

The Influence of Intuitive Expertise in Transforming Music Industry Relationships

FOR WORK-IN-PROGRESS

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Abstract

*When we signed them they had just one great song, no drummer and no manager.
But I looked into Tom Meighan's eyes and knew he was a star.*

~Ged Doherty

(Chairman and chief executive of Sony Music UK and Ireland on signing the band Kasabian)

The music industry has been going through fundamental technology driven transformation altering its competitive structure. Up-to-date, intellectual property rights and new forms of music distribution have been the main focus of academic research. In this working paper, we examine another revolutionary change taking place in this industry. This concerns the increasing power of “intuitive experts”, who are able to intuitively recognize new talent at disproportionately high success rates, without resorting to rationalistic choice models. This capability gives “intuitive experts” a difficult to imitate advantage in selecting new talent. Accordingly we conjecture that “intuitive experts” are capturing a larger share of the music industry value-added than what has been previously observed. The effective functioning of these experts, however, requires particular forms of inter-organizational relationships, and firm structures, which is the main focus of this paper.

As a manifestation of this transformation, we maintain that major record labels are becoming increasingly dependent upon independent labels run and owned by “intuitive experts” in their search for new talent. This change is already observable in the proliferation of distribution agreements and other forms of inter-organizational partnerships between independent and major record labels. This new understanding suggests that a progressive way forward can be found in recognizing the central importance intuitive expertise plays in the music industry. In addition, we conjecture new ways in which inter-organizational relationships and organizational structures can be arranged to improve the current use of intuitive selection of new talent.

Key words: Talent Selection; Intuitive Expertise; Organizational Structures; Music Industry

Introduction

The music industry is still under the arrest of technological driven change. As consumption increasingly moves to the Internet, music as a product continues its slide away from a tangible product towards a more intangible one with a key nemesis remaining particular uses (or users) of technology (Styven, 2007). Although digital channels now account for 27 per cent of music sales globally (according to the International Federation of the Phonographic Industry) (IFPI, 2010a) 95% of all digital music still comes from unlicensed sources (Youngs, 2010). Further to this, piracy continues to be rampant with more than 7 million illegal file-sharers operating in Britain alone (Mostrous, 2010). This revolutionary shift in the way music is distributed has led to the Internet reducing the need for physical distribution. In addition, it has improved communication between consumers and musicians (Graham and Burnes, 2004; Tapscott et al., 2000). To date, the main focus of academic research within the music industry has been on (1.) intellectual property (IP) rights (including software piracy; peer-to-peer (P2P) file sharing or music piracy) (Peitz and Waelbroeck, 2003; Liebowitz, 2003; Bhattachajee et al., 2003; Gopal et al., 2004; Levin et al., 2004; Chiou et al., 2005; Chen et al., 2008; Al-Rafee and Cronan, 2006; Cronan and Al-Rafee, 2008) (2.) acts of ‘consumer misbehaviour’ violating norms of accepted conduct in consumption situations (Fullerton and Punj, 1997; Harris and Dumas, 2009) and (3.) the proliferation of new digitized forms of distribution from subscription based to a-la-carte models (iTunes, 7Digital, Spotify) (Zentner, 2005; Dejean, 2009).

In this paper, we argue that there is an additional catalyst of change, which is transforming business relationships in the music industry. This concerns the growing significance of “intuitive experts” who can recognize new talent at unusually high success rates. The ability to discover new talent has always been seen as a significant competency. Artists’ creativity is a resource that firms can neither control nor create, but only select, nurture and market (Wijnberg, 1995; Lampel et al., 2000). The act of discovering, developing and promoting talent is thus one of the most significant investments for any record label. Major labels are estimated to invest \$1m (£670,000) on average to break a new artist. This includes the cost of creative processes, collaborations, and expertise required to make artists successful (IFPI, 2010b). Less than one in five new artist breaks even, making the music industry financially dependent upon its’ few star artists.

In the past, major labels’ control over the distribution channel compensated for their weakness in new talent selection. However, the recent technological innovations have disrupted this old industry structure. According, we argue that there has been a significant ‘*value-shift*’, which has given more power to independent record labels. Here we are in particular referring to those independent record labels that have the rare capability to select new talent at unusually high success rates.

Talent selection within recording companies

New talent selection is an existential challenge for music companies (Burke, 1996). The strategy used by most major labels has been to cast a wide net for artists and then to abandon them if their first attempts failed. Small labels in contrast, play an essential part in the industry’s ecosystem as they help nurture talent at the lowest possible level where the big 4 players (Universal, SonyBMG, Warner and EMI) often cannot reach (Talbot, 2004).

Extant literature on the co-existence of different selection models has found varying results. Seifart and Hadida (2006) developed a selection framework for music companies by building a theoretical bridge between knowledge in decision-making theory and the resource-based view of strategy. Other scholars have focused more on organization and management theory to understand the capacity of firms to select and manage talent as artistic products of

innovation (Dubini and Provera, 2006). Ordanini (2006) examined the relationship between chart success and two selection models (the direct and agency model). They found that differing selection models affected the duration, speed and the frequency of chart success for artists. By using the “direct model”, major companies can often achieve rapid chart success in the short term. According to this approach, major labels directly use mass-marketing, without first developing particular niche customer segments. This is similar to the traditional Schumpeterian model of monopolistic innovation, which is driven by financial resource availability. In contrast, smaller record companies often try to first cultivate niche-following, by initially marketing an artist to a particular niche customer base. This approach tends to result in longer-term success, while also taking a longer duration to generate high sales figures (Ordanini, 2006).

The ways in which major and independent labels bring music to the market are therefore quite different (Elberse and Ofek, 2007). Typically majors have a much broader portfolio of projects. As their goal is to reach the larger undifferentiated audience, their artist and repertoire (A&R) departments develop selection capabilities committed to anticipate fashions and trends rather than to discriminate on the basis of content or musical background (Ordanini, 2006). Major labels tend to be run by several business executives where as independent labels are often run by only a few managers responsible for both creative and strategic thinking (Scamman, 2008). Larger record labels are also often quicker to abandon artists who initially fail to gain traction in the marketplace. Labels like SonyBMG might terminate up to 40 underperforming artists in a given year (Elberse and Ofek, 2007). Whereas the nurturing and development of artists suggests a theme of patronage, which is more in line with the operating model of independent labels (Kusek Leonhard, 2005).

Historically, the relationships among recording companies have been subject to a wide range of structural arrangement, ranging from full ownership to distribution and licensing contracts (Gillett, 1996). Gander and Rieple (2002) argued that separation between majors and independents is required to protect the creative resources involved in the identification of new talent. Although certain scholars have perceived the relationship between majors and indies to be inherently conflicting and hostile (Hesmondhalgh, 1996; Gander and Rieple, 2002) the opposite has also been argued. For example, it has been maintained that these relationships have symbiotic characteristics, which can also have qualities of '*coopetition*' (where competitors both compete and cooperate with one other) (Bengtsson and Kock, 2000; Hesmondhalgh, 2002; Dubini and Provera, 2008). Nevertheless, as an industry trend, established record labels are increasingly adopting new inter-organisational arrangement, in order to get better access to new products (Dubini and Provera, 2008). Out of these relationships, small indie labels are gradually emerging as significant industry players, with more equal partnership arrangements with major record labels. Accordingly, smaller labels are today playing an increasingly important expert role in feeding megahit bands to larger music companies. In addition, the use of private equity financing has enabled independent labels to better negotiate with large record companies. Independent labels are increasingly using large record labels marketing and distribution resources on more equal terms (Elberse and Ofek, 2007; Bengtsson and Kock, 2000). As a result, it can be argued that the ability to select new talent has enabled certain independent record labels to increase their bargaining power at the expense of their larger industry counterparts.

The role of intuitive expertise in talent selection

The importance of intuitive expertise in the selection of new talent has been increasingly recognized in the extant music industry literature (Baskerville, 1995; Krasilovsky and Shemel, 1995; Caves, 2000; Vogel, 1994; Seifart and Hadida 2006). This reflects a broader turn in management studies, where intuitive and/or recognition-primed decision-making has been acknowledged as a central characteristic of expert performance (de Groot, 1965; Dreyfus and Dreyfus, 2005; Klein, 1999; Klein *et al.*, 1993). Based on this understanding, proficient decision-makers seldom use rationalistic choice-models characterized by systematic comparing and contrasting of different options. Instead, proficiency is often characterized by an ability to recognize a good solution the first consideration. This relies upon intuitive or recognition-primed cognitive processes. As a result, intuitive or recognition-primed proficiency enables experts to quickly crystallize managerial problems to a few key variables, while ignoring insignificant situational factors (Klein, 1999). Similarly, experts can populate concise stories and mental simulations which capture the central characteristics of the situation at hand.

Properties of intuitive thinking have long been debated by cognitive scientists. Early research tended to almost exclusively focus intuition as a source bias in decision-making, documenting various heuristic biases (Kahneman *et al.*, 1982; Kahneman and Tversky, 1979). This early understanding suggested the benefits of marginalizing intuitive thinking to reduce decision-making errors. More recently, however, a more balanced understanding of intuitive thinking has emerged (Dane and Pratt, 2007; Dreyfus and Dreyfus, 2005; Klein, 1999). In addition to being a source of heuristic biases, intuition insights are also recognized as a central component of expert performance. This means that organizations need to adopt a more balanced approach towards intuitive thinking. As intuitive thinking cannot be eliminated, we instead need to find better ways of using intuition (Klein, 2004).

Recent understanding of intuitive expertise has in particular been advanced by the Naturalistic Decision Making research, which studies proficient decision-makers in their real life context of expertise (Klein *et al.*, 1993; Lipshitz, Klein, and Orasanu, 2001; Salas and Klein, 2001; Zsombok and Klein, 1997). This research tradition has over the years become increasingly identified by the Gary Klein Recognition-Primed Decision (RPD) model (Klein, 1993). The RPD model provides an explanation of two significant aspects of intuitive decision-making:

(1.) The RPD model provides an explanation of how proficient decisions makers are often able to recognize a good decision, without resorting to rationalistic comparison of different options. Decision makers can often intuitively understand which goals apply to specific situations, setting up goal priorities. This allows the recognition of some cues as important while ignoring other cues, hence avoiding information overload in decision-making. Similarly, expectancies are developed that prepare the decision makers for what is likely to happen next, allowing them to notice unusual events. At the end of the RPD process, the situational comprehension matches the characteristics of a typical action to be taken and invokes action. (Figure 1) To quote Klein (1999: 24): “The recognition of goals, cues, expectancies, and actions is part of what it means to recognize a situation. That is, the decision makers do not start with the goals or expectancies and figure out the nature of the situation.”

(2.) The RPD model explains how proficient decision-makers often combine intuitive insights with mental situations. (Figure 1) This is in particular the case if a situation is atypical or too complex to be recognized by relying on purely intuitive insights. Mental simulation can be used to imagine how a situation might play out through manipulation of mental images, or through the population of short stories. In other words, intuitive pattern

matching provides an initial understanding of how to react to a situation (the first two versions of the RPD model), which is then tested through the construction and viewing of a mental simulation. In addition, mental simulation has been found to assist in the formation of both situation awareness and the generation of expectancies to verify situation awareness.

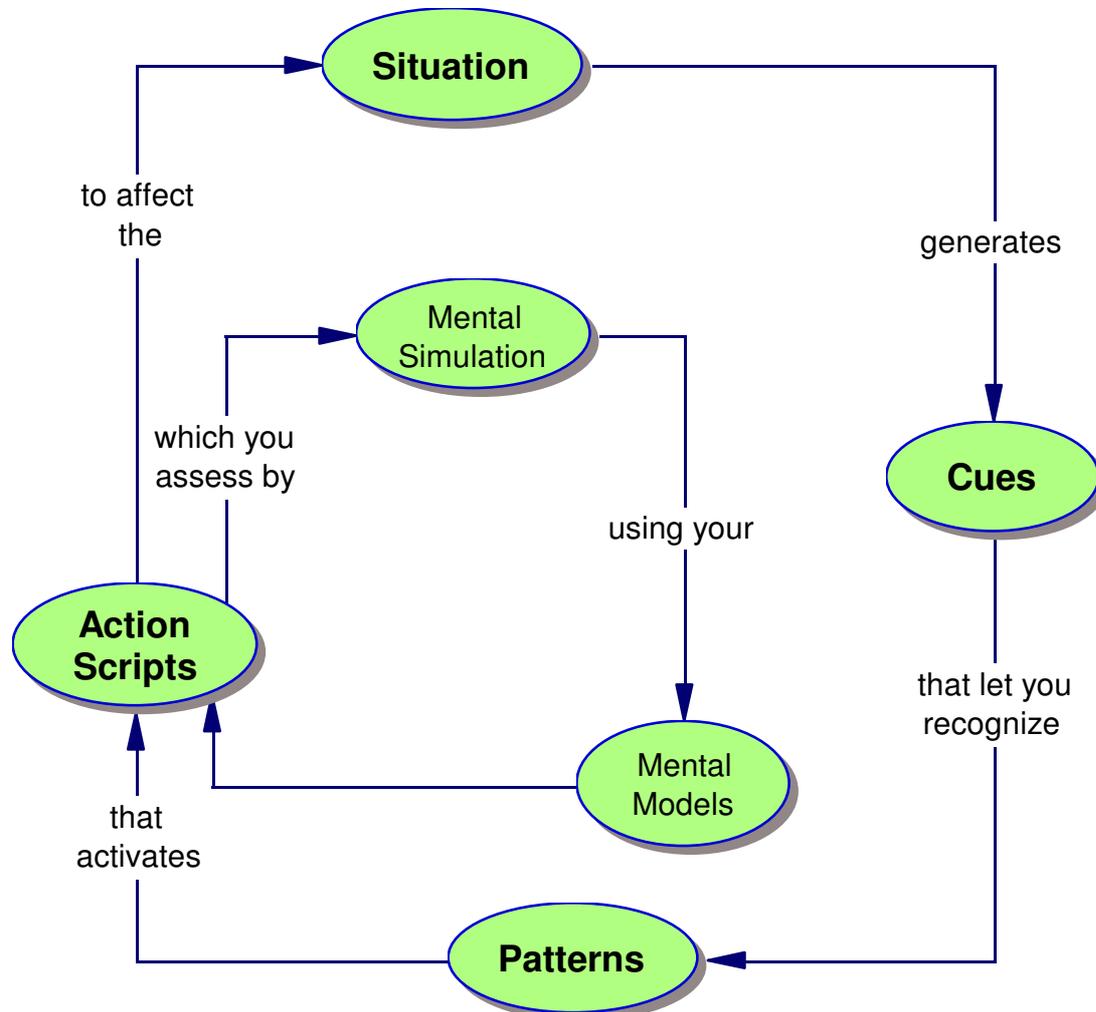


Figure 1. Recognition-Primed Decision Model (Klein, 2004: 26)

However, theoretical application of this new understanding has been largely limited to cognitive research, where much of the theorizing has been performed by cognitive scientists. As a result, social and organizational research has lacked strong theoretical linkages to central notions of intuitive expertise (Dane and Pratt, 2007) and a caveat exists in the understanding of what competencies comprise of the intuitive framing within organizations for successful talent selection and decision making.

We propose a preliminary conceptual framework that identifies how inter-organizational and organizational structures protect and nurture the “intuitive engine” (or core competencies) within music companies for the purpose of talent selection. We conceptualize the functioning of “intuitive expertise” in talent selections to be dependent upon three inter-related layers of social ordering, which conjointly protect, nurture and activate the intuitive talent selection capability. (1.) The “intuitive/recognition-primed” core consists of experienced industry professionals, who embody significant social structures of their industry and musical sub-culture. This expertise manifests itself as feel for the game both professionally and musically (Bourdieu, 1990). (2.) The intuitive core is empowered by

the internal structures, practices, values, and culture of independent record labels. We conjecture this to include acceptance of dynamic/ill-defined/time-pressurized decision-making. In addition, we conjecture there to be minimal reliance upon rationalistic decision-making procedures, or bureaucratic routines. Both of these conditions are consistent with past research regarding the boundary conditions of intuitive decision-making (Klein, 1999). (3.) Inter-organizational linkages are in addition significant mechanisms which enable the efficient functioning of intuitive talent selection processes. This we conjecture to include inter-organizational linkages that support the intuitive core competency, and facilitate the structure and culture of independent record labels. Here key considerations are organizations access to external resources, and record labels external credibility within the selected musical sub-culture. We conjecture it to be significant that inter-organizational linkages facilitate intuitive experts continued presence as a member of key social groups.

Conclusions

In this working paper, we have mapped out a research project to investigate intuitive expertise in talent selection in the music industry. We have identified three inter-dependent layers, which we conjecture to facilitate the efficient functioning of intuitive expertise. However, future research is required to test the conceptual validity of these conjectures. Empirical investigation will follow.

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