

# **Intellectual Property Rights and Industry Evolution: The Case of the Recorded Music Industry**

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## ABSTRACT

Intellectual property rights are often the mainstay of industry structure in industries where the value of products is strongly dependent on technological innovation and the creation of new content. However, producing novel intellectual property and then ensuring adequate returns on investment is subject to uncertainties such as new technologies, change in property rights regimes, and illegal reproduction. These uncertainties often create threats that impact industry evolution. In particular, according to McGhan (2004) uncertainties due to threats of obsolescence strongly influence industry evolution. She points to two types of threats: The first type consists of threats to the core resources and assets that underpin sustainability, and the second type of threats to core activities that generate profits. Threats to intellectual property in most instances translate into threats to the industry's core resources and assets in which intellectual property is embedded. But if this threat persists, it will also have an impact on core activities which create intellectual property in the first place.

In this paper we argue that threats to intellectual property have both a direct and indirect impact on industry evolution. Faced with direct threats to their core intellectual property firms engage in defensive and offensive strategies that change industry environment, often triggering strategies that lead to wholesale review of market position, and new relationships with suppliers and buyers. When the threat persists, firms are often forced to change their core operations, in the process adopting new technologies and redrawing industry boundaries.

We use the case of music industry over the last century to locate these threats and discuss their impact on industry evolution. The creation and protection of copyright material has been central to the industry's economic viability in the 20<sup>th</sup> and 21<sup>st</sup> centuries. Periodically, however, the industry has experienced threats to its ability to the value of its intellectual property. Four episodes are notable in this regard: a) the rise of radio broadcasting in the 1920s; b) the widespread availability of inexpensive consumer sound recording in the 1960s; c) the invention of digital compact disks in the 1980s; and d) the emergence of the internet as a distribution system. The

response of the industry to the threat posed by each of these developments has exerted a powerful influence on the evolution of the music industry. We examine the variety of the strategic responses; evaluate their impact and finally their effectiveness. We conclude with a discussion of the impact of intellectual property on the evolution of industry.