs and Web-based distribution feasible, allowing for a significant growth in the number of small record companies. A few of the Danish independents are members in the International Federation of the Phonographic Industry (IFPI), and others are members of umbrella organizations that are IFPI members. The Danish branch of IFPI has 37 members, accounting for 95-98% of

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<sup>35</sup> The majors' increasingly aim only for mega hits, focusing upon e.g. Dance and Mainstream artists (a stylistic focus that may prove mistaken, as markets, as mentioned, shift).

<sup>36</sup> NACE code 22140 (Publishers of sound recordings).

<sup>37</sup> Source: Statistics Denmark.

Danish record sales: The five majors plus 32 independents and umbrella associations of independents.

As mentioned, the majors represent most of Danish record sales, with independents accounting for only around 10%. In other national pop music industries, independent labels are considerably more visible (for example, in the UK, independents today account for around 20% of sales). Why has the increase of the number of Danish independents not been corresponded by a growth of market shares? The reason is that very few of the independent firms undertake product innovation in shifting projects, through signing and marketing new artists. The majority represents artists having established an exclusive sales channel for their own — or very few artists' — work. Most independents are hence one-man firms: 80% of the Danish record firms employ only one person.<sup>38</sup> These account for very small sales, and mostly focus on the markets for jazz or classical music. Even if they represent creative grassroots and spur music invention, they hence add only little to product innovation rates — and the pop music industry's growth or export rates.

That the bulk of Danish independents are very small and undertake little project coordination also means that positive externalities from earlier music projects — for example, in the guise of dynamic capabilities of project coordination — are limited. Notably, even there are some 'cluster effects' in Copenhagen and Aarhus — where there are concentrations of independent labels with some exchange of personnel and trainees (often volunteer labor)(Darmer, 1999) — , with so small firms undertaking so few projects, the number of people who may obtain practical project coordination experience through 'apprenticeships' in record companies is limited.

#### *New innovative independents?*

The majority of the independents are hence too small and too specialized to function as 'external A&R' for major record companies. However, a new generation of independent record companies, focusing on product innovation and CD releases within a broader range of pop music styles, is currently emerging.<sup>39</sup> A few of these firms have succeeded in combining high-quality A&R; innovative web use; and efficient promotion methods with close contact to both audience and artists. As a result, relative to the other independent labels, many of their products are highly critically acclaimed in Denmark as well as abroad and have made outstanding returns on investments. As mentioned, particularly one of these new independents is now entering into a food chain, distributing and partly marketing some of its products through two of the Danish majors. However, the new independents have also been successful in exporting their products with no help from the Danish majors. On one hand, exports are done through direct contacts to markets (on-line, and through alliances with independent labels with similar stylistic focus in other countries who can provide contact to audience and distributors). On the other hand, some of the new independents have even successfully bypassed the Danish branch offices of the majors, and signed licensing agreements directly with their UK or US offices instead.

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<sup>38</sup> Source: Statistics Denmark.

<sup>39</sup> Examples include Crunchy Frog; Cope Records; and Auditorium.

## Policy perspectives

In the theoretical terminology put forward in sections 1 and 2: There are too few competent independent agents in the Danish pop music industry to facilitate widespread experimentation with entry and exit at the project (or, for that sake, firm) level, and this impedes successful product innovation. Furthermore, too many project coordination capabilities have been appropriated by the majors, and neither they nor other players in the industry are currently replenishing them.

As a result, the Danish pop music industry is currently profiting only little from the international market opportunities constituted by the increased demand for new Rock. If the industry wishes to profit from this stylistic change in demand — as well as other demand shifts in the future — its capacity for product innovation should be boosted. But what is the role for public policy here?

Traditionally, Danish policy related to music has been *cultural* policy. Whereas the quality of the public music education at the Academies for Classical music is criticized, public education within Jazz, Rock, and Pop music has been upgraded through a number of years — at the Conservatories for Rhythmic music, but also in the many publicly co-funded music schools and high schools. Furthermore, Denmark enjoys a wide range of publicly co-funded music organizations supporting musicians, music events, and musical content creation in a broad sense within pop music and related styles (albeit the mass media, including the national radio and TV channels, are under heavy accusation for not promoting Danish music). As a result, most observers agree that the talent mass among Danish music performers and writers is large.

As mentioned, the Danish pop music industry does not suffer from lack of creation of musical content — invention —, but from lack of commercialization. However, whereas Danish policy supports musical content creation, there are virtually no *industrial* policies related to music. Below, we shall suggest a few such policies that may influence the organization of product innovation in the industry, and may hence positively influence its product innovation rates.

- Policies could seek to *make independent labels play a larger role* in the industry — as marketers in their own right, and as suppliers to majors in food chains. First, policy could stimulate the creation of *new* independent labels, through entrepreneurship support, finance, and education. Concerning the latter, a new Music Management course has been created in 2002 in collaboration between the Rhythmic Conservatory and IFPI. Concerning finance and other support for new record labels, policies are still sparse. Second, policy could facilitate *professionalization* of the many small independent labels, making some of them play a larger role in developing new products through setting up projects with new participants, and upgrade their marketing efforts (maybe even through alliances with other independents or majors). This can be done through education, technical and other support, and through supporting the creation of joint ventures, networks, and new independent industry associations among small record companies.
- Policies could also *boost the number of independent project coordinators*. A larger number of professional independent labels would of course increase the possibility for single agents learning project coordination competences through experience and apprenticeships, but an increased policy focus upon providing high-quality education (and on-job courses) for music project coordinators is, according to industry observers, central. The Music Management course is an important first step in that direction.

- Finally, policies could aim at *increasing cluster effects*, i.e. the positive externalities of geographically clustered music innovation projects (as described in section 2). For example, creation of industry associations, entrepreneurial support and educational activities could take a regional focus, which also makes feasible partnerships with industry, educational institutions, and other stakeholders. For example, policy could seek to emulate some of the positive cluster effects for both invention and innovation rates that can be traced as a result of clustered music activities like the Copenhagen Jazz Festival. Such initiatives are underway in Roskilde, where Roskilde University together with local industrialists and artists has set out to create a 'Musicon Valley'<sup>40</sup> through coordinating local educational, artistic and industrial initiatives.

On a final note, the Danish branch offices of global major record companies may also potentially play a political role. Currently, they pursue a strategy of creating value where *marketing* matters: Marketing music signed and produced elsewhere, (often exploring it in new media like games and movies through strategic alliances with majors in other entertainment industries). However, rather than neglecting product innovation and focusing upon their back catalogue and promoting foreign music in Denmark, they may uphold their own innovation rates through externalizing A&R competences, using impendent project coordinators or independent labels as 'external laboratories' for experimentation with Danish music. Such a food chain strategy (being innovative within marketing, while outsourcing product innovation) would allow them to focus and leverage their financial strength and global marketing and distribution channels, while positively influencing product innovation rates in the entire industry. Of course, this would necessitate a strategy shift from competence appropriation, acquisitions, and rigid alliances to openness, partnerships, and flexibility. Such a change of strategic focus may be difficult due to their foreign ownership, given the global sales strategies and organizational rigidities of their mother companies.

Hence, there may be a task for public policy for spurring such a shift in how product innovation is organized in a configuration of majors and independents. Contractual and property laws play an important role for how feasible and attractive 'food chain' strategies are for both majors and independents, in terms of how flexible licensing agreements may be made, how profits may be divided, how property rights may be traded, and so forth.

## 5. Discussion and Conclusion

The paper has addressed the organization of product innovation, focusing upon those cases where experimentation and project networks are prominent features. It has pointed to national differences in the organization of product innovation in the pop music industry — most notably, the balance between major record companies, independent labels, and freelancing consultants in holding dynamic capabilities related to project coordination. It pointed to the effects upon product innovation rates in the Danish pop music industry of a dominance of major record companies over independents.

One important theoretical contribution of the paper is to the literature on project organization. Contrary to much project literature, the paper has developed

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<sup>40</sup> [www.musiconvalley.dk](http://www.musiconvalley.dk)

theoretical insight into projects on the market (project networks), rather than projects internal to a firm (project teams). Furthermore, the paper connects a discussion of organization of projects to a discussion of their relevance for innovation and, in broader terms, experimentation and industry evolution.

Doing this, the paper also relates to literature of industry evolution. While the bulk of this literature emphasizes market selection processes in the guise of entry and exit of firms, the current paper stipulates that such selection may not be the only — nor appropriate — way of organizing market experimentation. Project organization constitutes a market organization form allowing for the benefits of market selection while lowering some of its negative consequences, as selection at the level of projects facilitates a high level of experimentation while preserving in the economy useful competences that would be lost if selection took place through exit of firms.

A final theoretical contribution is to the literature of industrial clusters. The paper proposes that in some cases, industrial clusters play an important role for project organization, because of positive externalities of earlier projects. Clusters represent configurations of people and institutions lowering the costs of coordinating new projects. Because shifting projects are facilitated in some clusters, these clusters may experience a high level of experimentation, and hence high innovation and growth rates. These propositions of the paper — notably, the focus upon projects and experimentation — represents a novel way of explaining the existence of industrial clusters. There are obvious analytical advantages of transcending the traditional firm/market dichotomy through analyzing projects as well as industrial clusters as distinct organizational forms. While the traditional focus upon firms vs. markets as organizational forms allows us to understand the importance of some coordination mechanisms that depend upon ownership (such as authority), it leaves us with little understanding of other coordination mechanisms, which may be found, on markets as well as in firms. In fact, taking into account organizational forms that cross firm boundaries does not undermine the traditional insights from neither organizational economics nor industrial economics. Rather, it allows us to get a better theoretical grasp of market organization, and get a clearer picture of what may determine — and shift over time — firm boundaries, in different market contexts.

Some of the paper's empirical observations on the organization of innovation in the Danish pop music industry may also be of relevance for the empirical analysis of other industries. First, we have illustrated that in the pop music industry, the particular way project networks are set up and coordinated greatly influences innovation processes. Second, the paper has illustrated the importance of particular firm types for coordination — locally embedded firms vs. multinational companies. Third, the paper has illustrated the relevance of geographical clustering of the pop music industry — for example; reputation effects and social trust regimes — for project network coordination. This insight can feed directly into other empirical work on clusters, undertaken within regional studies or economic geography.

Lastly, the paper's empirical observations on the role of project coordinators for project organization and innovation within the pop music industry may of course also be used to inspire policymaking. Within creative industries, what influences national product innovation rates, exports (and hence, ultimately, economic performance) is not only the education and training of creative talent in the guise of artists, it is also — to a very high extent — the training of people with the competences to coordinate projects that bring together artistic as well as 'humdrum' competences. Policymakers should dedicate much more attention to boosting the formation of pools of such project coordinators.

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