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Entrepreneurship in Organizations: Evidence from the Popular Music Industry

This paper identifies the leadership style, entrepreneurship, as a strategy employed by large organizations to cope with turbulent market environments. First, evidence from the popular music recording industry shows the several means by which the potentially disruptive consequences of entrepreneurship are reduced. Changes in the level of market turbulence since World War II are then explored to show that the scope of entrepreneurship is directly associated with the degree of turbulence. Finally, other organizational settings in which entrepreneurship and turbulence seem to be linked are identified, in order to suggest the generality of the relationship.

In the Weberian model of organization the environment is assumed to be stable, attention is focused on the internal mechanics of organizational structure, and the leadership function is seen as delegated through the mechanism of routinization. By contrast, in the open-system model of organizations (Bernard, 1938; Selznick, 1949; Gouldner, 1959; Cyert and March, 1963; Lawrence and Lorsch, 1967a; Thompson, 1967; Hage and Aiken, 1970), the environment is assumed to be variable and able to influence organizational structure and leadership styles.

The environments of an organization may be unchanging, changing in ways that can be evaluated and predicted by technical experts, or changing in ways that are incapable of analysis and prediction. Emery and Trist (1965) labeled the latter environment as turbulent. Perrow (1967:196) noted that such an environment creates special problems for organizational personnel: there must be many exceptions to organizational routine, there can be no established procedure for seeking solutions, and "no 'formal' search is undertaken, but instead one draws upon the residue of unanalyzed experience or intuition, or relies upon chance and guesswork." Thus, under turbulent conditions, bureaucratic, professional, and craft leadership styles are inappropriate; and the organization must rely on what Thompson and Tuden (1959) termed inspirational strategy. This leadership style is identified here as entrepreneurship.

The present study draws on data from the popular recorded music industry which has a marketing environment very near the turbulent extreme because it depends on the rapidly changing style preferences of millions of predominantly young buyers (McPhee, 1966). Data for the study came from interviews with popular music recording industry personnel and observations made in recording sessions in New York City, from 1963 through 1965 and again in 1968, and also in Nashville, Tennessee, from 1967 through 1971. These data have been augmented by 13 taped interviews with New York and Los Angeles producers.[1]

THE ENTREPRENEURIAL FUNCTION

The term entrepreneurship, when used in contemporary studies of organization, usu-

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ally designates the persons who own a firm (Davis, 1968) or the ownership function (Becker and Gordon, 1966). However, Schumpeter's (1934:74–94) more dynamic definition of this leadership style is used here: entrepreneurship is the use of a novel combination of the available means of production. Schumpeter (1934) stressed that no occupational position or organizational office can be defined as entrepreneurial, although it is often convenient to talk of an entrepreneur. Rather, an individual is an entrepreneur only when he actually carries out new combinations. Also, in contrast to the use of the term by Marshall (1925), Cole (1949), Parsons and Smelser (1956), and Bain (1959), who identified it with managements, Schumpeter (1934) identified it as a function which may be carried out by persons in many different positions.

Schumpeter (1934) also stressed that new combinations most often are made by employees of large firms rather than by self-employed businessmen, that entrepreneurship emerges only when the objective possibilities for new combinations are present, and that entrepreneurship does not emerge automatically. Persons with the psychology and motivation necessary for entrepreneurship must be in the strategically appropriate locations. As described by Schumpeter (1934), the exercise of entrepreneurship requires the freedom to work outside normal channels; thus, there is a tension between the intermittent organizational need for entrepreneurship and the entrepreneur's empire-building way of working, so that the entrepreneur is likely to find the organization stultifying, while the organization may often find the entrepreneur disruptive.

At least three adaptations to the potential entrepreneur-organization tension are possible. (*1*) The organization may be small and loosely structured enough that the entrepreneur can manage his own business—exemplified by the independent record producers who emerged in the mid-1960s when the market was extremely turbulent. (*2*) The organization, alone or more commonly in conjunction with other organizations, may render the environment nonturbulent and thus nearly eliminate the need for entrepreneurship as exemplified by the tin-pan-alley era of the recording business from 1925 until about 1955 when five leading companies enjoyed an oligopolistic control of the market (Peterson and Berger, 1971). (*3*) Large organizations may adapt to the requirements of entrepreneurship, which occurs when the organization cannot reduce the turbulence of at least one important segment of its environment. This adaptation took place in the popular music industry when conditions of moderately great turbulence characterized the organization's market environment between 1955 and 1965.

ADAPTATION TO ENTREPRENEURSHIP

The record industry's adaptation to entrepreneurship with moderately high turbulence involves three organizational strategies. (*1*) The segment of the organization which interacts with the turbulent elements of environment is segregated from other segments as completely as possible. (*2*) Within this environment-linked segment, entrepreneurship is isolated into a specific role, which is linked with a number of specialists. (*3*) The financial risks of entrepreneurial decisions are minimized by reducing the discretion of the entrepreneurial position, by increasing the number of entrepreneurs and the number of entrepreneurial decisions made by each, by developing a system of rapid feedback to monitor the market success of each decision and each entrepreneur, and by rewarding or firing entrepreneurs on short notice based on their successes in predicting changes in the turbulent environment.

Segregation of the Environment-Linked Segment

The integrated recording company is typically an element of a conglomerate which is involved in most of the following activities: TV networks, music publishing houses, music instrument companies, direct sales organizations, talent booking agencies, and movie studios (Business Week, 1967).

Manufacturing. The recording-company division of the conglomerate usually has three divisions, one of these is the manufacturing division. Inputs include master stamping plates and record jackets. Records are manufactured and packaged on highly standard machinery so that no matter what is recorded, Gregorian chants or electronic Rock, the stamping and packaging routines are unaffected. The stamping machinery can be reset to manufacture one or another record within a matter of minutes to accommodate to market demands, and any excess demand can be subcontracted to independent stamping plants. Thus, the manufacturing division of the company is fully segregated from environmental turbulence, and as might be expected, this division is quite bureaucratic in organization.

Sales and promotion. This division is organized on a territorial basis, and, like most sales divisions, a large part of its organizational activities are focused on seeing to it that its own agents are working. The division has a flat organizational chart, depending on frequent telephone contacts, internal publications, and money incentive plans to coordinate and motivate its far-flung agents (Shemel and Krasilovsky, 1965; Hirsch, 1969). The segregation of the sales and promotion division from environmental turbulence is not complete, for the wrong promotional drive may kill a potential hit record. The entrepreneurs try to influence the activities of the sales and promotion division, but, for the most part, the division operates as if it were unaffected by turbulent aspects of the environment.

Production. The third division of the record company, production, is organizationally segregated from the other two main divisions of the corporation. It is expected to create a succession of hit records and is thus more directly in contact with the turbulent environment. The division is typically headed by a corporation vice president, but his task is primarily to maintain a semblance of financial order from the activities of different professionals, craftsmen, and artists. Because many of these personnel work on job-contract bases, and because recording studios are often rented, these resources are retained only so long as needed. The production division is loosely organized so that it can adapt to the continuous changes in the turbulent market, and it is a structural accommodation much like that of the construction industry as described by Stinchcombe (1959).

Isolation of the Entrepreneurial Function

Within the turbulent environment-oriented division of the organization, the entrepreneurial function is isolated as far as possible into one specific role. Focusing entrepreneurship in one role not only facilitates the organization's adaptation to environmental turbulence, but also simplifies organizational control over this nonroutinizable function. In the record industry, this is the producer—sometimes called an artist and repertoire man or A and R man. The isolation of entrepreneurship into this one job category can be demonstrated by describing the producer's range of tasks, which are related to tasks of technical specialists with whom he interacts in creating that mix of novelty and sameness which is a hit recording. The activities of a typical company producer can be described as a single sequence, although he is usually engaged in several sequences simultaneously.

Although sometimes a producer is assigned to an artist who is already under contract to the company because it is believed that the producer can best bring out the artist's commercial appeal, the producer spends much of his time searching for new performers. He listens to the demonstration tapes sent to him by aspiring groups and also seeks out groups in live performances. Shepard (1968:30) described this process:

> The intensely competitive quest for new pop music groups starts with the "producers," who make their rounds of club, coffee house and campus with the fidelity of postmen and the discriminating eye of diamond merchants. One man's miss may be the next man's fortune. Armed with intuition, empathy, and durable ear drums, recording company producers constantly candle the pop eggs incubating at the electrical outlets of the nation's nightspots.

Next the producer shares responsibility with the artist for choosing the tunes to be recorded and the mood or style of play. This stage is critical, because to be a successful recording in the popular field, the tune must be enough a la mode for it to catch the ear of the audience but just distinctive enough to sound different—this is the song's novelty. Performers usually have chosen material they want to record, but the data suggest that producers diplomatically exercise the final judgment on what is recorded. As one interviewed producer commented, "I let the artist think the selection of tunes is by mutual consent, but I'm more knowledgeable than he is." The producer next arranges for the recording session, chooses the studio and recording engineer, and oversees the hiring of free-lance background musicians employed to enrich the musical sounds on the final tape. These various decisions go a long way in determining the sound that is produced (see Hopkins, 1970: 111–120; Burt and Ferguson, 1970: 118–128, 141–142; Keil, 1966: 90–95).

During the recording session, the producer coordinates the engineers, artists, and craftsmen who are assembled under great time-pressure and at hundreds of dollars a minute. Discussing this part of his task, one producer commented, "You have to put everything together, the arrangements, the musicians, and all. You have to be a casting director." The assumption is made that the technical experts have been hired because they know their jobs, and the producer does not give orders, mediating instead between the various interests. By reputation and manner the producer tries to maintain the confidence of the performers and the other technicians at the recording session. As one producer noted in an interview, "The main thing in production is to tell people you've got everything covered. When you're wrong, back off quickly. Before you go to bed, tell yourself not to believe your own shit." One producer characterized himself as a wet-nurse and psychiatrist (Keepnews, 1967: 16), and another said, "You've got to come off sincere . . . you have got to get respect first of all. Rapport is very important. You have to get the artist relaxed so you can get a spontaneous performance." As Geracimos (1968: 55) noted, a kind of club-like atmosphere prevails in the studio:

> Jokes come and go like marathon vaudeville. Tom Wilson [one of the most successful new producers] exerts a subtle form of control with his rhetoric; he is the man with the best quips, the last word—as though his authority derives solely from his imagination, which it does in a way. He is always gentle, graceful, witty and gives the impression on the surface, of being entirely relaxed.

After the recording session, the producer oversees the production of a master tape, combining the best elements of numerous takes of the tunes. At this point, decisions may be made to overdub extra sound on the tape in the quest for novelty. Finally, the company producer is involved in decisions concerning the packaging and promotion of his record: jacket design, liner notes, and album title, as well as angles which may help the company's promotion department sell the record to jobbers and disc jockeys (Hirsch, 1969).

This activity often brings the producer into conflict with the sales and promotion division. Producers find personal ways of giving their own records greater visibility; for example, concerning one of Aretha Franklin's early songs, her producer noted (Hopkins, 1970: 117), "I was terribly excited, I was really turned on to this record, so when I went home for the weekend I brought a dub home with me and I got on the phone and I called all the key rhythm and blues disc jockeys around the country that I knew to play it for them on the phone." An interviewed producer noted the problem that his activity can make for sales and promotion: "I work on promoting as much as any producer. I sometimes risk stepping on the promotion department's toes by calling DJs who are old friends. I get yelled at for this because the DJs have copies before their distributors. Other radio stations get mad at my company because I have given a competing station in the town a jump on all the other stations."

In creating a record, the recording-company producer interacts with numerous technical specialists who make specific contributions to the final product. In contrast to the technical specialists with whom he works, the producer must be a generalist: as one respondent noted, the procedure is, "The guy who puts it all together, the guy that can hear what will sell." Thus, in the recording industry, the entrepreneurial function of making novel combinations of available resources to achieve success in a turbulent market is isolated from other technical roles and aggregated into a specific role.

Limitation of Entrepreneurial Liability

At least four different tactics have been developed in the recording industry to limit the liability of entrepreneurship. In some particulars the tactics are unique to this industry, but many similar strategies can be found in other industries.

First, the discretion of each entrepreneur is limited. While corporation executives say they give their producers a free hand with money to create hits, they really retain considerable control: for example, although the producer signs new talent, a corporation vice president must not only countersign the contract but he must also approve the budget estimate for each recording project. How much discretion the company producer is given in practice depends on the sales of his other productions. If he has produced either several groups who are selling well or a current hit record, he is likely to be allowed to engage in more speculative ventures. Thus, the degree of entrepreneurial discretion given a producer is a function of his recent track record. Parallel criteria seem to operate for book publishers extending discretion to editors and in the granting of basic research funds to scientists.

The second organizational strategy to reduce entrepreneurial liability is to increase as much as possible the number of entrepreneurial decisions while minimizing the investment in each. Because there is no rational way of knowing which recordings will be successful in a turbulent market, the recording company employs a number of producers, each of whom produces records for six or more artists. In this way, the number of entrepreneurial decisions is quite large. At Columbia Records, for example, an average of one new album is released each day, and 10 new single 45 RPM records are released a week (Business Week, 1967). Most master tapes in the popular music field are produced for less than $5,000, and the total cost of production, manufacturing, and promotion is often under $50,000. Columbia has annual sales in excess of $200 million so that its investment in each record is not great, and it is reasonable to release a wide range of songs in the hope that somewhere in this broadside of sound a hit will be made.

If the company could afford to market only a few records a year, producers would, in all likelihood, make a number of master tapes as they do now, but the tapes would then be pilot tested on small audiences with a final decision as to what records to mass-produce being left to top executives. This latter procedure is somewhat like the selection process for new shows in the television industry, where the number of new offerings is small but the investment in each is great. Likewise, decisions about the introduction of new automobile styles are made at the top corporate levels because promotional and tooling-up expenses are tremendous, and once made, cannot rapidly be changed.

Third, the risks of entrepreneurship may be decreased by developing a means of rapidly monitoring the market success of each entrepreneurial decision and thus each entrepreneur. This is easily accomplished in the record industry, for the market life of a single 45 RPM record is usually only 60 days, rarely over 120 days, and the market life of LPs can be accurately estimated within the same time (Hirsch, 1969). Record sales performance is even more rapidly projected by *Billboard* and *Cashbox* magazine listings of current hits. Their charts are largely based on the juke-box and radio air play which tend to lead sales performance by several weeks; thus, whether or not a producer is currently in touch with his potential audience can be known within a matter of weeks. This knowledge aids company executives in deciding whether to promote heavily, to release without fanfare, or not to release records similar to recent releases. Thus, the record industry is perhaps unique in the degree to which it has been possible for it to produce numerous competing products at low cost, each of which has the chance of being highly profitable combined with the opportunity to develop fast and accurate evaluations of each of its entrepreneurial personnel.

Finally, entrepreneurial liability is limited by rewarding or firing entrepreneurs on the basis of their success in the turbulent environment. The producer is hired on the basis of his presumed ability to find and produce that elusive novelty sound which will generate hit records. His employment in a company depends entirely on his continuing record of successes. As one interviewed producer commented, "They keep me because I hear commercial, I like commercial . . . my ear is like a public ear." But the production of a hit is not a guarantee of job security for any length of time, as Burt and Ferguson (1970: 142) noted, the producer is "only as strong as his last record." Like recording artists, the new producer is given a short term contract while the company retains a first option to renew his contract; in this way the company can keep the successful producer from going to a rival company while quickly getting rid of these who lose the magic touch. The producer ordinarily receives an annual salary of $10,000—$15,000 but this can increase fivefold if his records are successful in the market. Thus, the successful producer is handsomely rewarded and the ineffective producer can be, and the data show he often is, discharged on short notice, greatly reducing the company's risk of entrepreneurial delegation.

ADAPTATION TO VARIATIONS IN TURBULENCE

That the environment with which the producer deals is always equally turbulent is an oversimplification, for the degree of turbulence in the popular music field has dramatically changed since World War II. Periods of both greater and less turbulence than that assumed in the discussion above provide the opportunity to examine the correlation between changes in turbulence, entrepreneurship, and organizational structure. If organizational forms which allow for entrepreneurship are adaptations to a turbulent environment, then variations in the degree of turbulence should cause variations in the scope of entrepreneurship. Specifically, the hypothesis derived from Lawrence and Lorsch (1967b: 6) can be examined: that the greater the turbulence of the relevant environment, the less formalized the structure of the subsystem and the greater the entrepreneurship.

Lesser Turbulence

Until about 1955 the four largest recording companies maintained an oligopolistic control of the popular music market (Peterson and Berger, 1971). They were, in effect, able to manage the rate of innovation in musical styles and could realize a safe, if not spectacular, return on almost all recordings made. This ability to reduce market turbulence conditioned producers' roles. Relatively few songs were recorded and the only market question was whether the potential audience wanted to hear it rendered by Bing Crosby, Frank Sinatra, Vaughn Monroe, Doris Day, or Nat King Cole. The corporations focused on building and maintaining stars and were quite successful in monopolizing radio air play by bribing disc jockeys and other radio industry personnel. These bribes came to be known as payola. A Detroit promoter said (Hirsch, 1969: 47), "In those days you paid your money and got your hit. Today, nobody can predict what will get played on the air."

Given such stable market conditions, a system developed in which entrepreneurial discretion was slight; talent was chosen by corporation executives and assigned to producers. A master producer kept whatever star performer he wanted and assigned new artists to one of several journeyman producers under his supervision. The best known of the master producers was Mitch Miller. Producers in the jazz and classical music fields, which have relatively stable and predictable markets, have not been allowed to exercise much entrepreneurial discretion. In these contexts the producer is a salaried employee and is considered one craftsman among others. Thus, as predicted, low environmental turbulence has been associated with a formalized organizational structure and slight entrepreneurship.

Greater Turbulence

Since the early 1950s and as a result of the Rock music revolution (Belz, 1969; Carey, 1969; Denisoff, 1971; Luthe, 1968; Mooney, 1968), a number of interrelated technological, market, and organizational changes have taken place which have had the effect of making the environment for the popular recording industry much more turbulent than it had been (Peterson and Berger, 1971). As the market became less controlled, the master-producer system gave way to the system described above in which a number of company producers, each working without direct supervision, competed in the pursuit of the novel sound.

In recent years, even this organizational adaptation has proven too cumbersome for the exigencies of a hyperturbulent market, for even if the producer could hear the sound that would sell one year, he often proved deaf the next. Thus he became a liability to the corporation. A host of independent producers, unfettered by organizational complexities, formed their own companies and, in a very few years, ended the predominance of the large established corporations in the popular music market (Randle, 1969; Hirsch, 1969; Peterson and Berger, 1971)—the most notable, Phil Spector, is reputed to have made his first million dollars while still in his teens.

Faced with this new source of competition, the large corporations have employed at least four strategies to regain their preeminence in the volatile popular music market. First, they buy master tapes from the free-lance, independent producers, taking a profit on promotion, manufacturing, and distribution. Second, they have purchased a number of the most successful independents and absorbed them into the corporate organization (Wenner, 1969). Third, a strategy between these two has developed: the corporation gives an independent producer his own department within the larger corporation. For example, *Billboard* (1970: 1 and 8) reported that "MGM Records has formed a record company with songwriter Mack David and his partner, [independent producer] Danny Kessler. It will be known as Sunflower Enterprises. Under the Sunflower banner, are Sunflower Records, and ASCAP and BMI publishing firms, which are joint ventures with MGM. MGM will distribute, sell, promote, and merchandise all Sunflower's products."

Finally, the company may retreat from the most turbulent segment of the environment. RCA Victor, one of the largest firms in the industry, has adopted this strategy, having gotten out of the Rock and Soul music markets, while concentrating on the less turbulent Country, Easy Listening, and Classical fields. Even within these markets, RCA Victor tends to stay with a few established performers including Perry Como, Henry Mancini, Elvis Presley, Porter Waggoner, Eddy Arnold, the Boston Pops Orchestra, and Van Cliburn, rather than developing unknowns. As one would expect from the hypothesis concerning the relationship between turbulence and organizational structure, RCA Victor adheres more closely than any other company to the master-producer system characteristic of the earlier era.

A general reduction in market turbulence may also be taking place, for in recent years the established corporations in the industry have also been engaged in an aggressive campaign of mergers (Business Week, 1970). They have sought not only to absorb independent producers but also to control the media through which music is introduced to the audience. If this reenoligopalization is successful, it is predicted from the Lawrence and Lorsch (1967b) hypothesis—organizational structure is inversely associated with environmental turbulence—that there will be a return to something structurally equivalent to the master-producer system, involving a great reduction in the entrepreneurial scope of the producers' role.

ENTREPRENEURSHIP RECONSIDERED

Like other venerable concepts in social science, the term entrepreneurship has often been used as a descriptive label for a specific phenomenon embedded in a single historical context. However, Schumpeter's (1934) definition of the term entrepreneurship as a novel recombination of preexisting elements implies that entrepreneurship is a process variable which may be seen in the leadership roles of widely divergent historical and organizational contexts. Using his definition, the conditions in which entrepreneurship will emerge and the organizational strategies adopted to contain its disruptive effects have been specified by examining entrepreneurship in the popular music industry. This industry is undoubtedly unique in some ways, but turbulent environments probably exist wherever fashion or novelty is essential to organizational survival. The fact that the movie industry has gone through strikingly parallel organizational changes in adapting to cognate changes in environmental turbulence over the past 40 years (Gans, 1964; Penn, 1969; Randle, 1969) suggests that these correlated market and organizational changes are not due to unique circumstances in the music industry.

As Hirsch (1969) noted, roles similar to the popular music producers should exist in the theater, book publishing, the clothing industry, the stock market, and in politics, where the party system does not successfully prestructure the choice of candidates. In a somewhat broader sense, many of the same sorts of entrepreneurial exigencies exist for research-oriented organizations. The term academic entrepreneur is appropriately applied to directors of research institutes and to others who must juggle many factors of production in the turbulent environment of federal, state, foundation, and university funding.

In the recording industry, environmental turbulence leads to the emergence of entrepreneurship. It is possible, however, that entrepreneurship might be exercised in anticipation of turbulence. This is the function of research and development departments in oligopolistic industries according to Galbraith (1952), but the widely observed inertia of organizations (Cyert and March, 1963) suggests that entrepreneurship in anticipation of turbulence is not a common occurrence. It is more likely that entrepreneurship may create, as one of its unanticipated consequences, heightened levels of turbulence. Smelser (1959: 50–157) described several such turbulence-entrepreneurship loops which occurred in the textile industry during the early stages of the industrial revolution in England.

While focusing on entrepreneurship in economic activity, Schumpeter (1934) noted that the art of recombination extends to the moral, cultural, and social organizational spheres as well, and thus, the focus of entreperneurial recombination need not be the economic means of production. Becker (1963) has used the term moral entrepreneur to describe the combination of various value elements into a new ethic, and Mills (1951) has used the term new entrepreneurs to refer to organizational employees who focus on recombinations of elements within organizations and the relations between organizations which have become stultified by their own procedural complexities. As Mills (1951: 94) noted, the new entrepreneur fixes things: "The general milieu of this new species of entrepreneur is those areas that are still uncertain and unroutinized. The new entrepreneur is very much at home in the less tangible of the 'business services'—commercial research, and public relations, advertising agencies, labor relations, and the mass communication and entertainment industries."

Stripped of its nineteenth century trappings, entrepreneurship seems to be an important component of leadership styles in diverse contemporary organizational contexts which face a turbulent environment.

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