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### Chapter 17 Organization of Arts and Entertainment Industries

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#### Abstract

The organization of the creative (arts and entertainment) industries rests on many types of contracts. These contracts govern collaborations between artists and other parties “ at arm's length, or within an enterprise. These contracts' structures devolve from a few bedrock properties of creative work and creative products. Artists invest in developing their talents, presenting themselves before “gatekeepers”™ who seek talents that can profitably be developed and marketed. Gatekeepers commonly function as agents for selecting artists and as match-makers between artists and complementary inputs. As an extension of the gatekeeping function, the participants in creative industries take part in a continuous ranking process that sets and revises the ranks of vertically differentiated talents. Real option contracts pervasively govern the sequential steps of developing a creative product. These can leave the artist an autonomous creative agent (pop musicians and record labels) or enclose artists' talents in an employment relationship (classic Hollywood studios). The transformation of the movie industry to “flexible specialization”™ illustrates how changing basic conditions can

industry to be flexible specialization<sup>11</sup> illustrates how changing basic conditions can transform the dominant form of organization. The scales of enterprise in the creative industries tend to be driven by the efficient scales with which creative goods are distributed (very large for record labels and movie studios, small for art galleries), and they tend to assort themselves into those focused on the distribution of creative goods (‘promoters’<sup>12</sup>) and those concerned with identifying and nurturing creative talents (‘pickers’<sup>13</sup>). Large enterprises also include the ‘entertainment conglomerates’<sup>14</sup> which seek synergistic gains that depend theoretically on quite special conditions; foreclosure and its avoidance may be principal motives. Non-profit enterprises dominate a number of arts activities, apparently for two interrelated reasons. These activities incur high fixed but low marginal costs, pressing them to employ two-part prices and club arrangements to ensure fixed costs' coverage. When product quality is endogenous, however, non-profit status may be necessary for the manager credibly to foreswear degrading quality once the fixed payment is in hand. Non-profits supported by donation streams thus enjoy functional advantages.



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## Keywords

agglomeration; creative industries; gatekeepers; job-matching; joint ventures; motion picture industry; non-profit organizations; option contracts; publishing industry; recording industry; royalties; theaters; toys and games industry; vertical differentiation; visual arts

## JEL classification

L11; Z11

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