

# How Creative Are the Creative Industries? A Case of the Music Industry

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Generally, an industry can be defined in terms of the technology shared by its members. The phonographic industry—the production, distribution, and marketing of phonographic products—embodies the core technology of the music industry. The major companies of the phonographic industry see (and portray) themselves as protectors and promoters of artists' creativity.<sup>1</sup>

In this article, I assess whether the major companies in the phonographic industry truly foster artistic creativity. After a brief and critical discussion of the shortcomings of economic concepts of newness, I derive a model of creativity from psychological and sociological findings and then model the interrelationships between creativity and innovation in an empirical-descriptive discussion of the radical shifts in the phonographic industry's structure that occurred during the twentieth century. Finally, based on those discussions, I make predictions about the future of the music industry and suggest several implications for cultural policy and management.

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## THE CONCEPT OF NEWNESS IN ECONOMIC THEORY

In a recent article, Castañer and Campos (2002) deal with the determinants of artistic innovation by arts organizations. They define innovation as the introduction of something new. In economic theory, the concept of newness usually means innovation. For the most part, the literature dealing with innovation specifically focuses on technological innovation.<sup>2</sup> In this context, technological innovations are defined as new products (product innovations), new machines, and equipment (process innovations), or improvements of existing products and processes.

Creativity has not generally played a significant role in innovation theory. According to McCain (1992), the domination of the neoclassical paradigm within mainstream economic theory explains this. To grasp the economic implications of creativity, we need to overcome the boundaries of neoclassical theory. One way to improve our understanding of creativity is to combine economic and psychological findings as, for example, Bruno Frey does (1997; 2000), when he explains in his crowding-out theory how extrinsic forces crowd out intrinsic motivation. The extent of crowding out corresponds with the degree to which a subject considers extrinsic motivation a means of coercion (Amabile 1982; 1983).

In addition to classifying a person, product, and process as creative, we must regard the environment as creative as well. Most psychological theories view persons, processes, products, and environments as dependent variables, and consider creativity to be a mental process that resides within the creative person and that manifests itself in a creative product. In contrast, if we interpret creativity as the outcome of social and cultural processes, we must adopt more or less systemic approaches to creativity. Such approaches conclude that an individual can only be creative in relation to a social context. "We cannot study creativity by isolating individuals and their works from the social and historical milieu in which their actions are carried out" (Csikszentmihalyi 1988, 325). In conclusion, we cannot find creativity in a person's brain or embodied in artifacts; instead, it results from an interaction between a person's thinking and the sociocultural context (Csikszentmihalyi 1988; 1995; 1999). To understand creativity, we must interpret it in relation to collective action. Collective action can be defined as a process in which motives and identities are constituted and to which individual actions are related (Joas 1996). Thus, I define creative action as a collective process embedded in a prestructured social and cultural reality. Newness, in this sense, can only be interpreted in relation to a sociocultural context. Creativity, in that sense, is a collective process that is not only attributable to individual thinking and acting but is embedded in collective processes and in a wider sense in a social context. Thus the social context is not just contingent but constitutive for the emergence of newness.

## THE RELATIONSHIP BETWEEN CREATIVITY AND INNOVATION

Caves (2000, 202) explains the relationship between creativity and innovation by describing the latter as “the visible tip of the iceberg of everyday creativity.” Innovation is the result of creative action that is described by Schumpeter as “carrying out new combinations” of economic possibilities and competitive elimination of the old ones (1912, 158). Only a few gifted human beings—Schumpeter calls them “entrepreneurs”—can realize and carry out these new combinations. They can be seen as a kind of avant-garde that is driven by a rejoicing in creative production (Schumpeter 1912, 141). In *Capitalism, Socialism and Democracy* (1942), Schumpeter describes this process as “creative destruction” that creates newness despite resistance by the “old” system. Therefore, in a world without “creative destroyers,” economic and social life would endlessly reproduce itself. Human action would follow certain routines that can be described as “static” processes. Such a “static” system can only be changed by violent external interventions.

In organization theory, routines are defined as “forms, rules, procedures, conventions, strategies, and technologies around which organizations are constructed and through which they operate” (Levitt and March 1999, 76). To solve problems, organizations employ a comprehensive repertory of routinized activities for each situation. March and Simon (1958) distinguish between performance programs that are part of an existing organization’s repertory (programmed activities) and those that are not (unprogrammed activities). Unprogrammed activities, also called initiations and innovations, cannot be introduced by a simple application of programmed switching of rules. They appear either accidentally in company with anomalies, or occur when programmed activities fail to meet their “aspiration level” (March and Simon 1958, 182). Innovation, therefore, rarely occurs in an organization’s internal decision-making process. This means that a changing environment does not automatically lead to innovative activities within an organization.

Nelson and Winter (1982) apply the findings of behavioristic organization theory to industrial economics. In their view, industries develop along “natural trajectories” based on a certain technological regime. Sahal (1985) refers to “technological guide posts” that can be defined as basic artifacts (for example, phonographic records) whose technoeconomic characteristics improve progressively (e.g., Edison cylinder, shellac-disc, vinyl-disc, music cassette, compact disc, etc.). The development and improvement of these basic artifacts involve the growth of specific competences and rules. Rosenberg highlights the importance of so-called “focusing devices” (1976)—that is, typical problems, opportunities, and targets that tend to focus the search process in particular directions.

However, the evolutionary conception of innovation exclusively deals with technological innovation and totally neglects aesthetic and stylistic innovations. This is a crucial oversight because in "creative industries" where creativity functions as an input and an output, the innovation process cannot satisfactorily be explained without a concept of creativity. Thus, the existing economic explanatory scheme—technological paradigms and trajectories—are incomplete and should be broadened. It is necessary to consider cultural and aesthetic artifacts and heuristics in addition to technological factors. Instead of limiting ourselves to discussions of technology, we should focus on the culture within an industry.

A specific cultural paradigm within a certain industry includes several creative trajectories that can be defined as paths of creativity and innovation. Innovation usually results from unconscious variations in collective activities. This leads to incremental deviations that can alter the creative fundamentals of an industry in the long run. By these means, technical, legal, social, and aesthetic conventions develop in an evolutionary manner.

As long as creativity unfolds within traditional trajectories, it is more or less conventional. The extent of deviation from effective conventions depends on the degree of diversity within the trajectory. The greater the diversity, the greater the potential for unforeseen combinations (innovations), thereby increasing the industry's ability to adapt to environmental changes. However, within creative trajectories, only incremental innovation can unfold, whereas radical innovations arise outside traditional cultural paradigms as a result of revolutionary changes. A revolution destroys the performance routines of collective actions and attacks the social and economic foundations of an industry. Above all, radical change destroys any social and economic structures that have provided a high degree of certainty. If these structures disintegrate, the ensuing uncertainty results in existential dread and aggressive reactions against newness. That is, the protagonists of the "old" paradigm do not immediately accept the "new" paradigm. If an innovation emerges outside the traditional paradigm, it will be ignored at first. If the innovation cannot be ignored any longer, its significance for the company's business activities will be played down. If this strategy becomes too problematic, however, the innovation will be aggressively attacked. If it is not possible to stop the innovative process, the organization accepts the new technological paradigm (Kuhn 1962). However, this time-consuming and exhaustive rear-guard action provides the innovative competitors with valuable technological advantages.

## CREATIVITY AND INNOVATION IN THE MUSIC INDUSTRY

The phonographic industry has been shaken by three essential paradigmatic cultural changes since its establishment circa 1900. The first shift came

with the advent of commercial radio broadcasting in the early 1920s; the second began with the aesthetic revolution of rock 'n' roll in the 1950s. The third shift, which we are currently witnessing, resulted from the dissemination of digital music over the Internet.

### **Phonograph versus Radio**

While the radio market boomed despite an economic depression,<sup>3</sup> the phonograph and record market in the United States decreased dramatically from \$106 million in 1921 to \$6 million in 1933 (Gronow and Saunio 1998, 38).<sup>4</sup> Both of the major American phonographic companies—Columbia and Victor Talking Machine—ran into severe financial turbulence. Columbia went bankrupt in 1923 and was re-established under the same name by three major creditors. Victor Talking Machine suffered from declining sales between 1921 and 1925, partly recovered in the following short boom period, and was eventually bought by the Radio Corporation of America (RCA) in 1928. Although the economic depression after the Wall Street crash in October 1929 had a strong impact on the phonographic industry, it does not fully account for the decline. The decline started in the years before 1929, while at the same time radio networks continued to prosper and expand, even throughout the depression.

The breakdown of the phonographic industry in the United States in the 1920s mainly resulted from the record industry's ignorance of the commercial potential of radio broadcasting. Instead of realizing that radio could be used to promote record sales, the record majors attacked radio stations as rivals. Statements made by the legendary founder of the Victor Talking Machine Company, Eldridge Johnson, who did not see radio as a substitute for the phonograph and explicitly prohibited the production of radio sets in the Victor plant in Camden, New Jersey, provides evidence of the hostility against radio broadcasters.

The reason for this ignorance should not simply be blamed on the arrogance of the Victor management; instead, it can be attributed, in part, to the phonographic industry's conception of itself. The music majors defined themselves mainly as producers of decorative music furniture for which records were supplied as an extra benefit. Therefore, the whole production and support structures of the phonographic industry were oriented towards phonographs. In fact, this orientation came to constitute the basis for a creative trajectory along which the music industry has unfolded since 1900.

In contrast, radio broadcasting technology developed outside the traditional paths of the music industry. Radio technology established different creative trajectories than the phonograph industry. Resisting this new development, in 1924, Victor management decided to refuse to adopt the electrical recording process, arguing that microphones were too closely linked to radio, their rival industry. However, electrical recordings turned out to be superior to acoustic

ones, causing the short boom period in record sales in the late 1920s. Because the Victor management hesitated in adopting electrical recording, the company lost valuable time and had to undertake costly measures to benefit from the new technology. Instead of a proactive development of the new technological paradigm, the phonographic companies lagged behind the technical advances. As a result, radio networks (Victor by RCA and Columbia by CBS) acquired the financially struggling music majors. Although this did not mean the end of records and phonographs, they were subordinated to the creative trajectory of radio culture.

### **The Advent of Rock 'n' Roll in the 1950s**

The revolution of rock 'n' roll between 1948 and 1958 led to the second structural change in the music industry. In contrast to the mainly technological innovation that characterized radio broadcasting, rock 'n' roll was an aesthetic revolution. The advent of rock 'n' roll is well documented (for example, Gillet 1971, Berger and Peterson 1975, Chapple and Garofalo 1977, Peterson 1990, Garofalo 1997, Gronow and Saunio 1998) and needs no further illustration here. As a result, the dominant market position of the major companies (RCA, CBS, and Decca), which together controlled 89 percent of the U.S. record market in 1948, was broken. The oligopoly dominating the phonographic market became a competitive market with more than 200 independent record labels in the early 1950s (Peterson and Berger 1975, 160).

In the late 1940s, rock 'n' roll was marginal in the repertory of the major companies' catalogs. Tin-Pan-Alley pop and big band music dominated mainstream music. These types of music were mainly featured by radio-live shows that were broadcasted from famous ballrooms and clubs. Record production was only seen as a secondary exploitation and a kind of instrument to promote radio stars. A song could only become a hit if it was broadcast by radio. Therefore, the music industry in the 1940s did not view the record as its economic basis.

In addition, the major radio and record companies controlled all distribution channels. They operated their own wholesale networks and did the merchandising for the small retailers. An independent record label could not directly distribute to retailers but had to channel its products through the majors' distribution networks. Therefore, the majors acted as gatekeepers that decided what kind of music could be sold.

In the early 1950s, the music industry was blind to the large and growing unsatiated demand for greater variety in music and deaf to the efforts of musicians that might have satisfied the demand. The music industry was financially as well as aesthetically committed to the big-band-crooner style of popular music of the time, and, because of its oligopolistic control of the production, distribution, and

marketing of new music, was able to thwart the marketing of alternative styles. (Peterson 1990, 113)

In the mid-fifties, the major music companies lost their overall control of the value-added chain in the music industry for the following reasons:

- the advent of the unbreakable vinyl disc that made the capital-intensive logistics useless (Peterson 1990, 101)
- the invention of the magnetophone that enabled music production in the garage
- the licensing of new independent radio stations by the Federal Communications Commission (FCC)

As a result, in the urban areas of the United States, an immense number of small and undercapitalized radio stations emerged that could not afford the cost-intensive, live broadcasts from the ballrooms; instead, they played records to provide an attractive music program. Because the major companies avoided cooperating with the independent radio stations and refused to make their records available for broadcasting, the independent radio stations started to cooperate with small and independent record labels such as Sun, Chess, and Atlantic and played their repertory of folk music, hillbilly, rhythm and blues, and rock 'n' roll. Thus, a symbiotic relationship between the small record labels and radio stations emerged. The radios got the music for free to promote these aesthetic innovations.

Rock 'n' roll could not spread in the postwar, baby-boomer generation until the symbiosis between independent record labels and radio stations emerged. In a complex process of mutual positive influences, the market segment of "rebel music" grew dramatically. Radio play increased record sales, and the rising popularity of rock 'n' roll increased the audience for the emerging independent radio stations. In turn, the increasing market share of independent radio stations began to attract advertisers who previously spent most of their money on the larger networks. As a result, the radio station income of the large networks dropped by 38 percent from 1948 to 1952 (Peterson and Berger 1975, 165).

The advent of rock 'n' roll can be interpreted as an aesthetic innovation that, in combination with social, legal, and technological changes, played the role of the "creative destroyer." The seemingly powerful music majors lost their dominating market position almost overnight because of the spread of a new cultural paradigm. In the new paradigm, creative trajectories unfolded that were embodied in the vinyl record, to which all the support structures such as marketing, copyright management, and distribution were adapted. The technological changes had a retroactive effect on the aesthetic output. Instead of interpretations of well-known popular music titles by swing orchestras and vocalists, the production of new titles became essential.

## **Music Services on the Internet**

The technology of digitalization and the Internet seem to be the symptoms of a third structural change in the phonographic industry, one potentially more far reaching than the advent of radio in the 1920s and the rock 'n' roll revolution in the 1950s. The recent sales figures of the major national record markets seem to underline this proposition. For 2001, the International Federation of Phonographic Industries (IFPI) reports declining phonographic sales in Canada (-9.6 percent), Japan (-9.4 percent), Germany (-9.2 percent), Italy (-8.6 percent), and the United States (-4.5 percent). Only two major markets—France (+10.0 percent) and Great Britain (+5.0 percent)—significantly bucked the downward trend.

Copyright infringement and piracy are often cited as the main reasons for the current market recession. According to Jay Berman, chairman and CEO of IFPI:

In 2001 the international recording industry was caught in a perfect storm, buffeted by the combined effects of mass copying and piracy, competition from other products and economic downturn. The industry's problems reflect no fall in the popularity of recorded music: rather, they reflect the fact that the commercial value of music is being widely devalued by mass copying and piracy.<sup>5</sup>

Although this may be true, it likely reflects a larger paradigmatic shift in the music business. Structural change in the music industry occurs with the emergence of a cultural paradigm that challenges the "old" one. The traditional cultural paradigm (music as product) in the music industry is based on three main pillars: control over publishing rights, marketing power, and control of distribution networks.

- *Control of publishing rights.* Copyright of a musical piece initially belongs to the person who creates the music. However, the artist usually sells the copyright to a music publisher. If the music publisher decides not to publish the copyrighted piece, it will remain worthless as a source of income for the artist. Because all music majors own large publishing houses, the existing copyright regime provides them with a crucial gatekeeping function and market power over the creative possibilities of the artists. Because artists depend on the majors' publishing houses, they will profit from their creativity only if they produce a product deemed marketable by the industry.

- *Marketing power.* The major companies try to reduce the market uncertainty by establishing an information monopoly. They invest enormous funds in marketing and public relations to establish an artist's image that conforms to (imagined or real) market requirements. As part of large media conglomerates, the leading music companies take advantage of synergies in communication and especially advertising policies. Without the marketing funds of the



majors, most of the music business-established superstar careers would be impossible.<sup>6</sup>

• *Control of distribution channels.* The third pillar of the music majors' extensive market power is the control of distribution channels. All the majors own a global distribution network that reaches everyone from sales representatives and retail chains to record clubs. In fact, they control nearly the whole distribution chain; only a few alternative distributors exist for independent companies to sell their products. However, most of the small and medium-sized labels must contract with the majors and thus become dependent on their policy.

The emergence of Internet music services challenges the three pillars of the traditional music industry's business models. First, most of the music providers on the Internet circumvent copyright regulations and offer more favorable royalty agreements to the artists. Indeed, prominent artists could easily promote their music on a personal homepage such as "Madonna.com." However, rigid record agreements with the major companies prevent them from doing so. Well-known artists such as Prince and Public Enemy had to overcome several difficulties including serious lawsuits that arose from their exclusive record agreements before they could launch their own Web businesses.

Second, the smaller record labels do not exclusively depend on the distribution networks of the major companies. With the help of the Internet, they can offer their music catalogs directly to the consumers. The production and distribution of music has become a "purer" service, as opposed to focusing on a physical good, such as a CD. However, a sufficient marketing power is necessary to help certain music stand out among the seemingly infinite amount of competing music offered on the Internet.

The music majors fight against the erosion of their market power by filing lawsuits claiming copyright infringement. They broaden this by starting to buy promising Internet music companies to acquire their business knowledge and, concurrently, to get rid of competitors. This aggressive but defensive strategy of the current music conglomerates against perceived rivals reminds one of the music majors' reaction against the advent of radio in the 1920s and rock 'n' roll in the 1950s. Apart from different historical conditions, the majors behaved similarly toward radical innovations: The newness that emerged outside the traditional creative trajectories was first ignored, then opposed, and finally adopted. If the music industry is currently affected by a deep structural change, the still dominating major companies will have serious problems stabilizing their market power. Therefore, it may be necessary for them to switch immediately to the emerging cultural paradigm if they want their operations to remain profitable and competitive. But this can happen only if sufficient creative potential exists—in the sense of acceptance of newness—within the creative trajectories

in force. However, this seems doubtful in light of the rigid copyright regimes, standardized marketing strategies, rigid controls of distribution channels, and the vertical integration of music industry that provides less room for diversity to carry out new combinations in the Schumpeterian sense.

## POLICY AND MANAGEMENT IMPLICATIONS

The music majors define themselves as part of the phonographic industry. They are vertically integrated companies that control all the core functions of the music business, reaching from the acquisition of the artists' creative inputs to the production, marketing, and distribution of phonographic products. The tradeoffs between the increase of storage capacity and handling warehouse facilities shape the creative trajectories in this industry. All the improvements that have been made since the invention of the phonograph occurred within the traditional creative trajectory. Pursuing this trajectory guaranteed further success and led to the perfection of the core functions (control of publishing rights, marketing power, and the control of distribution channels) and to oligopolistic vertical integration of the music industry. A large bureaucratic overhead with several hierarchical levels was introduced to control the complex processes. These control structures are efficient as long as the traditional cultural paradigm stays in play. Whereas a new cultural paradigm emerges, the old companies remain locked in the traditional trajectory. If unable to change over to the new paradigm, they will perish. Or rather, a new cultural paradigm will emerge and create overall changes in the industry's structures and processes. "Old" business models will be renewed and totally transformed.

Environmental constraints will greatly influence the future development of the online music sector. Working within what has come to be called the "production-of-culture" perspective, Peterson isolated six classes of variables that constrain the production of symbolic products such as music: law, technology, market, industry structure, organizational structure, and occupational careers (1976; 1978; 1982; 1985; 1990). The commercial potential of music services can, therefore, be evaluated in relation to the future development of the previously mentioned constraints. In another context, I devised two scenarios for future development (see table 1) that identify law and technology as hidden drivers of the structural change in the music industry (Tschmuck 2002).

In scenario A, the free-of-charge music services will be forced to search for additional funds, especially if the growth rates of online advertising do not dramatically increase over the next few years. If they fail to do so, they will suffer from undercapitalization and lack of liquidity. In contrast, the music subscription services will benefit from a strong copyright protection if the databases of licensed music titles are broad enough. This will be the case if

**TABLE 1. Two Scenarios for the Development of the Constraints of the Music Industry**

Constraints	Scenario A	Scenario B
Law	Copyright protection of intellectual properties will be enforced to the point of prohibiting private copying.	Copyright protection cannot efficiently be enforced on the Internet.
Technology	The bandwidth of the Internet will not dramatically grow.  Communication and entertainment technology will not merge.	Technological improvements (glass fibers and UMTS networks) will become accessible for the majority of Internet users.  Communication and entertainment technology will merge into a single application.
Market	The sales growth rate will stagnate on the present level.	The sales growth rate will dramatically increase.
Industry structure	The music industry will be dominated by three to five major music companies and therefore will be highly concentrated.	The music industry will be very competitive and diverse. Small and medium-sized music services on the Internet will shape the industry's structure.
Organizational structure	The degree of the music companies' vertical and horizontal integration will be high.  The internal information and decision structures will be highly hierarchical and bureaucratic.	The music companies will be specialized in the distribution of online music.  The companies' hierarchies will be flat and streamlined.
Occupational careers	The artists will become even more dependent on major labels.	The artists will no longer be bound by exclusive agreements. They will be free to post their music on different Internet platforms at the same time.

the present major companies license their catalogs to such services. Thus, the B2C music services will act on the forefront and as part of the major companies.<sup>7</sup> P2P services, like a pay-version of Napster, will only survive if they provide more than a file-sharing software package.<sup>8</sup> Free-of-charge P2P services will only be found in the alternative music scene and thus will serve unprofitable market niches. The CD will remain the dominant distribution medium for music, whereas the Internet will be used merely in addition to traditional distribution channels. In this scenario, the management of major music companies only have to adopt their business models to Internet music by acquiring some of the most promising Internet music services.

Under the conditions of scenario B, however, the free-of-charge B2C-services will profit from a copyright-free Internet and increasing advertising funds. Each Internet music platform will serve specific music tastes and target groups, which are attractive for efficient publicity campaigns. The Internet-based music platforms will not sell single music tracks but provide access to a wide-ranging music database on which musicians post their works in return for a share of the advertising revenues. In contrast, most of the file-sharing services will not be commercially exploited but act as an experimental field for avant-garde and subcultural music styles. Music will be much more of a service than a physical product and therefore will be able to be traded on the Internet, whereas records will disappear from the market. This scenario suggests that the management of the major companies should change their business structures and processes. Instead of relying on the traditional value chain, the majors should immediately switch to the direct distribution of music files via the Internet and other electronic devices such as cellular phones to deinvest in the production, marketing, and distribution of phonographic products.

If scenario A emerges, the current cultural paradigm and its creative trajectories will not be essentially altered. Therefore, radical creativity that would lead to real musical innovation will be suppressed by the current standardized and routinized production processes. In contrast, under the conditions of scenario B, the rise of radical creativity from outside the current creative trajectories will be fostered. If cultural policy aims at stimulating radical newness, it should provide legal and economic incentives to support the emergence of scenario B by (a) pushing the communication infrastructure (i.e., fibre optic and Universal Mobile Telecommunication System [UMTS] networks) ahead and by (b) relaxing current copyright legislation (i.e., the U.S. Digital Millennium Copyright Act and the EC-Directive on the harmonization of certain aspects of copyright and related rights in the information society). In an information society with an uncontrollable copyright, cultural policy has to provide the legal preconditions for a market of intellectual property. Thus, a clearing-house is needed to certify intellectual property rights on a global scale and to monitor market transactions of, for instance, scores and song-

texts in the same way as done by stock exchange regulators. In combination with a technology offensive and efficient competition regulation, a deregulated copyright system could not only meet the challenges of the information society of the twenty-first century but also foster creative processes that will lead to outstanding musical innovations.

## CONCLUSION

The recent emergence of MP3-based online music can be interpreted as a dramatic change of the cultural paradigm within the music industry (music as service). The new technology did not spin off the music majors' R&D efforts, but was a byproduct that spread throughout the Internet community. It forms the technological basis for different business models that now emerge on the Internet. The music majors mainly oppose these new business models by filing lawsuits against successful Internet start-up companies. The majors engage in this aggressive but defensive strategy because they are locked in a traditional cultural paradigm and its attendant creative trajectories. The large conglomerates are built on these requirements and suffer from the rapid change in the music business that can be characterized by the substitution of music phonograms by music services.

The current structural change in the music industry shows a series of similarities with paradigmatic shifts of the past. In the 1920s as well as in the 1950s, radical innovations occurred outside the existing cultural paradigms. After a period of ignorance and downplaying the newness, the dominating companies started to oppose these new developments. At last, the majors lost valuable market shares and their dominant market position. In the following years, the majors either went bankrupt or were acquired by new, more financially potent players from outside the industry. Thus, the "old" technology became subordinated to new creative trajectories within a new cultural paradigm.

The current developments in the music business seem also to be part of a far-reaching paradigmatic shift in the music industry that is embodied in a series of radical innovations. If the current creative trajectories do not provide sufficient diversity, there is no room for newness. The companies, therefore, will lose their capacity to act and will lag behind. In the long run, the new cultural paradigm (music as service) will replace the old one (music as product) and, as a result, the protagonists of the old paradigm will disappear.

## NOTES

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1. For ample evidence of this view, see the Web site of the industry's trade organization, the International Federation of the Phonographic Industry (IFPI) <<http://www.ifpi.org/site-content/about/industry.html>>.
2. Only a few contributions deal with artistic innovation: Heilbrun and Gray (1991, 1993) and Caves (2000).
3. The number of radio sets in U.S. households increased from 5 million in 1926 to 17 million in 1933 (Eberly 1982, 36–38).
4. A similar development shook the European record markets; for example, in Germany the record sales dropped from \$18 million in 1925 to \$3 million in 1935 (Gronow and Saunio 1998, 38).
5. See <<http://www.ifpi.org/site-content/statistics/worldsales.html>>.
6. For example, see Frank and Cook (1995).
7. B2C means business-to-consumer services on the Internet.
8. P2P means peer-to-peer services on the Internet.

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