Transacting in a cultural industry
(A theoretical examination of the relevance of Transaction Cost Economics to the analysis of inter-firm relationships within the popular music industry)

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Abstract

This theoretical paper examines the transaction cost framework as described by its main proponent Williamson (1985, 1991, 1996, 1999) in the context of the popular recorded music industry. We take the two firm typologies within the industry, major and independent, and discuss whether TCE variables can identify suitable governance structures for managing the transactions between them. We argue that asset idiosyncrasies such as cultural knowledge and reputation, and the nature of the non-linear causally ambiguous creation of cultural product create a climate that militates against TCE’s ability to identify the optimal governance structure.

Key words: Transaction cost economics, popular music industry, creativity and innovation.
Introduction

This paper examines the ability of the well-established and arguably dominant micro-economic theory, Transaction Cost Economics (Williamson, 1973, 1975, 1981, 1985, 1991, 1996, 1999) to move beyond a condition its originator termed “blackboard economics” where “the firm and the market appear by name but they lack any substance” (Coase, 1992, pp. 714). Toward this end we examine Transaction Cost Economics’ (TCE) relevance to a specific sector, the popular music industry, and to the two firm types present in the industry; major and independent. This theoretical paper suggests that idiosyncrasies present in the features of cultural production and consumption (Throsby, 1994; Caves, 2000) as experienced in the popular music industry, militate against TCE’s ability to provide firms with sufficient direction over structural/governance decisions; when to conduct/bring activities within their organisation; when to contract with the market; and when to opt for an inter-organisational solution involving co-ordinated activities with one or more firms.

The selection of the popular music industry, the positioning of it as a cultural business defined by Garnham (1987, pp. 55) as being involved “in the production of symbolic meaning”, and the suggestion that idiosyncrasies characteristic of cultural production and consumption that are present within it, impact on the relevance of TCE as to the placement of firm boundaries is to stray into a theoretical boundary dispute. The useful but complex debate (Jeffcutt, Pick & Protherough, 2000) around the meaningfulness of the term ‘culture industry’ (Adorno & Horkheimer, 1947) and the identity of the firms that populate it (Towse, 1997). Whether a sufficient number of criteria can be met for a distinct culture industry typology to be defined is, however, beyond the ambit of this discussion. For the purposes of this discussion, we simply propose that elements that are characteristic of cultural production and consumption and are found in the popular music industry but are not exclusive to it, introduce a specificity that challenges the TCE perspective.
This paper takes an industry specific view and attempts to contribute to the literature on cultural economics in a hitherto under-examined field of enquiry – the firm and the positioning of its boundaries. This firm based governance perspective adds to the body of work on more traditional areas of enquiry in the field of cultural economics, such as factor inputs of the performing arts (Baumol, 1966), public policy issues (Peacock, 1969; Fullerton, 1991), demand characteristics (Rosen, 1981), sales concentration (Cox, Felton & Chung, 1995) and labour market features (Towse, 1993, 1996). It also hopes to complement work done on other aspects of the popular music industry, including analysis of the distribution of rewards (Cox, Felton & Chung, 1995; Strobl & Tucker, 2000), sensemaking (Anand, & Peterson, 2000); industry structure (Baker, 1991) concentration (Peterson & Berger, 1975) and product differentiation (Burke, 1996; Lopes, 1992).

The transaction cost viewpoint

For the purposes of this discussion a very brief visit to the core concepts of TCE is needed, a task made harder by the variety of interpretations of these to be found (Osborn & Hagedoorn, 1997; Ghoshal & Moran, 1996). Whilst this can be seen as an indication of TCE’s vitality and relevance (Jones, 2001) it complicates analysis considerably. Indeed, Williamson’s own development of the theory, in response to the discussions it has provoked, has at times, added to, rather than reduced this problemi (Slater & Spencer, 2000).

TCE is most closely associated with the work of (Williamson 1973, 1981, 1985, 1991). Developed from Coase’s (1937) inquiry into why firms exist, TCE’s answer rests on the presence of cost differentials between transacting within the firm and with the market. These costs arise as a result of doing business, and are incurred when negotiating, monitoring and controlling exchanges. Depending upon the nature of
the resources involved and degree of environmental uncertainty a transaction cost can be estimated, which, when applied to a continuum stretching from market to firm, allows a firm to identify the optimal organisational structure for a particular activity. The higher the cost the greater the recommendation to internalise the transaction and bring it within the control and ownership of the firm’s hierarchy; the lower, the more suitable the use of the market to organise the transaction. Where costs are intermediate a mixed form is recommended, such as a joint venture. Here costs involved are not seen as high enough to justify the control produced by internalisation, yet represent sufficient cost to make organisation solely via the market unsuitable.

Assessing the cost involved and thus the most suitable governance structure, is dependent upon the combined impact of bounded rationality, asset specificity and opportunism (Williamson, 1985). Bounded rationality refers to the fact that individuals are necessarily limited in their ability to “receive, store, retrieve and process information without error” (Williamson, 1973, pp. 317). Asset specificity points to the degree to which a resource can if required, be redeployed to alternative use without the loss of productive value, whilst opportunism describes the possibility that parties attempt to gain advantage through deceit, or “self-interest seeking through guile” (Williamson, 1981, pp. 554). The cocktail is necessary. Bounded rationality ensures that complete contracts cannot be written nor opportunistic behaviour unfailingly anticipated/spotted. Opportunism requires some form of assessment of the impact of contractual incompleteness, and asset specificity allows the decision to reflect the difference between the possible variety of transaction-specific investments.

Though Williamson states that TCE “is an empirical success story” (1996, pp. 55) concern remains at a generic level around a number of key components of the TCE decision framework. Criticism has included; the centrality of opportunism (Ghoshal & Moran, 1996), the assumption of risk neutrality (Chiles & McMackin, 1996), its undersocialised and ahistorical nature (Granovetter, 1985, Ring & Van de Ven, 1992; Argyres & Liebeskind 1999), and the resulting “temporal reductionism” (Gulati, 1998, pp. 302) that
paints a static picture of firm activity and decision making (Lorenzoni & Lipparini, 1999; Gulati, 1995). The view that “Transaction costs are the economic equivalent of friction in physical systems.” (Williamson, 1985, pp. 19) and that the governance structure adopted to manage exchanges be selected according to their differential abilities to respond to the costs of such friction, clearly places a bias towards cost minimisation over value creation. Though Williamson (1985) questions the value of such a dichotomy between cost minimisation and value creation, suggesting that both are routes to profit maximisation, the charge that TCE’s focus on cost minimisation at the expense of value creation possibilities results in missed opportunities and thus sub-optimal firm performance is a frequent and dogged one (Zajac & Olsen, 1993; Dyer, 1997)ii. We draw on the insights delivered in these critiques whilst focussing on the contribution TCE makes to understanding music industry inter-firm relationships.

In addition to the above critiques of mainstream TCE (Williamson, 1985) applied at a general level there also exists concern for TCE’s explanatory relevance to specific industry sectors (Murray & Kotabe, 1999). Questions over TCE’s ability to apply to real world business cases is arguably the result of what Pessali and Fernandez (1999) identifies as a tension between Williamson’s “intuitive commitment to realism…and his commitment to some core presumptions of mainstream economics” (Hodgson 1998, pp. 189), namely rational-economic man acting within closed, static systems. Williamson’s commitment to such precepts results in his willingness to sacrifice realism for constructs that can accommodate a wide variety of firms and environments without continual appeal to the get out clause of contingency. That tension between specific contexts and generic application is present in TCE is not of course remarkable in itself, being an endemic feature of theory construction and development (Poole & Van de Ven, 1989). Taking Sutherland’s (1975, pp. 9) definition of a theory as “an ordered set of assertions about a generic behaviour or structure assumed to hold throughout a significantly broad range of specific instances” what is of interest is the outcome of such tensions, the range of specific applications in which a theory remains valid. Testing against a local view such as the popular music industry therefore identifies the strength of
the theory (Weick, 1989). The following analysis thus does not attempt to deny TCE its explanatory contribution to firm boundary decisions, merely to identify the limits of its useful application.

Firm interdependency within the popular music industry

Firms in the worldwide recorded music industry can be divided into two broad types, the 5 ‘majors’, which, with one exception are divisions of multinational entertainment conglomerates, and have a combined global market share of around 80%, and the smaller, more locally specific firms, known as independents. These two firm types have, since the beginning of rock and roll in the mid 1950s, had an intertwined history, with relationships covering a wide range of structural and governance types, from full acquisition to one off distribution deals (Negus, 1992). The rationale for such deals appear to be based on a certain coagulation of skills and assets around the two firm types. The scale economies, capital resources, marketing competencies and distribution reach reside with the major. While the independent with its greater social congruity and ideological empathy towards emerging artists, gives it an advantage over the larger and more culturally distanced majors when spotting and developing new talent (Frith, 1990).

This division of comparative institutional advantages plus the high demand for new talent ensures that the major music firms frequently use the independents as sources of new product. The frequency of this exchange relationship makes the governance mode chosen important. A further element surrounding this exchange adds additional importance. Other activities within the music industry value chain involve the exploitation of resources that are imitable, mobile and broadly homogenous, (publishing, promotion, distribution) and as such offer little opportunity to develop competitive advantage. However the resources involved in the identification, attraction and development of new talent, due to their causally ambiguous, complex and heterogeneous nature, do offer such potential (Barney, 1991). The discussion of
TCE’s suitability to advise in the selection of governance method to handle such frequent and important transactions is therefore both relevant and significant.

**TCE implications for the recorded music industry**

We suggest that applying the transaction cost perspective to the identification and development of new popular musical talent results in a high transaction cost assessment and the according recommendation of integration, of conducting the activity within a single firm’s hierarchy, in most cases the major’s.

A brief outline of the analysis leading up to such a conclusion is set out below. The integration recommendation stemming from issues surrounding asset specificity, metering difficulties, environmental uncertainty and the potential for small numbers bidding and pricing situations.

Asset specificity is, as Williamson described it, the “big locomotive” (1985, pp. 56), a crucial variable driving the transaction cost assessment and thus the resulting governance recommendation. Applied to the music industry, investments appear to be general in nature, involving budgetary commitments, and the use of existing production, distribution, promotional skills and resources. However, if we introduce a more temporal perspective of the management of transactions we can view asset specific investments completely differently. Investments by the major involve the creation of highly specific human assets in the form of teams and individuals who over time develop knowledge, skills and understanding of the management team and artists that make up the independent record company. These skills, knowledge and trust levels are highly particularised, highly specific to the individuals involved and thus cannot be transferred to another independent. The resulting loss of value in the event of opportunistic action would seem to place the asset in the highly specific category favouring protection via hierarchical control (Williamson, 1973).
The more complex the transaction, the more difficult it is to identify level of commitment, effort and skill deployed by an agent or party (Williamson, 1981). The resulting cloud of doubt and uncertainty can be exploited, and, encouraged by the reduced likelihood of being caught, self-interested opportunistic behaviour can result. The identification of new talent and its early development undertaken by an independent is clearly subject to such metering difficulty. With its non-standardised, craft like production processes (Stinchcombe, 1959) and an almost total market reliance on the market to determine quality, the possibility for opportunism and thus the firm’s exposure to the costs of opportunism is increased.

Human asset specificity and metering difficulty conditions described above are characteristics of what Williamson (1981) described as a relational team. A scenario that under the transaction cost perspective requires unified governance.

Further indication that a transaction cost perspective results in the recommendation to integrate such exchanges can be found in the high level of environmental volatility within the music industry. The more exogenous disturbances, the argument goes, the more uncertainty surrounding the response of a party to that change and thus the greater the opportunism potential. The popular music industry environment is one that is defined by rapid and violent change. With the extremely high concentration of sales across a limited number of artists (Cox, Felton & Chung, 1995) successful bands enjoy supernormal returns and the value of an artist/band can rocket, dramatically increasing their bargaining power. Under such conditions the “machinery to ‘work things out’ – since contractual gaps will be larger and the occasion for sequential adaptations will increase in number” as Williamson (1985, pp. 60) notes is clearly vital. Thus it follows that integration, by providing mechanisms for discussing and adapting to changed circumstances is recommended. As hierarchical structures are seen within the TCE model as being better able to respond
to changes, primarily through the use of fiat as a last resort (Williamson, 1999; Zajac & Olsen, 1998; Argyres & Liebeskind, 1999).

A further environmental factor introduced by Williamson in the calculation of transaction costs is the impact of small numbers trading conditions. With a limited number of suitable trading partners, there is the possibility of opportunistc pricing, and/or a bidding war inflating the costs of purchase and risking the negation of any future operational profits. Such a scenario appears counter-factual for an industry with an acknowledged oversupply of potential product in the form of artists (Towse, 1996; Hirsch, 1972). A result of low entry barriers (musical instrument/computer), low creation barriers (3 minutes of song lyrics and musical score) and high levels of intrinsic satisfaction, enabling and encouraging potential artists to produce a large amount of product. However a number of factors combine to counteract this apparent large numbers situation. The large number of possible investments increases the cost of discovering which option is suitable, which, when compounded by difficulties in ascertaining the quality of the cultural product (Hirsch, 1972) produces a concentration of interest on a small number of artists usually from known successful talent spotters. When conducted in an environment where increasing returns conditions (Kretschmer, Klimis & Choi, 1999) and the ‘superstar phenomenon’ (Rosen, 1981; Adler, 1984; Hamlen, 1991) operate, the stakes are very high indeed. Such conditions encourage bidding wars and offer independent firms the ability to engage in opportunistic pricing. Under such conditions TCE produces a high transaction cost outcome so recommending unification within one firm.

Taking into account the previous discussion, transaction costs involved in the exchanges between the independent and major are high, high enough to require integration through acquisition, into the major’s hierarchy. Yet this paper argues that when the specifics of the resources involved in the identification and development of new talent are taken into consideration, the optimal governance structure from a TCE perspective results in a sub-optimal value outcome. That following the TCE model produces a recommendation that degrades the operation of the creative knowledge resources and assets that drive the
value of the transaction and is thus at variance with the firm’s ability to compete effectively. Far from being a useful protective decision tool against a hostile environment TCE is an inhibiting frame of reference that delivers reduced returns on investment.

**Music industry idiosyncrasies that challenge the application of the TCE model**

Some of the idiosyncrasies that result in this assessment are discussed below.

TCE, as mentioned, suggests that firms look to the possible cost of opportunistic behaviour surrounding an exchange and decide if it is high enough to warrant the use of organisational fiat to forestall/protect itself from the consequences. That opportunism exists and is a factor in governance decisions is not an issue, that modes of organisation be selected according to their ability (if required) to attenuate it, is (Moschandreas, 1997). Hierarchy’s recourse to administrative fiat to increase the likelihood of spotting and then preventing opportunistic behaviour neglects to take into account the ideology of the personnel involved. Without descending too far into the stale and overdrawn stereotype of angst ridden artist with embedded iconoclastic behaviour, it is still reasonable to suggest that artists, are less willing to respond to the lines of authority embodied within a management structure. For them, an alternate and competing source of instruction is derived from cultural and aesthetic criteria rather than institutional and structural sources. Though clearly resistance to administrative fiat is not limited to the music industry, nor indeed to cultural industries, we suggest that part of the act of creating cultural product, or what Garnham (1987, pp.58) has referred to as “the expression of difference”, can run counter to administrative lines of command.

Should creative workers respond to directives based on administrative authority, there remains the problem of identifying whether their behaviour is actually opportunistic. Conventional monitoring and
measurement procedures arguably fail to capture what is a non-linear, irregular creative production process. The uncertainty and causal ambiguity accompanying cultural production ill-suits formal control methods based on rules and supervision (Leifer & Mills, 1996; King & Zeithaml, 2001). Whilst adherence to a promotional schedule that can involve an agreed number of interviews, promotional trips and other public appearances can be monitored, measured and controlled, the recording of an album, involving tacit (Polanyi, 1966), socially constructed, and contextually dependent skills is less suited to control through reporting standards. The result is that a major can contract with an artist or an independent label for a defined number of albums within a certain time period, yet cannot distinguish between hold ups in the creation of such albums being due to collaborative, mutually beneficial behaviour, say because the artist is striving for something that will become a hit, or the result of non-compliance.

Given such a context, reliance upon fiat to reduce exposure to opportunism costs appears misplaced, and even arguably self-defeating. The use of formal monitoring and control procedures, as well as failing to spot and/or curtail opportunist activities, can actually produce a spiral of distrust, thus encouraging self-seeking behaviour (Lorange & Roos, 1992; Ghoshal & Moran, 1996; Wicks, Berman & Jones, 1999). These self-defeating properties of the transaction cost perspective (Dyer, 1997) are likely to be exacerbated when applied to industries already defined in terms of institutional distrust, such as that which arguably exists in the music industry where a culture meets commerce paradigm frames participants understanding. Anecdotally, this can be observed in the ‘them and us’ discourse used by actors in the industry.

Constraints on the effectiveness of administrative authority place a greater degree of importance on what Williamson (1985) referred to as legal ordering, the ability of the courts to enforce contract, constrain and reduce the costs of opportunism. Though the courts have shown willingness to protect contracts (George Michael versus Sony Music, and Prince versus Warner Music) when applied to the music industry and more particularly the formal relationships between a major and an independent music firm, the negative
externalities surrounding the use of court action severely hamper this contribution of the courts. Acrimonious cases that are slow in resolution and thus maximise the information spread can have a negative effect on the major firm’s reputation, in the eyes of the independent firms and their artists, and potentially have a destabilising effect on artists already within the major firm. As reputation is a key factor in the ability of a firm to attract new talent (Hesmondhalgh, 1998) court cases can damage the major’s opportunities to compete by tarnishing this asset.

A further weakness of legal ordering lies in the previously mentioned difficulty in enforcing compliance via claims to authority. The causal ambiguity and complexity surrounding product creation, quality and effective monitoring allows a disgruntled artist to honour a contractual stipulation without necessarily delivering a successful product. Though damage to the artist’s reputation if inferior or no product is released, is a possibility, something which probably encourages a degree of commitment, compilation albums, acoustic work, and concept albums, can allow an artist to preserve their reputation whilst complying in name only with the terms of their contracts.

These weaknesses in both the administrative and court based enforcement regimes further underlines the requirement to adopt alternative governance mechanisms to manage and control cultural assets and production processes. The role of trust as such a mechanism has enjoyed a considerable amount of investigation (Aulukh, Kotabe & Sahay, 1996; Sitkin and Roth 1993; Inkpen & Crossan, 1995, Mohr & Spekman, 1994). However though incorporated by some TCE theorists (Bhattacharya, Devinney & Pillutla, 1998), Williamson (1999) remains unmoved by findings such as Parkhe (1993) and Gulati (1995) where opportunism was found to be reduced by the presence of trust. In his conception trust is either rational calculation of another’s behaviour, enforced by reciprocal hostages, in which case it is merely calculative self-interest and not trust, or as bounded in nature leaves the trusting party irresponsibly vulnerable to the costs of opportunism. Given the limited and possibly value destructive impact of
hierarchy and court based protection against opportunistic behaviour, this rejection of unconventional control mechanism is disappointing.

Reputation effects are also relevant to the independents and need to be considered in any governance decision. The reputation, or credibility, of the independent label, is a key asset playing as it does an important role in winning the signature of new talent. Yet this valuable asset is vulnerable to close association with a major due to the latter’s perceived anti-aesthetic, pro-commerce, attitude. Though as the hostility between these two firm types can be overstated, it does not mean it can be ignored (Hesmondhalgh, 1998). Correspondingly, integration of an independent in order to conduct the transaction within one firm, risks, due to network effects, degrading the resources employed by the independent and thus reducing the net outcome.

Concern that a hierarchy, though a suitable governance structure for a firm as far as the transaction cost calculation goes, could nevertheless prove hostile to the operation of certain activities was recognised by Williamson (1985). Though his argument was based on the features of a bureaucracy rather than aspects of an asset. Williamson speculated that during the early stages of a product where innovation rather than exploitation was the main activity, the incentives required for such work would suffer under conditions found in a hierarchical structure. This recognition, that another variable outside transaction cost’s principal elements could overrule the recommended transaction cost outcome, suggests that other variables such as those outlined in this paper, could similarly serve in such a qualifying role.

The identification and development of new musical product compares to that of the R&D function of other industries. Under TCE, the recommended solution, to delay integration until innovation has taken place and the result requires the more ordered exploitation suited to the bureaucratic organisation, relies on a Schumpertarian view of innovation, where revolutionary changes in technology (Dewar & Dutton, 1986) offer long revenue streams and the presence of an identifiable period in which to manage the transfer of
ownership prior to its exploitation. Such a view does not describe the more continuous innovation (Nonaka & Takeuchi, 1995) patterns practised in the development of new artists and their output.

Whilst there is indeed a very marked distinction between the identification and creation of cultural product in the form of an album and its subsequent exploitation through co-ordinated marketing campaigns across the various media channels, the short life-cycle of the product ensures that there is a very real possibility that the process of negotiating any integration or partnership would take longer than the sales cycle of the product. Integrating a firm in order to exploit the results of its innovation would only reliably apply to previously released product (back catalogue), valuable in only a minority of superstars (U2, The Beatles, Prince). The formation of a hybrid organisational structure, to smooth any decision to integrate, via the pre-installation of the necessary channels of communication, and the possible use of contractual clauses giving the partner firm first option on purchase, can of course speed this process up, but, arguably, not sufficiently.

Issues of response time between innovation and exploitation, focuses attention on the producers; the artists and their management group. They are the de facto product. One might argue that integration would allow them to benefit from the procedural efficiencies and scale economies of a larger enterprise. Whilst such a view has certain operational and economic logic to it, it ignores the fact that this product has a personality, and that new musical product in the form of CDs is continually demanded. The personality of the product can restrict its transfer across firm boundaries in a way that a new manufacturing equipment and process can’t. Artists and the record label management can react negatively to the concept of being traded assets, and, as previously discussed, refuse to cooperate under the new regime.

This ‘relay’ conception of the relationship between innovation and exploitation, does not describe the innovation patterns experienced in the popular music industry. With product life-cycles often lasting only
months, demand for new product is regular and insistent. With such continuous innovation TCE’s recommended division of exploitation from innovation is not practicable.

In addition to the practical obstacles outlined above, the impairing attributes of hierarchy upon the music industry’s innovation process are not restricted to reduced incentivisation as in Williamson’s (1985) conception. The impact of the bureaucratic processes and the loss of independent identity threatens to degrade the value of the aimed for assets. Both the artistic assets of the musicians and the trend spotting, talent identifying, and early management competences of the independent record label are reliant upon environmental and procedural factors that are embedded in the culture of the firm. The attempted transfer of these creative assets into a different institutional environment risks separating them from their context, and thus depriving them of the requisite conditions for their exercise (Powell 1987; Szulanski 1995; Madhok, 1997; Kostova, 1999). This is especially the case when the environment in question is within a large multinational conglomerate better suited to the operation of standardised, and well understood production processes (Powell, 1987) not the non-linear causally ambiguous and contextually dependent creative process (Pilditch, 1990) behind the production of popular music product. It is possible to characterise these difficulties as arising from TCE’s apparent bias towards tangible assets and its corresponding discomfort when applied to exchanges involving intangible assets such as knowledge and reputation (Lorenzoni & Lipparini, 1999; Noorderhaven, 1996; Kogut & Zander, 1995). Yet it is operationalised knowledge, in this case, the cultural knowledge of the independent record label, required to spot new musical trends and attract new musical talent or the intangible musical skills of the artists that forms part of the explanation for differential firm performance and arguably underpins competitive advantage (Grant, 1996; Teece, 1998, 2000). TCE’s failure to respond to such issues reduces its relevance to industries such as the recorded music industry, where the operation of such knowledge plays such a key role in explaining firm competitiveness.
Finally, TCE’s treatment of uncertainty as a threat (Slater & Spencer, 2000), ill-suits it for firms operating within environments such as the popular music industry that are characterised by uncertainty. For in such circumstances the temptation to select the integration option too readily, without regard to the possible negative effects of bureaucracy is present (Williamson, 1996). Under such conditions the prime objective; to minimise costs, risks the imposition of management and monitoring regimes that are inimical to the operation of intangible, non-linear and socially constructed resources. However, Williamson’s proposed solution to this problem was the better development of the literature on bureaucratic failure, rather than a revision of, or significant addition to, the approach of TCE. The requirement for another body of work to be developed before TCE can effectively operate appears to acknowledge its incomplete jurisdiction over governance mode selection.

**Conclusion**

The identification, attraction and development of new artists represent a critical set of activities within the music industry (Belinfante & Johnson, 1982). The resources required to carry out such functions are frequently sited within relatively small, independent firms that are connected to developing music scenes. A union with the superior economic resources of a major music company to exploit the results of such research and development would appear to represent a complementary match of assets and skills. A consideration of transaction cost variables to provide guidance over how to structure such a union points to the internalisation of the independent/major transaction; because of concerns over asset specificity, monitoring and measurement complexities and the frequency and degree of environmental uncertainty.
However, aspects of the assets involved in creative production, their reliance upon institutional and environmental features and processes for their effective use, and the critical role that reputation plays in their overall operation suggests that they are subject to value erosion upon their incorporation within the major firm. Whilst the limits of bureaucracy are incorporated in TCE’s framework, the restriction is limited to incentive impairment rather than environmental and procedural incompatibility and is thus of questionable relevance to boundary decisions among firms in the popular music industry.

If we move on to a discussion of how to overcome bureaucratic limits whatever their source, the proposed TCE solution, delay integration until the R&D function has run its course is also judged as inappropriate for the popular music industry, as it destroys the productive capability necessary to offset the short product life-cycle of the product. In addition, the time required to obtain agreement of integration particulars is not sufficient to be able to ‘catch’ a product prior to its exploitation phase.

Thus we argue that the identification and development of popular music product introduces, as with high technology industries where innovation is similarly a key activity introduces “issues that go beyond the standard transaction cost economics set up” (Williamson, 1996, pp. 51). Taking Weick’s (1989) recommendation to dimensionalise theories according to how wide the range of specific instances that are explained by reference to it, we argue that the range of specific applications to which the TCE can be applied better excludes firms holding assets of a institutionally specific, socialised nature, and industries engaged in a rapid and constant cycle of innovation, such as those involved in the identification, attraction and development of popular musical talent.
This is certainly the case with the use of ‘farsightedness’ (1996) to deal with the inherent contradiction in his framework; that agents are boundedly rational in a world of uncertainty, while at the same time are capable of devising efficient governance structures (Slater & Spencer, 2000). However the proposition of farsightedness; allowing agents to identify the limits of their rationality, foresee the consequences and organise accordingly encounters similar charges of inconsistency.

Though Jones (2001), whilst acknowledging the potential bias, feels this view is misplaced and outlines a way of viewing TCE as “more than the friction of exchange that saps a systems energy” (2001, pp. 224), but as a positive and transformational paradigm that encourages the value creating forces of innovation and entrepreneurship.

Allan McGee, head of a successful independent Creation, described staff at a major music company with whom his company had had an alliance, as “nice people but not my people”. Guardian (2000) End of the revolution Alan McGee January 19th (pp. 14)

Though there are tacit elements to the knowledge required to operate machines. Polanyi (1962) has famously described observing a previously successful machine failing to work when transported to Hungary.

Williamson notes this limit and states that he is awaiting progress in the ‘undeveloped’ understanding of bureaucratic failure (1996).
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