

The Economic Impact of the Icelandic Music Industry – Structure and Management

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Biography of the author

Professor Einarsson is the former dean of the Faculty of Economics and Business Administration at the University of Iceland. He obtained his PhD in Germany. He is the author of 6 books on microeconomics, business administration and cultural economics and over 50 journal articles and conference papers and over 400 shorter articles on economics, fisheries and politics in magazines, newspapers, and on websites. Professor Einarsson is a former Member of the Icelandic Parliament and Chairman of the Board of the Central Bank of Iceland and served as a delegate for Iceland at the General Assembly of the United Nations in New York.

Abstract

The paper describes the economic impact of music in Iceland and gives an account of the structure of the music industry and its management. Music is of significant importance for the Icelandic community. The discussion touches on the creative industries and accounts for the special position of music, as well as the strategic planning and social organisation that characterise the sector. The theoretical foundation is based on the methods of cultural economics and the methodology of the creative industries. The contribution of culture as a whole to the Icelandic GDP amounts to approximately 4%, and of this music accounts for approximately a quarter. Music fits very well in with the ideology of the creative industries. Porter's five forces model is employed to describe the competitive position of enterprises in the musical industry in Iceland. The competitive position of Iceland in the music sector is analysed by the use of Porter's Diamond.

Keywords

Culture policy, creative industries, Icelandic music industry, Porter's models

1. Economic scope of the music sector

Music is an aspect of artistic creation, and artistic creation is an aspect of culture. In this paper, culture is defined as human behavior which is transmitted from generation to generation, shaped primarily by the experience of a steady succession of generations. Culture creates, describes, preserves and disseminates the feelings and environment of human society. It manifests itself in language, ideas, customs, art, sports and various other human phenomena. Culture is in many ways a public good in the sense that it consists in products and services which are available to everyone.

Increased cultural activity in an economy, including increased music, results in improved living conditions and an improved quality of life deriving from positive externalities, much like increased education. There are also various other cultural factors which are not easily measurable, such as the improved well-being of individuals, which is particularly apparent in the case of music. In addition,

the creation of value is a permanent feature of the cultural sector. Even though Mozart composed his music centuries ago, for example, its economic impact is still substantial. To this day, his music is performed at concerts, on discs and by other means. Thus, music is constantly repeated, although the perception of its worth changes with time, and the creation of value continues.

UNESCO has defined culture for the purpose of international economic statistics (Haydon, 2000), dividing the concept into nine categories: cultural heritage, printed matter and literature, music, performing arts, audio media, audiovisual media, social activities, sports/games and environment/nature. Culture also includes all activities which serve to promote culture and disseminate it.

It is an interesting fact that small and medium sized enterprises form the mainstay of the flora of cultural enterprises. Approximately 80% of enterprises in the cultural sector in Iceland employ from one to five people. The cultural sector is characterized by an entrepreneurial environment. Only 15% of enterprises in the cultural sector have a staff of five to twenty employees. Table 1 shows the contribution of culture to Gross Domestic Product (GDP) in Iceland in comparison with other sectors in 2003 (Einarsson, 2004).

Industries	Percentage of GDP (%)
Trade, restaurants and hotels	11.7
Fishing and fish processing	9.6
Construction	9.3
Transport and communication	7.7
Cultural activities	4.0
Electricity	3.4
Agriculture	1.4
Aluminium and ferro-silicon proc.	1.3

Table 1: Comparative contribution to GDP of several sectors in Iceland in 2003

Culture represents a prominent feature of the Icelandic economy and contributes significantly to the creation of value, or 4% of GDP. Of this figure, the music sector accounts for a quarter, or 1% of GDP. The health sector and social services, along with commerce, are by far the most populous industrial sectors in Iceland, with about 12% of the labor market each sector. About 6,000 people work in the cultural sector in Iceland, which represents about 4% of the labor market. In comparison, about 1,000 people, or approximately 0.6% of the workforce, work in the music sector.

The public sector is actively involved in the Icelandic cultural sector, and public allocations to culture have increased from ISK 6 billion in 1990 to ISK 21 billion in 2001, at comparable price levels, and public allocations to culture as a proportion of total public expenditures increased from 4% to 6% between 1990 and 2001. At the same time, cultural public expenditures as a ratio of GDP have grown from 1.4% in 1990 to 2.6% in 2001.

2. Creative Industries

The music industry is a creative industry, and creation is a positive aspect of the economy. Research into creative activities was first conducted principally within the social sciences and psychology, which centered on the creative individuals themselves or their creative work. Now, however, growing attention is being focused on the environment of creative work and the creative industries. Creative individuals can be studied on the basis of factors such as childhood background, life experience or character. Account can also be taken of the outward environment of creative individuals, which is of great significance, since the outward environment is the principal factor that outside players, such as administrators and politicians, are able to influence.

Creation normally refers to innovation. This is therefore not a definition which relates only to artistic creation, but a much wider concept. Three principal factors can be linked together in this context, i.e. culture, personal background and society, and represented graphically, where creation is shown as a process which is engendered at the borders of the three principal factors, as shown in Figure 1 (Csikszentmihalyi, 1997).

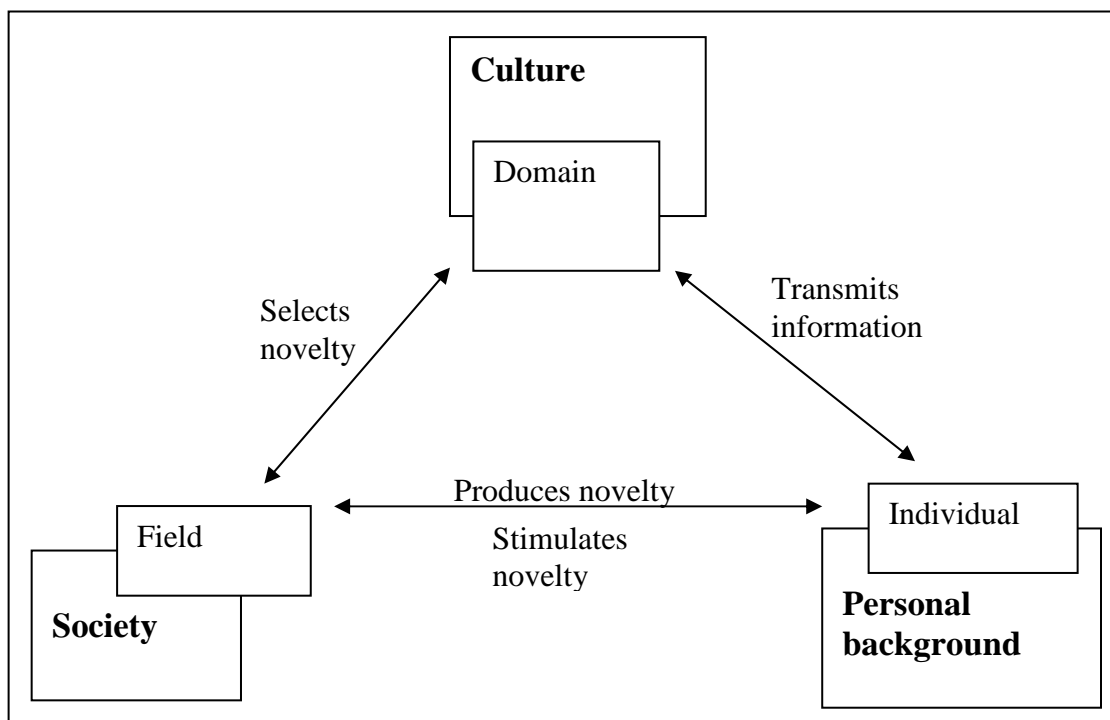


Fig. 1: The systems view of creativity (Csikszentmihalyi's Model)

Figure 1 shows that culture is divided into several segments, i.e. domains, and information is transferred to and from individuals. In this context background is extremely important, e.g. musical education. Society is also divided into various fields, where the creative work of individuals, i.e. the creation of novelty, flows back and forth.

Culture should be understood as a delimited economic factor. However, culture is so variegated that it is difficult to discuss it as a single concept. Creation, and thereby the music industry, can be regarded as an activity within a certain framework of culture. If the innovation and the creation must be recognized as such by society, it follows that an audience is required, as is most frequently the case in music. Every society is composed of many smaller groups, and creation often stretches over a long period of time, even many years. The assumption is that it is the individual who will take the principal initiative, and not the group. However, this can be viewed from different perspectives within music, which are also relevant to other aspects of creation, such as scientific work, where many individuals come together to work on the same idea. The approach of analyzing on the basis of three principal factors, as described in Figure 1, involves the interaction of individuals, which shapes a framework that encourages creation, which in turns has a positive economic impact. Music fits well into this analysis.

An important aspect of any discussion of creation, and thereby the music industry, is the realization that creation often takes place in clusters, where a number of individuals come together and a transformation occurs. It is important in all creative activity for individuals to have access to a fertile environment, e.g. with others working in similar activities in the close vicinity, as is commonly the case when people are working on scientific research in a university. A group is also needed, individuals or organizations, to participate, and the group needs to be strong enough for ideas to be encouraged and supported and carried out; in such cases differences in circumstances make a great deal of difference. Creation requires an audience to have any significance. It is not enough for the creation to take place only for the individual in question, except as a part of his or her development.

In the United States, where studies in this field are most advanced, the studies are conducted on the basis of sectors or professions. In the discussion of creative industries there are two different viewpoints. On the one hand, there is the approach of looking at the creative industries that produce goods and services which have a cultural and artistic value or a recreational value. Here, it is the goods and services produced that are at the center of gravity. From this point of view, sectors such as

the film sector, music sector and publishing sector belong to the creative industries (Caves, 2000). On the other hand, one can look at the individuals in separate sectors and classify their work into the four following categories: primary production, manufacturing, services and creative industries (Florida, 2002). The discussion of the creative industries in this paper uses this method. The industries that constitute creative industries are science, education, arts, design, journalism, sports, computer sciences, engineering, technology, architecture and management. Management is regarded as a part of the creative industries, as well as high technology, as it is a field where new ideas are shaped. Among other things, a creative industry involves the dissemination of knowledge, where all kinds of contact networks are formed, and it also concerns entertainment. Here, an assessment is made of how many of these jobs fall within the definition of the creative industries as they are defined above. Figures over a longer period in Iceland are compared, with reference to the figures for the United States. Figure 2 shows the division of jobs in Iceland by primary production, manufacturing, services and creative industries in the years 1990 and 2002, and a comparison with the United States in 1999 (Florida, 2002).

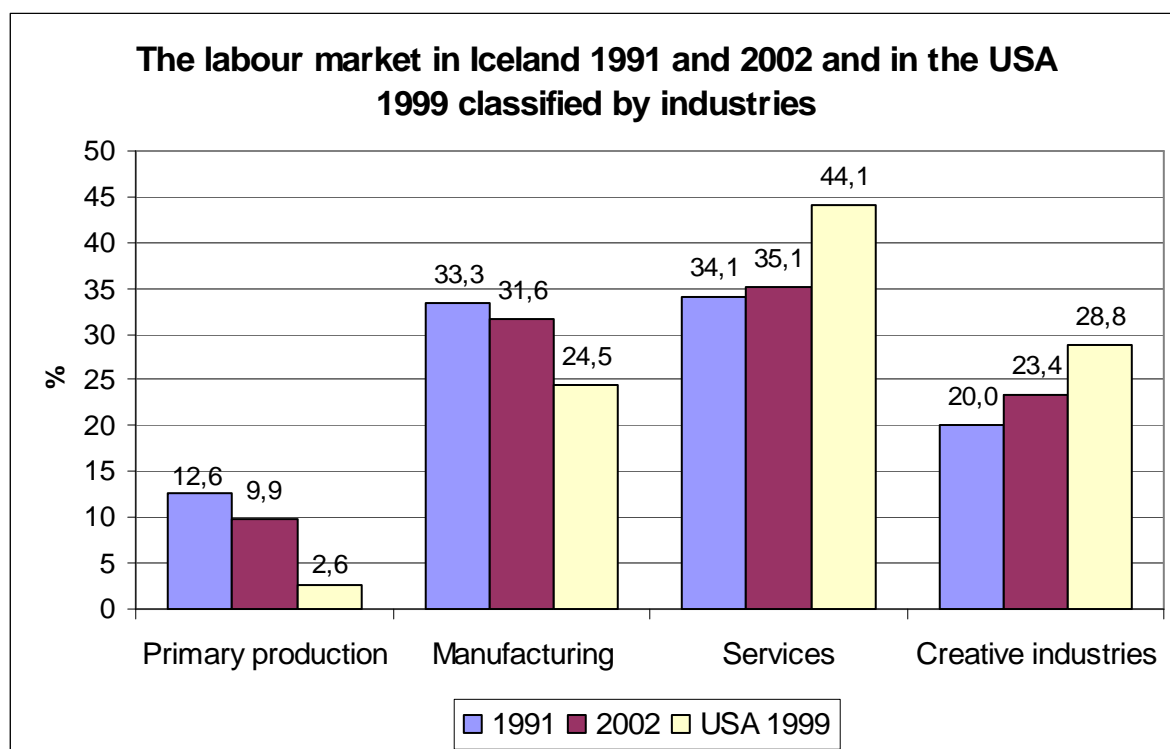


Fig. 2: The labour market in Iceland 1991 and 2002 and in the USA 1999, classified by industries

Figure 2 shows that primary production in Iceland fell from approximately 13% in 1990 to just under 10% in 2002. Manufacturing went from a 33% share to 32% in these 12 years and services from 34% to 35%. The creative industries went from a 20% share in 1990 to 23% in 2002. The corresponding share for the United States in 1999 was 29%. By 1999, primary production had become a small segment of the labor market in the U.S. at slightly less than 3%. The creative industries in Iceland account for slightly less than a quarter of the total jobs, or approximately 40,000, and their share is growing. This approach to the analysis of the labor market gives a good reflection of the division of labor in modern societies and illustrates the substantial changes that have occurred in the economies of individual countries in recent years.

Music has a significant impact on exports from Iceland, particularly by indirect means, e.g. through the tourist industry. A number of tourists come to Iceland as a result of the influence of famous performers, such as Björk and Sigur Rós. Currency revenues from foreign tourists have increased substantially in recent years, partly as a result of cultural activities, including musical activities, as reflected, for instance, in the numerous music festivals held in Iceland.

Studies that have been conducted of the Nordic music industry show that the industry is in a stage of rapid growth, both as regards employees and turnover (*Behind the Music*, 2003). A growing part of the creation of value in the music industry is a result of related industries, such as the production of music videos, software, distribution of digital material, etc. Normally, there is a clear division in the industry between independent recording companies and the major players, who also possess their own separate brand names. Also, the division between individual aspects is unclear, e.g. between record companies, publishers, management and promotion. All of these factors are mixed together within single enterprises.

The music markets in the Nordic countries are relatively small. This has the effect that their opportunities for expansion depend on exports. Some of the Nordic countries have been successful in this respect. Sweden, for example, is the third largest exporter of music in the world (*Denmark's Creative Potential*, 2001). It therefore appears to be a practical economic measure to set up some sort of support system to encourage musical tours and concerts abroad.

3. The Models of Porter in Describing the Music Sector

The competitive position of enterprises in the music industry can be shown using Porter's five-force model (Porter, 1980). Figure 3 illustrates this methodology.

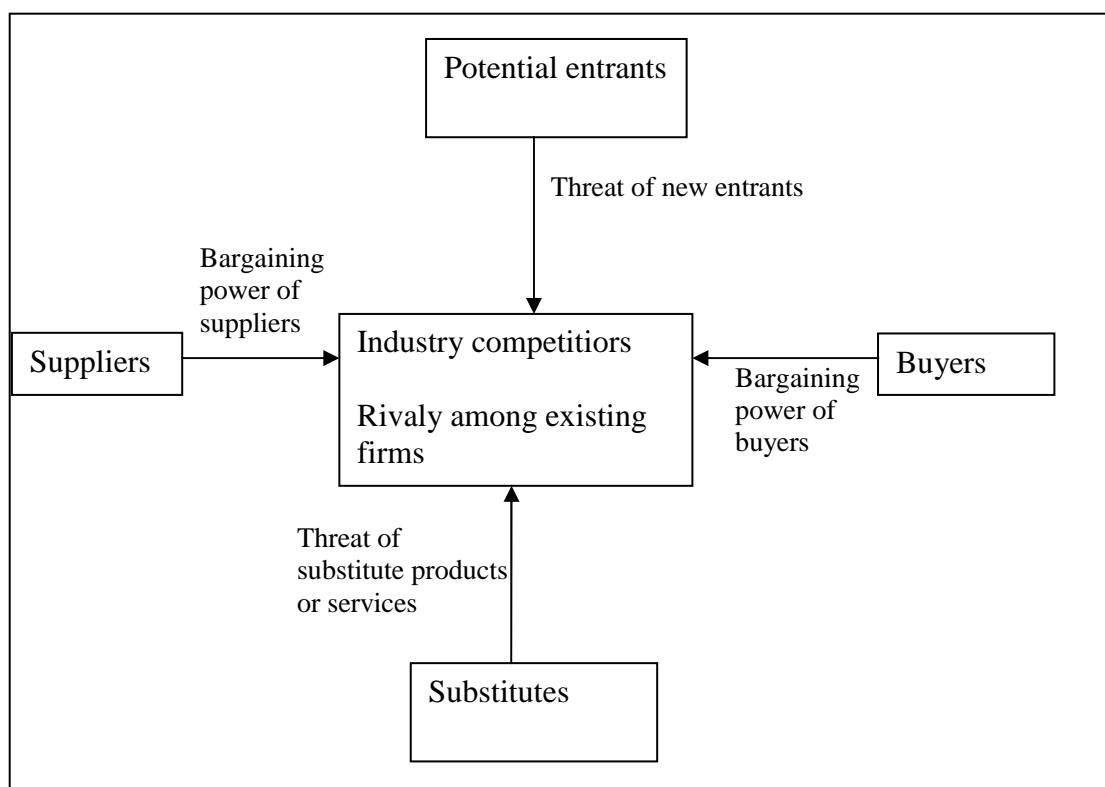


Fig. 3: Porter's five competitive forces

The music industry is so diverse that a distinction needs to be made between individual enterprises and organizations for this approach to be useful. Nevertheless, there are many common features, such as the buyers. Most of the activities within the music industry focus on individuals as buyers, as shown to the right in Figure 3. The position of consumers is strong, as music is in competition with various other entertainments. The same applies to localized products and services, many of which are connected with music, e.g. other branches of art and various types of entertainment; these are shown at the bottom of the illustration.

Suppliers in the music industry, shown to the left in Figure 3, are of various kinds, e.g. musicians to publishers, music teachers to music schools and producers to the media. The competitive position of suppliers is usually not particularly strong in the music industry, as there are numerous competitors working in the same field. The key factor lies in the middle of the model, which shows the extent of

the competition between enterprises within the industry. Competition between enterprises is usually extensive in most fields of the music industry.

The top of the illustration shows the possible new stakeholders in the music market. Barriers to entry are usually weak. This does not apply, however, to the parts of the market that require substantial capital investment, such as opera houses and concert halls. Analysis using this model to uncover competitive advantages can result in the conclusion that building upon a weak foundation in some area can later, by decisive measures, prove to hold potentials for competitive advantage.

This idea can be transposed to the competitiveness of nations (Porter, 1009). This model examines the so-called Porter's diamond, which is here applied to the Icelandic music industry and shown in Figure 4.

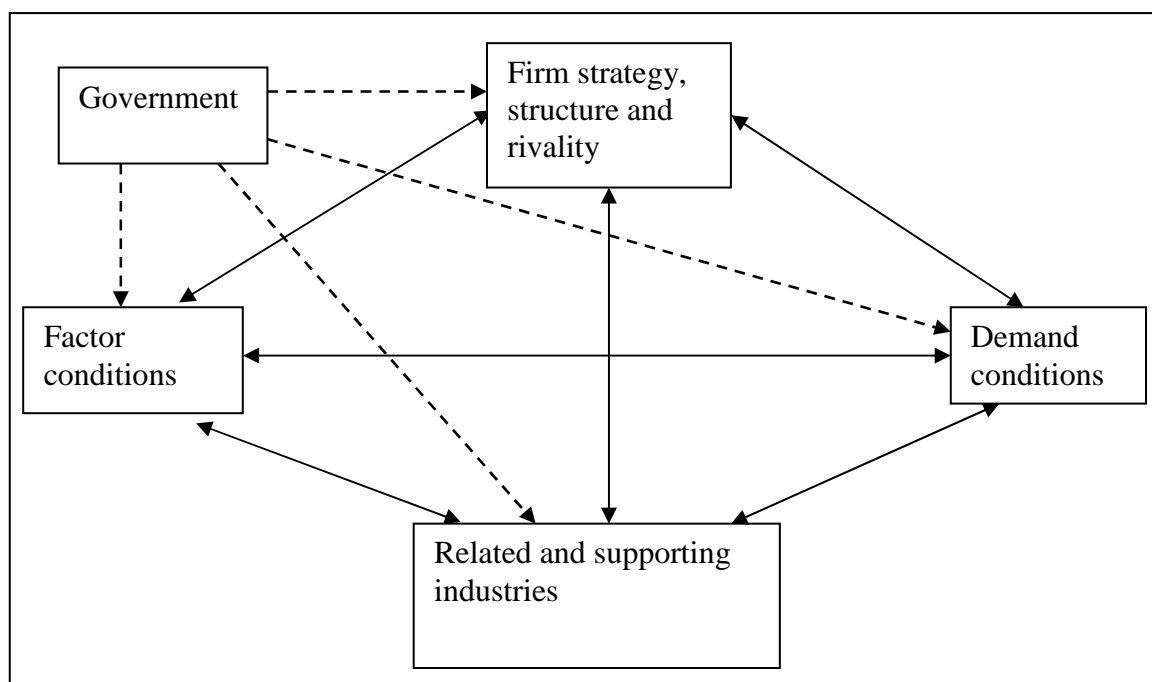


Fig. 4. The Diamond Model of Porter

The production factors, shown on the left in Figure 4, are labor, natural resources, capital, knowledge, human resources, organization, technology and institutions. For the music industry, qualified employees and capital are of the greatest importance. Unskilled labor, for instance, is not common in the music industry.

Demand, which is shown on the right in Figure 4, is somewhat special in the Icelandic music industry, as the domestic market is small. From a small, but professional domestic market, however, advances can be made into foreign markets, and there are several examples of this in Iceland. There are already numerous Icelandic musicians who have made a name for themselves outside Iceland.

Related industries and supporting industries, shown at the bottom of Figure 4, include music teaching and the media. Music teaching in Iceland is quite a strong sector in Iceland, but reinforcing it would undoubtedly strengthen the music industry still further. Various factors are missing in Iceland to enable better results, e.g. sophisticated concert halls and an opera stage or opera house. The lack of a large concert hall has weakened the industry. As regards strategy structure and rivalry, shown at the top of the figure, it is apparent that the financial market is weak in the music industry and it is difficult to obtain financing for new ideas, e.g. through the stock market. It is also of relevance here that jobs in the music industry are not very easily identifiable or respected in the labor market and are widely regarded as low-income jobs, which is accurate to a considerable extent. Competition in the music industries can help others and promote increased efficiency and greater creative energy within the industry. The principal advantages in the environment of the music industries are well educated employees, but the principal weakness is the small domestic market, which nevertheless can be used

as a platform for cross-border expansion, since, as it happens, the people in the domestic market are quite enlightened and demanding.

Government, shown at the top left of Figure 4, can do a great deal to promote the competitiveness of the country in the music sector, e.g. through increased financial support, improved infrastructure or institutions, including facilities, tax incentives for the creative industries, strengthening the school systems, recognizing the economic significance of the music industry and promoting interest.

The links with government are shown by a dotted line in the illustration, which means that the government can impact individual factors of the model directly. It is important in this context to employ the arm's length principle, i.e. the attitude to art and culture that politicians should only engage in providing the capital, not utilizing it.

4. Conclusions and discussion

Among the conclusions of this work is that music as a part of culture and the creative industries represents a significant part of the Icelandic economy. The contribution to Gross Domestic Product is 4%, which is more than all utilities and almost three times more than agriculture and aluminum and ferrosilicon production, respectively. About 6,000 people are employed in culture in Iceland, which is a similar number to the employees in the fisheries sector or the hotel and restaurant sector. The creative industries are extremely extensive in Iceland, and cultural activities form a part of these industries. Creative industries in Iceland account for approximately 23% of all jobs, up from 20% ten years ago.

The publication of domestic music has increased substantially over the last two decades, including publication on the Internet, and most of the music published is popular music. Music publishing is characterized by the number of entrants who publish only a single disc. The other segment of the market is divided among a very small number of enterprises. However, the sales value of discs has stagnated over the last decade. The film and video market is also of great significance for the music industry.

The number of radio stations has increased substantially over the last two decades, and air time has increased by a factor of seventeen, with much of the broadcast material consisting in music. Television air time has increased by a factor of twenty over the past fifteen years, and there too, music represents a growing part of the broadcast material.

The number of concerts has grown significantly in recent years, particularly in rural areas, with classical music as the dominant factor. The Iceland Symphony Orchestra is of great significance for Icelandic music life, and the number of concerts given by the Orchestra has grown substantially over the last four decades. Audiences at concerts of the Symphony Orchestra grew by a third over the last two decades. The work of the Icelandic Opera is of great importance for the Icelandic music scene, and there is a strong tradition of operatic singing.

The number of music schools has grown by a factor of almost six over the last four decades and there are now 80 music schools. The number of students attending music schools has grown by a factor of almost eleven over the last four decades and there are now 12,000 music students. The organization of music schools in Iceland, with its mixture of private and public enterprises, is excellent in comparison with many other countries. The key to this success is the good division of responsibility between the public and private sectors. Icelandic studies have shown that young people who study music are less likely to use tobacco and alcohol than their peers, with significant benefits. Musical activity in the churches and choirs in Iceland is extensive and provides employment to a large group of people.

In light of the growth of the music industry and other creative industries and the support and understanding of the status of music, for instance on the part of the public sector, it appears likely that approximately 1% of the entire workforce in Iceland will be employed in the music sector within five years, and that its contribution to GDP will amount to approximately 1.2%.

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