Convert your enemy into a friend

-Innovation strategies for collaboration between record companies and BitTorrent networks

Master thesis within Business Administration
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Abstract

Problem: Record companies are facing a downturn in sales of music. This is seen as consequence of the growth of distribution of music through Internet by file sharing networks such as BitTorrent networks. On one side there are record companies who feel threatened of the illegal file sharing, and on the other side file sharing BitTorrent networks has increased dramatically in number of users since they first approached. Some record companies have responded by taking hostile actions towards the BitTorrent networks and their users with lawsuits and penalties for illegal file sharing. Other record companies and artists have joined forces with BitTorrent networks and see them as an advantage.

Purpose: The purpose of this paper is to explore and analyze if, and how record companies can collaborate with the BitTorrent networks.

Method: A hermeneutic inductive approach is used, in combination with qualitative interviews with both record companies and BitTorrent networks.

Conclusions: It is argued that record companies can find a way in communicating and cooperating with BitTorrent networks. Instead of adopting hostile approaches and trying to restrict the technologies adopted by end users, companies should open themselves up and accept the current changes initiated and developed by BitTorrent networks. Thus, it was concluded that companies have to concentrate around collaborating with BitTorrent networks rather than fiercely protecting old business models.

By opening up to the users, record companies will adopt open innovations approach that is characterized by combining external and internal ideas, as well internal and external paths to market, thus obtaining future technological developments. As for the BitTorrent networks, by going from outlaw to crowdsourcing mode, the networks’ creative solutions can be further harnessed by record companies. Finally, strengthening relationships between customers and music artists can be considered as beneficial for both record companies and BitTorrent networks. Thus, giving opportunities for customers to win special items, tickets for concerts, watch sound check, eat dinner backstage with the group, take pictures, get autographs, watch the show from the side of the stage, etc. can lead to valuable relationship in a long run.
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1 Introduction

The following section will present BitTorrent networks and problems of the music industry. The topic is further developed in the Problem discussion from which is formulated the Purpose of the paper, followed by the Research Questions. Furthermore, delimitations of the study are stated, as well as definitions that will guide the reader throughout the paper.

1.1 Background

Research on innovations within companies often focuses on R&D investments and activities, which are carried out in the departments. However, a significant number profitable innovations have their origin outside of the R&D departments, and some of them are created in later stages of value creation that were not intended to produce innovations. The number of companies that were able to identify and further develop such innovation unexpected activities is insignificant. Nevertheless, in today's business world, when competition is fierce, it is more and more important to know how to manage innovations not only from internal but also from external perspective (Huff, Fredberg, Moeslein, Reichwald & Piller, 2006).

Some companies have started to search for solutions to technological problems among existing resources outside of the conventional marketing research and R&D structures of the firm, however not all companies succeed. Threadless is an organization that has adopted an innovative business model, which allows them to create new, eccentric products without risk and without big investments in market research. Success is due to the fact that all products sold by Threadless are inspected and approved by user consensus before investment is made into a new product. Customers participate actively in all the phases of the process from the submission of a project, to voting, choosing and finally buying the product. Thus, the Threadless business model exploits the commitment of users to screen, evaluate and score new designs as a powerful mechanism to reduce new product failures (Piller, 2008).

Organizations are often very eager to get their consumers opinion on their products in order to be able to improve them and the software producers are not an exception. In the software market a concept has been developed where customers can add, include or change the core product produced by the organization. This is commonly referred to as open source, where the source code of a program is made publicly available. The original code provides certain rights to the original developer but makes other users or customer able to adopt the program to their fit. Software producers then typically post the program on special locations such as SourceForge.com where people start using them. These forums or communities can be referred to as open source networks, where the original designer of the program might not be included at all and the program is changed into something completely different from its original intention. After trial and error, the software improves and new ways to use the software can be discovered (Berger & Piller, 2003).

Similar ways of collaboration between the customer and the music industry is not as high. The music industry is an important industry, and big employer of many people. In United Kingdom, which is the third biggest country within the music industry, it generates £5 billion on a yearly basis. The traditional music retail stores has during the latest years incurred a strong downturn, due to illegal file sharing, and growth of online music stores
such as iTunes. Record companies have seen the term “use” of songs as a “purchase” and “consumption” of the song. The traditional term of “use” was changed when Napster was launched in 1999. Until then the record companies controlled the production and distribution of the songs. As Napster was launched the user could start downloading music and copy it by them, and illegal file sharing of music got a boost. When Napster was forced to shut down, other file sharing systems appeared. This has been seen as a major problem for the music industry, which used to manage the distribution of songs tightly (NESTA 2008).

Moreover, the Recording Industry Association of America (RIAA), which is the trade group that represents the U.S. recording industry, has classified two main categories of losses when it comes to piracy. These are losses from street piracy – the manufacture and sale of counterfeit CDs, and losses from online piracy (RIAA, 2009). The association has published statistics about what economic losses the global music piracy causes to record companies - $12.5 billion every year, 71,060 U.S. jobs lost, a loss of $2.7 billion in workers’ earnings, and a loss of $422 million in tax revenues, $291 million in personal income tax and $131 million in lost corporate income and production taxes (RIAA, 2009).

The BitTorrent networks are examples of loosely connected networks. The difference between BitTorrent networks compared to earlier file sharing systems such as Kazaa or Morpheus is that the later connect directly to a single source. BitTorrent networks allow the community of users to share information and resources in different forms of digital content such as: music files, software, movies, storage space etc. Essentially, users are sharing information and resources motivated by their own needs. They perform their problem solving activities autonomously and without the involvement of a manufacturer. Thus, they tend to exclude the involvement of companies in the process and act autonomously which does not hamper them to develop loosely connected, massive networks where everyone can freely exchange files and data (ZeroPaid, 2008).

### 1.2 Problem discussion

On one side there are record companies that feel threatened by the increase of illegal file sharing (NESTA 2008), and on the other side file sharing, namely BitTorrent networks has increased dramatically in number of users since the launch of Napster (ZeroPaid, 2008).

#### 1.2.1 Record companies

As data and music is being made available at a faster and faster past to more people, less purchases are made in their traditional way or even payment for the data and music at all. From the record companies point of view the downloading of illegal music resulted in approximately 40 billion songs during 2008 was spread and not purchased. That equates to 95% of all music downloads and is the same percentage of illegal downloads which were made in 2007, despite government actions and the growth of legal sales and compelling alternatives to peer to peer (Adams, 2009). Laws to keep the illegal file sharing are proposed in different ways. In France, for instance, new regulations propose the radical decision that illegal file sharers should be disconnected from the Internet (Blachier, 2009).

Some record companies have invested in technique that makes it harder for users to make copies of the songs. An example of this is the Digital Rights Management (DRM) technology. With this, the designer can limit the amount of viewings; number of copies and devices the
media can be transferred to. Since several people has found ways of going around these technologies, some organizations such as Apple with their distribution system iTunes decided to exclude the DRM technology again, since they realize that they will not win over file sharers using this strategy (Apple, 2007).

On one hand, some musicians have joined up to form a lawsuit against BitTorrent networks. On the other hand, other artists have chosen to start distribute their music both from their own homepage, but also through BitTorrent networks. An example of this is the band Nine Inch Nails that distributes their new albums through file sharing software. The advantage is that they do not need to invest in expensive servers for their own web hosting (TorrentFreak, 2009a). Furthermore the record company Beep! Beep! has initiated collaboration with the BitTorrent network Mininova in April, 2009, in order to gain this mutual benefit (Beep! Beep!, 2009).

Moreover, artists such as Radiohead have decided to take an alternative way approach releasing albums. Instead of selling their music as more traditional methods, they give out their music for free through BitTorrent clients. One can also download their music for free direct from their homepage. Before the download the user is asked if they want to donate anything for the music, and they can choose the sum they want (Tyrangiel, 2009).

1.2.2 The BitTorrent networks

Tabrizi (2008) stressed that there are groups that perceive that knowledge should be “shared in solidarity”. They identify “freedom of knowledge” similar to the right to education, as well as the right to a free culture and the right to free communication. However, the file sharing networks distinct with their built infrastructures around the scattered activities of individual file-sharers, as well as the implicit ‘rules of engagement’, including that “a wide range of media content should be available entirely for free” (Andersson, 2009). This raises the ‘piracy’ assertion of file sharing networks that according to Andersson (2009) is similar to “opening the black box of technology and utilize it for one’s own ends”. It is also related with the redistribution of widely popular content and doing this through highly public forums. Piracy is also freedom to information rather than the negative freedom from anything else (Andersson, 2009).

However, the purpose of developing BitTorrent technology has not been to break the law and the technology has great potential and the idea behind is very original. Similarly to the open-source software marked with the success of GNU/Linux operating system, the Apache Web server, Perl and many others, the BitTorrent networks do not rely on markets or on managerial hierarchies to organize processes. The free software suggests that the networked environment makes possible for a new model of organizing production: radically decentralized, collaborative and non-proprietary (Benkler, 2006).

Andersson (2009) argued that due to the rapid digitization of production, consumption and distribution of information, the file-sharing network could be viewed as a vital part of the current media convergence. That gives users multiple ways of accessing media content both faster and easier. However, with the entirely digitalization of consumption and distribution, the roles of consumer and producer are blurred and occasionally clash, as media consumers become more like participants and co-creators of infrastructures and communities, while traditional media producers try to harness this participation activities (Andersson, 2009).
What is interesting in this issue is that such activities are concentrated around building new infrastructures based on unpaid user activity. Informal groups, such as the one based around the Swedish website The Pirate Bay, managed to build a massive infrastructure around the activities of individual file-sharers. The Pirate Bay is not only an institutional, collective actor of the file sharing but is the world’s largest file-sharing community. Its status among the similar indexing sites in the BitTorrent ecosystem is significant, in a large part thanks to its decisive role as a brand (Andersson, 2009). The Pirate Bay’s popularity increased even more during the first months of 2009 due to the trial against The Pirate Bay for “promoting other people’s infringements of copyright laws” (Larsson, 2009).

Indeed many file-sharers seem to be actively persecuted by the media industry which forces any file sharing groups to become creative in inventing new ways in order to keep sharing. In the spring of 2009, The Pirate Bay was sent to trail. There are however several other sites such as Mininova, and BTJunkie, which serve the same purpose, so even though one network close down, the networks will still exist, since no data is actually stored on their servers (Martineau, 2009). In order to protect the users of the BitTorrent networks, new technique is designed in order to hide the users IP-address so that the end user cannot be traced. The Pirate Bay offers a service called IPREDator at a monthly fee, and builds on the idea of a private network. Here the users IP is hidden and cannot be traced by the Internet provider, and thus the user can continue the file sharing (The Pirate Bay 2009). Similar service is offered by BTJunkie, called BTGuard (BTGuard, 2009).

Dealing with the trial between The Pirate Bay and parts of the music industry, the music industry claims that The Pirate Bay has been making money on advertising at their site, while at the same time distributing copyrighted material. The Pirate Bay on the other hand argues that they are not responsible for what their members’ share, since legal material is mixed with protected (Martineau, 2009).

Previous research has been conducted regarding the decline of the music industry (RIAA, 2009). The Swedish Performing Rights Society has conducted a survey in Sweden in 2009 regarding file sharing habits and opinions of internet music users (STIM, 2009). It showed that almost nine out of ten music users on the Internet – 86.2 percent, have expressed a willingness to pay for a voluntary subscription legally entitling them to file share music. The strongest willingness to pay for a legal file sharing subscription exist among the biggest collectors of music, or those who have 5,000 or more songs in their digital music collection (STIM, 2009).

Research has also been conducted regarding the increase of people purchasing music online (NDP Group, 2009). An increase with 8 million users to 36 million users in 2008 among U.S households, this is an increase with 29 % since 2007. Extensive research has been conducted regarding innovations, and outlaw innovations and how this can be used by organizations (Flowers, 2007). However few studies have been conducted regarding collaboration between the music industry and BitTorrent networks.

Thus, on one hand we have a perfectly working network of users who voluntarily participate in the process of file-sharing, and on the other we have companies that want to be in charge this regard, the ideal situation should be that both companies and users collaborate and communicate efficiently, exchanging values that would give the prerequisites for an open innovation process. The problem arises with the fact that these networks or communities do
not want to rely on markets or on managerial hierarchies to organize their processes. In fact, they already exist as an independent actor on the market and companies have to take into consideration the fact that these communities will play a significant role in the future. If companies want to be part of the ever-increasing process of file sharing, they have to think out new ways of collaboration with these communities.

The rapid growth of BitTorrent networks and the file sharing processes has become of a great importance for distributing music. However, due to the ‘piracy’ philosophy of the BitTorrent networks, meaning that all the information should be free, a conflict with record companies has arisen. Moreover, changes in the distribution of music, which historically has been controlled by the music industry, have deepened the conflict and resulted in lawsuits. Thus, this thesis provides value for both BitTorrent networks and record companies.

1.3 Research Questions

- How can external innovation strategies bring together BitTorrent networks and record companies?
- How can BitTorrent networks and record companies collaborate?
- How can BitTorrent networks and record companies benefit from the collaboration?

1.4 Purpose

The purpose of this paper is to explore and analyze if, and how record companies can collaborate with the BitTorrent networks.

1.5 Perspective

The perspective of this study will be from the viewpoint of both BitTorrent networks, represented by the administrators and record companies, represented by the managers.

1.6 Delimitations

In this paper the aim is to study the possibilities for collaboration between BitTorrent networks and record companies. However this study will not go in depth on the technical aspects and prerequisites of BitTorrent networks, neither the hardware nor software that is required for these networks. The issues regarding intellectual property are not taken into account as it differ much between countries, and the laws in several countries are being revised as the paper is written.
1.7 Definitions

The following definitions are collected from New Oxford American Dictionary, (2005).

BitTorrent: Is a peer-to-peer file sharing protocol used for distributing large amounts of data.

BitTorrent client: A BitTorrent client is a program that manages torrent downloads and uploads using the BitTorrent protocol.

Community: a feeling of fellowship with others, as a result of sharing common attitudes, interests, and goals

File-sharing: the practice of or ability to transmit files from one computer to another over a network or the Internet

Network: a group of people who exchange information, contacts, and experience for professional or social purposes

Peer-to-Peer networks: denoting computer networks in which each computer can act as a server for the others, allowing shared access to files and peripherals without the need for a central server.

Streaming: transmit (audio or video data) continuously, so that the parts arriving first can be viewed or listened to while the remainder is downloading.

Web 2.0: The second generation of the World Wide Web, especially the movement away from static webpages to dynamic and shareable content.
2 Frame of reference

In this chapter existing theories in the research fields of interest will be presented. The constructed theoretical framework will be applied and used to analyze the collected empirical data and information.

2.1 External sources of Innovation

According to Wolpert (2002), if a company stays locked inside its own four walls, it will not be able to obtain knowledge and thus, to uncover and exploit opportunities outside its existing businesses or beyond its current technical or operational capabilities. That is of a great importance especially today, as companies face high pressures to innovate faster with better quality and lower cost. Thus, innovativeness has become a “must be” competence for many businesses and is essential for company’s long-term success (Börjesson, Dahlsten & Williander, 2006).

As McAdam & McClelland (2002) emphasized, “companies must innovate or die”. However, there is no single decision how companies should innovate and therefore they differ in organizing the innovation process. As Chesbrough (2003) emphasized, it is not unusual for businesses today to harness external ideas with leveraging their in-house R&D outside their current operations. Indeed, harnessing external sources of innovation has become a current trend, a company’s aspiration for improving internal product and process development and thus, increasing their overall competitiveness on the market.

2.1.1 Open innovations

Wolpert (2002) suggested that companies should be open for external perspectives and to involve their partners early on in the processes, to share capabilities and technologies in order to come up with leading products. That is actually recognizing the power of the external contributors as a source for innovation, indeed admitting that not all good ideas are developed within the company, and not all ideas should necessarily be further developed within the firm’s boundaries – the process of open innovations (Chesbrough, 2003). Chesbrough (2003) stressed that companies today shift their strategies towards innovation, meaning that the focus is changing from exclusively relying on internal creativity and innovativeness, to opening for creative ideas from outside. Consequently, Chesbrough (2003) presented the closed and open models of innovation, which are presented in Figure 2-1.

![Figure 2-1 The closed innovation model vs. open innovation model (Chesbrough, 2003).](image-url)
Traditionally, new business development processes and the marketing of new products took place within the firm boundaries. However, several factors have led to the decline of closed innovation (Chesbrough, 2003). First, the amount of knowledge existing outside the R&D departments of companies has increased due to the mobility and availability of highly educated people. Second, the increase of available venture capital makes it possible for good and promising ideas and technologies to be further developed outside the firm. And finally, other companies in the supply chain, for instance suppliers, play an increasingly important role in the innovation process (Chesbrough, 2003). It was supported by Sawhney & Prandelli (2000) who stressed the importance of co-operation with company partners and customers. The authors argue that organizations need to collaborate with their partners and customers in order to create knowledge.

Consequently, companies have started to look for other ways to increase the efficiency and effectiveness of their innovation processes. For instance through active search for new technologies and ideas outside of the firm, but also through cooperation with suppliers, competitors and customers, in order to create customer value (Chesbrough, 2003). Thus, both internal and external business actors are creating an innovation ecosystem where they mutually cooperate and collaborate. The differences between traditional closed innovation and open innovation are presented in Table 2-1:

Table 2-1 Principles of closed and open innovation (Chesbrough, 2003).

<table>
<thead>
<tr>
<th>Closed Innovation Principles</th>
<th>Open Innovation Principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>'The smart people in our field work for us'</td>
<td>Not all of the smart people work for us, so we must find and tap into the knowledge and expertise of bright individuals outside the company.</td>
</tr>
<tr>
<td>'To profit from R&amp;D, we must discover, develop and ship it ourselves.'</td>
<td>External R&amp;D can create significant value; internal R&amp;D is needed to claim some portion of that value.</td>
</tr>
<tr>
<td>If we discover it ourselves, we will get it to market first.</td>
<td>We do not have to originate the research in order to profit from it.</td>
</tr>
<tr>
<td>If we are the first to commercialize an innovation, we will win.</td>
<td>Building a better business model is better than getting to market first.</td>
</tr>
<tr>
<td>If we create the most and best ideas in the industry, we will win.</td>
<td>If we make the best use of internal and external ideas, we will win.</td>
</tr>
<tr>
<td>We should control our intellectual property (IP) so that our competitors do not profit from our ideas.</td>
<td>We should profit from others’ use of our IP, and we should buy others’ IP whenever it advances our own business model.</td>
</tr>
</tbody>
</table>

As it was mentioned above, the open innovation process is to combine external and internal ideas, as well internal and external paths to market in order to obtain future technological developments with the help of external resources (Chesbrough, 2003). However, the
problem still exists in terms of recognizing the right people with knowledge who can be considered as a source for innovation. Von Hippel (2005) pointed out that high-cost resources for innovation support cannot efficiently be allocated to “the right people with the right information”, which makes it difficult to know who these people may be before they develop an innovation that turns out to have general value.

Von Hippel (2005) continued that users’ ability to innovate is improving radically and rapidly as a result of the steadily improving quality of computer software and hardware, as well as improved access to easy-to-use tools and components for innovation, and access to a steadily richer innovation commons. Hence, users today are able to further develop the products and services, accordingly to their needs if companies are not able or are hampered to do this.

2.1.2 Crowdsourcing

Crowdsourcing, defined by Howe (2006), is as a new web-based business model that harnesses the creative solutions of a distributed network of individuals through what amounts to an open call for proposals. Descriptively, it is when a company posts a problem online, a vast number of individuals offer solutions to the problem, the winning ideas are awarded some form of a bounty, and the company mass produces the idea for its own gain (Howe, 2006). Real working examples are such companies as Threadless, iStockphoto, InnoCentive, etc (Howe, 2006). The crowdsourcing model is in Figure 2-2.

What is common between these companies is that they utilize Internet for their purposes and make crowdsourcing applications into fun and pleasures, and the crowd into brand communities (Brabham, 2008). It is a totally open model, capable of aggregating talent, leveraging ingenuity while reducing the costs and time formerly needed to solve problems. Nevertheless, Brabham (2008) stressed that many people are still without access to internet, and of those connected, many still do not have high-speed connections enabling them to participate like broadband owners can. Furthermore, by connecting those without Internet does not mean they want to participate in the game of the companies.

![Crowdsourcing Process Diagram](Whitla, 2009)

Figure 2-2 The crowdsourcing process (Whitla, 2009).
The advantages of crowdsourcing are that it gives firms access to a potentially huge amount of labor outside of the firm which can complete necessary tasks faster and cost efficiently than if the same activities are conducted in-house. Some of the available ‘crowd’ may have limited skills but they will be willing to take on repetitive, menial tasks, which cannot easily be performed by computers (Whitla, 2009). On the other hand, selected crowds may have a degree of expertise not available within the firm, which can work to solve more complex issues or tasks. Moreover, crowdsourcing allows firms to harvest ideas from a wide and diverse collection of individuals with experiences and outlooks different from those that exist within the firm. Whitla (2009) identified that besides its Internet based application, crowdsourcing can also be applied for marketing activities, product development, advertising and promotion, as well as marketing research.

Nevertheless, there are several disadvantages as well, associated with using crowdsourcing. Sometimes a crowd can return a vast amount of noise that may be of little relevance (Keen, 2007). As Howe (2006) emphasized, ‘sometimes crowds can be wise, but sometimes they can also be stupid’. For crowdsourcing to be effective tasks need to be focused and clearly explained and the firm needs to have procedures in place for effectively filtering and considering ideas that come in (Hempel, 2007).

2.1.3 Communities of creation

However, the “too open” innovation model, the crowdsourcing model, was criticized due to companies’ inability to organize effectively and hence, new model “community of creation” (Sawhney & Prandelli, 2000), which lies in the middle of closed and open models and is governed by a central firm, was suggested. According to the model, participants share knowledge and ideas in the community, which results in more creative output. The central point in this model is to overcome the disadvantages of closed innovation, where companies lack the ability to leverage other companies ideas, creativity and capabilities; and form a community with permeable boundaries contrasting to completely open system. Indeed, the community of creation model blends the benefits of hierarchies and markets by offering a compromise between too much structure and complete chaos (Sawhney & Prandelli, 2000).

The community of creation model relies on extended participation and distributed production. Within the community, explicit knowledge as well as tacit knowledge can be shared because participants build up a common context of experience, allowing them to share knowledge developed in specific contexts. That is, the locus of innovation in the communities of creation’s model is no longer within the firm but within a community of members in an innovation ecosystem (Sawhney & Prandelli, 2000). Every member of the community of creation can access and contribute to the community. Thus, the organizational connectivity increases along with the possibilities for developing knowledge and socialization between the actors within the community.

Sawhney & Prandelli (2000) stressed that within the community of creation the learning and knowledge between all the members is shared. Thus, community of creation promotes learning with suppliers, instead of from them, as well as creating value with customers, instead of for them. Hence, the boundaries of the firm, its suppliers, and its customers are overlapping which leads to more effective, concurrent learning that shortsens innovation cycle time, lessens risk, and cuts costs (Sawhney & Prandelli, 2000). The community of creation model is presented in Figure 2-3.
According to Sawhney & Prandelli (2000), the Modified Community of Creation model emphasizes that community participation is limited to those actors who are really interested in knowledge sharing. It means that there might be participants in the process who do not want or are limited to share knowledge with others. This can constrain the learning process and can influence the obtainment of knowledge within the community. Therefore, in order for a successful community of creation to be developed, the following requirements have to be fulfilled:

- Common interest between parties
- Sense of belonging to the community
- Explicit economic purpose
- Shared language between parties
- Ground rules for participation
- Mechanisms to manage intellectual property rights
- Physical support of the company
- Co-operation as a key success factor

If balance between these requirements is maintained, the system can combine continuous innovation with internal cohesion, as well as disorder with structure. Such a community can become self-organizing and continue to evolve even in a turbulent environment (Sawhney & Prandelli, 2000). However, there should be a body that plays the role of developing organization. Sawhney & Prandelli (2000) named that body a ‘sponsor’ and stressed that the sponsor offers prerequisites for development to the community of creation and leverages the innovation process within that community. Finally, the sponsor needs to provide a reward system for innovation and to lessen the learning sharing within the community (Sawhney & Prandelli, 2000).
2.1.4 Outlaw innovations

Flowers (2008) stressed that due to different reasons, users initiate their own activities such as amending a product’s functionality or extending or distorting the intentions of the original designers; exploiting design flaws in order to attack or evade security systems; or even creating systems or services in order to compete with mainstream commercial firms. Consequently, the traditional supplier-user relationships no longer apply since firms are faced with a parallel prosumer economy in which users design, build, develop and use products without any obvious interaction with firm-based innovation systems (Toffler, 1980).

Thus, the role of the users in the traditional supplier-company-users relationships becomes with a special status since users upgrade the products and services according to their needs with the so called ‘outlaw toolkits’ which are developed by the users themselves, not suppliers. The users who develop the outlaw toolkits are the outlaw users who generate outlaw innovations (Flowers, 2007). However, the systems, products and ideas that they develop are adopted by a much larger group of individuals who simply use these outlaw innovations. Hence, the outlaw users are a combination of elite users and the much larger group of users who demonstrate their willingness to adopt these outlaw innovations. Flowers (2007) stressed that the outlaw users are in general hostile or resistant to the suppliers’ methods of product or service use and may wish to undermine, avoid, or bypass them, or even adapt products or systems for their own ends. On the other hand, incumbent companies strongly resist outlaw innovations as they are usually directed at companies’ activities (Flowers, 2007).

Such user-driven systems of innovation that operate outside the accepted notions of user-firm interactions are file-sharing networks (Flowers, 2007). Particularly in BitTorrent networks, as an example for file-sharing network, users become doers in democratizing innovations, as they design, build, develop and use products without any obvious interaction with firm-based innovation systems (von Hippel, 2005). Thus, the innovations produced by outlaw users can be considered as a challenge for existing products, business models and regulatory regimes. Companies either can resist or benefit from the outlaw innovations. Flowers (2007) pointed out several approaches that firms may adopt in order to react to the activities of outlaw users. These approaches are presented in Table 2-2.

Table 2-2 Approaches to outlaw innovations (Flowers, 2007).

<table>
<thead>
<tr>
<th>Companies’ approaches to outlaw innovations</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitor</td>
<td>Closely observe the activities of outlaw users and choose whether to react or appropriate what they have monitored. As an outcome of the monitoring process, companies may obtain knowledge about the weaknesses of their products and to adopt methods by which these weaknesses can be exploited.</td>
</tr>
<tr>
<td>Adapt</td>
<td>Copy the technologies, methods or other innovations that have been developed by outlaw users.</td>
</tr>
</tbody>
</table>
Informally recognizing the efforts of outlaw users and potentially offering a tacit encouragement. Attempts to turn previously outlaw innovation into a commercial form by influencing the direction that these innovations would take.

Absorb

Ideas, approaches, techniques and other innovations are adopted by mainstream firms as they perceive them as highly attractive, and as a result the business model of firms is reconfigured by response to users’ activity.

Exploit

Firms that are unable to absorb or adapt to the outlaw innovations seek to exploit outlaw users in other ways, such as using them as key demographic groups.

Attack

Taking aggressive action against outlaw innovations, usually in the form of litigation.

However, Flowers (2007) stressed that the firms may choose to deploy not a single approach as a reaction to outlaw innovations but several of these approaches in the same time. Moreover, by adopting one or several approaches does not mean that outlaw users will stop using outlaw tools or will not prevent them from going on to create new innovations. Mainly because of these activities of users often considered as outlaw by companies, outlaw innovations are seen as criminalized actions in the context of music and film downloading (Flowers, 2007).

### 2.2 Principles of collaboration

Although Flowers (2007) identifies several approaches that firms may adopt in order to react to the outlaw innovations (see Table 2.2), he does not suggest option where companies and outlaw users can cooperate. Hyder & Abraha (2004) suggested a dynamic model of the development of strategic alliances that is based on certain variables consisted of motives, resources, performance, learning and network. These variables influence or are influenced by one another and the development of the alliance or relationship is viewed as a process. An alliance may be an already developed relationship within the network of the firms or it may be a deepening of an exchange relationship within the existing network or may be collaboration between completely new partners coming from two different networks (Hyder & Abraha, 2004). Indeed, identifying possibilities for collaboration between partners from different networks such as record companies and BitTorrent networks is what this thesis aiming at. Hence, the model is considered appropriate for complementing the theoretical framework of the thesis.

#### 2.2.1 Motives

The motives of the partners explain why partners enter into a strategic alliance, what benefit they derive from it, and what interest they attach to the continuation of the relationship (Hyder & Abraha, 2004). There are different reasons for a company to enter into alliance. That may be the opportunity for one of the sides to internalize the skills of the other in order to improve its position within and outside the alliance (Hamel, 1991). Pooling
complementary bits of knowledge also was pointed out as a major reason for establishing a partnership (Hennart, 1988). That was supported by Varadarajan & Cunningham (1995), who argued that pooling of specific resources and skills of the cooperating organizations, in order to achieve common as well as individual partners’ goals, are the main motives for establishing an alliance. Furthermore, Hyder & Abraha (2004) stressed that motives can also include developing new relationships, entering new markets, acquiring resources that firm does not possess, as well as gaining new learning.

2.2.2 Resources

Complementarity of resources has been emphasized as a major prerequisite for successful operation by Harrison et al. (2001) who argued that mutual benefits from resource combinations are more likely to be valuable when they are based on complementarity rather than similarity. Hitt, Harrison, & Ireland, (2001) supported that statement by saying that complementary resources are not identical, yet they simultaneously “complement” each other. In their research, Hitt, Levitas, Arregle, & Bora, (2000) and Inkpen, (2001) identified that both partners seek alliances to gain access to complementary resources. In his resource-based theory, Dollinger (2003) argued that in order for firms to create sustainable competitive advantage, they need to possess and employ resources and capabilities that are valuable, rare, hard to copy and non-substitutable. Barney (1991) classified the resources into three categories: physical-, human- and organizational capital. The physical capital resources, includes physical technology, a firm’s plant and equipment, as well as its access to raw materials. Human capital resources include the training, experience, judgment, intelligence, relationships, as well as insights of individual managers and workers in a firm. Organizational capital resources include a firm’s formal reporting structures, controlling and coordinating systems as well as informal relations among groups within a firm, etc. Dollinger (2003) complemented the resource types by classifying six types of resources and along with Barney’s (1991) resources he included reputational, financial and technological resources. Reputational resources are the perceptions that people in the firm’s environment have of the company. Financial resources are the firm’s borrowing capacity, the ability to raise new equity and the amount of cash generated by internal operations. Technological resources include research and development facilities, as well as testing and quality control technologies. All of these six resource categories will be taken into account in this study, however the focus will be mainly on technological and human resources.

2.2.3 Learning

Hyder & Abraha (2004) based the learning variable in their model on Osland & Yaprak’s (1994) assertion that the learning of firms occurs through at least four processes: imitation, grafting, synergism and experience. Imitation is the attempt to learn about the strategies, technologies and functional activities of other firms, and to internalize this second-hand experience. The grafting learning process is a means of acquiring knowledge either by formal acquisition of another firm or by establishing an alliance. Synergism on the other hand occurs when firms collaborate to produce new knowledge, and the last, experience, is learning that takes place through experiment or trial and error. Cohen & Levinthal (1990) emphasized that knowledge possessed by individuals is the most valuable asset for the organization. This accumulated knowledge forms the basis for learning and acquiring new knowledge. However, in order for innovation to take place, external complementary assets are critical.
The ability of the firm to recognize the value of this new, external information, assimilate it, and apply it to commercial ends is critical to its innovative capabilities.

### 2.2.4 Network

According to Hyder & Abraha (2004), network is concerned with exchange relationships among firms operating in the market and with other organizations and individuals who have interest or can play some role for the development of the business. Indeed, no firm is self-sufficient and therefore is involved in continuous exchange with its environment for survival. Granovetter (1982) asserted that social networks that are built on social relationships are bases for such networking that can further develop into social bonds. However, Johanson & Mattsson (1988) pointed out that industrial networks are sets of connected exchange relationships among actors who control industrial resources and activities. In the process of collaboration the partners come across and many times get entrance into each other’s network. Hyder & Abraha (2004) argued that as partners combine their networks, more learning and adoption take place, which has a synergetic effect on the overall relationship. Thus, a new type of network may be formed around the alliance to give partners better competence in seeking, acquiring and using their resources and skills to support the alliance.

### 2.2.5 Performance

According to Hyder & Abraha (2004), measurement of performance is important because partners have certain expectations, and the outcome from the operation may need a capable partner to exercise more control or raise more fund or force the partners to cooperate. Performance may be measured in relation to partners’ interests and by common criteria of effectiveness. In literature on the topic, five criteria are often mentioned when it comes to evaluation of alliance performance, namely: profit, growth, adaptability, joint participation and survival (Hyder, 1988; Boersma & Ghauri, 1997). Profit means the amount of revenue from sales left after all costs and obligation are met. Growth implies a comparison of a firm’s present with its past state. Adaptation refers to the ability of a firm to change its standard operating procedure in response to environmental changes. Hyder & Abraha (2004) stressed that the need for adaptation is great in alliances as they involve parties with different culture, background and objectives. However, joint participation and survival of an alliance are two closely related aspects and both jointly lead to strengthen the relationship between the partners therefore the two sub-variables are combine in one, namely relationship (Hyder & Abraha, 2004).

### 2.3 Summarizing Model of the Frame of Reference

To summarize the frame of reference, a model that integrates theories in the external sources of innovation section with Hyder & Abraha’s (2004) model of the development of strategic alliances was developed by the authors of this thesis. The model presented in Figure 2-4 will be used as a basis for the analysis to provide a more deep understanding of possible collaboration between record companies and BitTorrent networks.

As can be seen in Figure 2-4, the model consists of three major parts, differentiated in one central, and two side components. These are “companies”, “networks”, “community of creation and collaboration variables”. Each part of these consists of other smaller parts, integrating corresponding theories from the theoretical framework presented earlier. Thus,
the companies’ oval includes the external sources of innovation theories, that is closed and open innovations; the networks oval includes crowdsourcing and outlaw innovations, and the central part consists of community of creation theory, complemented by the model of the development of strategic alliances by Hyder & Abraha’s (2004).

2.3.1 Closed and Open Innovations

Both closed and open innovations are situated in the companies’ oval since the theories are related to the firms’ willingness to shift their strategies from exclusively relying on internal creativity and innovativeness, to opening for creative ideas from outside (Chesbrough, 2003). These external sources of innovation, according to the model, are supposed to come from the BitTorrent networks which are consisting entirely of end users and potential consumers of record companies’ products. However, in order for the companies to change their focus from internal to external sources of innovation, there have to be certain incentives that influence the process of change. As Sawhney & Prandelli (2000) asserted, firms need to collaborate with their partners and customers in order to create knowledge. Thus, by combining external and internal ideas, as well internal and external paths to the market, companies can obtain future technological developments with the help of external resources.
(Chesbrough, 2003). However, they can stay locked inside their own four walls, relying on their own R&D, ideas and creativity, indeed the closed innovation process.

The transition from closed to open innovation can be two folded as can be seen from the model. If companies want to obtain knowledge and thus, to uncover and exploit opportunities outside its existing businesses or beyond its current technical or operational capabilities (Wolpert, 2002), they need to open for external sources of innovation. In this particular case, the external sources should come from BitTorrent networks. However, the process can be reversed if companies that have once followed the open innovation model decide to protect and keep their internal information and knowledge. Thus, they will go back to the initial position of closed innovations.

2.3.2 Outlaw Innovations and Crowdsourcing of Networks

The outlaw innovations and crowdsourcing are located in the networks’ oval, since both theories are related to innovations that are led by users. Flowers (2007) asserted that the outlaw users are in general hostile or resistant to the products or services of companies and therefore may undermine, avoid, or bypass them, or even adapt products or systems for their own ends. Moreover, because of their activities that are often considered as outlaw by companies, outlaw innovations are seen as criminalized actions in the context of music and film downloading (Flowers, 2007).

On the other hand, crowdsourcing is a totally open model, capable of aggregating talents and leveraging ingenuity (Brabham, 2008). It gives users the freedom to show their creativity, share ideas and turn them into practical solutions. In contrast with outlaw innovations, crowdsourcing differ with its principles of collaboration between companies and users, as well as with its totally legal activities. Thus, according to the model, networks that are in an outlaw mode are in general hostile or resistant to companies, or do not need companies since they operate in the so-called prosumer economy. The model argues that in order for such networks to go into the crowdsourcing, they need to have certain incentives. Again, the process may be two folded: users may go from outlaw to crowdsourced and the reverse. However, both transformation processes depend on the incentives that users will find in the successor mode. For instance, if users do not find what they need when they are crowdsourced, and do not have the incentives to stay in this mode, they can easily go into outlaw mode. On the other hand, if users have the incentives to change their mode from outlaw to crowdsourced, they may follow that mode.

2.3.3 Community of creation and Collaboration variables

The community of creation model is designed to overcome the disadvantages of closed innovation where companies lack the ability to leverage others’ ideas, creativity and capabilities, and form a community with permeable boundaries contrasting to completely open system, namely crowdsourcing (Sawhney & Prandelli, 2000). Therefore, in the model in Figure 2-4, the community of creation box lies in the middle of companies and networks ovals, suggesting that both companies and networks should form a community where they share knowledge and ideas that benefit both sides. Thus, every member of the new-formed community of creation can access and contribute to the community and to bring, as well as to gain benefits.
However, as it can be seen on the model, the process of forming such a community of creation constituting of companies and networks can be reversed. It means that if one of the sides does not see the benefits of such a community, it can go back in its initial mode of closed/open innovations for companies and crowdsourcing/outlaw innovations for networks. Indeed, the possibilities of forming a community of creation, where companies and networks can cooperate and collaborate are scrutinized through the Hyder & Abraha’s (2004) model of the development of strategic alliances. However, it is adapted and implemented to the community of creation model since in this particular case one of the sides in the possible collaboration is a commercial firm and other is represented by users or network of users. Thus, the typical collaboration variables that are applied for the commercial firms, namely motives, resources, network, learning and performance are probably not with the same value for the networks. That is, the model is developed exclusively for investigating the possible collaborations between companies and networks and overcomes the disadvantages in using only external sources of innovation theories or collaboration theories.
3 Methodology

In this chapter the authors will present and motivate the choice of method in relation with the purpose and research questions. Moreover, an analysis and interpretation, as well as criticism towards literature and method are presented and argued.

In order to determine which research method to use, Saunders, Lewis, & Thornhill (2003) argue that there are important layers of the research process as seen in Figure 3-1, that need to be peeled away. Indeed, the purpose of this chapter is to peel away the layers in order to enable the reader to understand why the methodological approach was chosen, and how the authors conducted the study.

![Figure 3-1 The research 'onion' (Saunders et al., 2003).](image)

The first of the layers concerns the scientific point of departure, the research philosophy, while the second layer deals with the subject of the research approach. These layers are then followed by the research strategy. Furthermore, time horizon of the study is considered followed by the actual data collection method. The layers are further discussed in the next sections and the choice for the research method is presented and argued.

3.1 Research philosophy

There are several scientific approaches about the research process of how knowledge could or should be generated (Saunders et al, 2003). In general, the scientific approaches are limited to the schools of positivism and hermeneutics. However, Widerberg (2002) argues that along with positivism and hermeneutics, realism also should be taken into account and
continues that these three views are not fully independent in all aspects, but rather exist mutually and overlap each other.

Wiklund (1998) stressed the difference between positivism and hermeneutics by comparing both methodological approaches to opposite poles. Positivism holds the viewpoint of objectivity – the researcher is independent of and neither affects nor is affected by the subject of the research (Remenyi, Williams, Money, & Swartz, 1998). Therefore, this scientific approach stands for a structured methodology that facilitates the study, as well as irrefutable observations where the researcher plays the role of a statistical analyzer (Saunders et al, 2003). According to the positivistic approach, the truth is what we see. Everything is shown and presented from what actually can be interpreted and understood (Carlsson, 1990).

However, the authors believe that the positivistic approach cannot be applied to the current paper and cannot fully cover the needs for this study. As it was mentioned above in the positivism approach, everything is accepted for truth from what can be interpreted and understood, thus it would imply that creative mechanisms and instant reactions of businesses for innovation and competition are not taken into account. That can be for instance the tacit knowledge and the tacit interactions between actors, which can be assumed to formulate the sustained competitive advantage (Johnson, & Mattson, 2005). Thus, based on these statements, positivism is excluded as the basis of this paper.

Conversely, a hermeneutic approach is more concerned with how researchers would interpret and understand the studied field (Alvesson & Sköldberg, 1994). Thus, the researcher has a biased to some extent knowledge of the study intended to explore, and the research process is going back and forth between the researched topic and the previous knowledge. Consequently, the hermeneutic approach has more qualitative nature and is used mostly in the field of social sciences (Eriksson & Wiedersheim-Paul, 2006).

Moreover, Lundahl & Skärvad (1992) argue that in order to base a study on facts implies that the researcher clearly shows his or her assumptions and perspectives of the researched topic. Indeed, values and apprehensions from past experiences influence the objectiveness of this thesis while the study is still based on empirical data. Thus, regarding the facts and considering the purpose of the paper, the authors considered that hermeneutic approach would be more suitable, since it requires pre-understanding of the whole picture; seeks for further understanding of a specific part of that picture and is not aimed at generalization for the whole population but rather is focused on deep understanding of the specified subject.

3.2 Research approach

Essentially, there are two main research approaches – inductive and deductive. An inductive approach implies that theories will be developed as a result of a data collection, meaning that the researcher builds the theory based on empirical findings. In the inductive approach the empirical data is the starting point, while in the deductive approach the theory comes first followed by the empirical data. That means that assumptions can be made out from the existing theories and these assumptions are later tested with the empirical data (Saunders et al, 2003).

In the inductive approach the theory follows the data hence it is mostly concerned with collecting qualitative data (Saunders et al., 2003). The qualitative data is usually collected
through interviews, then analyzed and developed into theory. The goal is to establish different views and explanations of a phenomenon by using a less structured approach (Saunders et al., 2003). Thus, from the discussion above and considering the purpose of the thesis, the inductive approach will be applied in this thesis.

### 3.3 Exploratory research

Sound research is very much a function of its method of data collection. The choice of a research design type is influenced by a number of variables, such as: the type of decision that is to be made, size of research budget, and perception of risks. The most important is however the nature of the research questions (Wrenn, Loudon & Stevens, 2001).

Exploratory research is the preferable design when the research detours and follows up things that revelatory observations make clear. Compared to descriptive and casual designs, exploratory research provides the highest level of flexibility (Wrenn et al. 2001).

There are six typical objectives when exploratory research should be used (Wrenn et al. 2001):

1. Defining an ambiguous problem or opportunity.
2. Increasing the decision maker’s understanding of an issue.
3. Generating ideas.
4. Providing insights.
5. Establishing priorities for future research or determining the practicality of conducting some research.
6. Identifying the variables and levels of variables for descriptive or causal research.

It is the viewpoint of the authors that an exploratory design is most suitable to use, as the aim is to gain broad insights into the phenomenon and achieve a better understanding, as well as to get broader insights into the subject under investigation. The research questions are thus formulated in the “How” design and support further the choice of using exploratory research.

### 3.4 Research Method

When the aim is to increase the understanding of a phenomenon or social process about which little is known, a qualitative method can be particularly useful (Creswell, 1997). The method allows close and subjective interpretations of individuals, groups or organizations under the study, as is the case with this paper.

It has long been argued that a quantitative approach is better than a qualitative approach due to its credibility superiorit. This is however far from the truth, and today qualitative research is widely accepted. When it comes to the main critique towards a qualitative approach it deals with the small sample that is typically used. A quantitative approach on the other hand has typically been criticized for a lack of depth. Today the general opinion is that neither approach is held for being superior to the other, it more depends on the nature of the research (Creswell, 1997).

Compared to the quantitative approach, which uses numbers as a basis for analysis, the qualitative approach uses words. A qualitative approach is more exploratory, which goes well
in line with earlier discussion of exploratory research. A qualitative approach focuses more on depth rather than many interviews. Saunders et al. (2003) supported the assertion by stressing that qualitative approach is used for data collection technique or data analysis procedure that generates or use non-numerical data. In this thesis a qualitative approach will be used. This will be useful to gain as much insight in the problem as possible.

3.5 **Research strategy and Choice**

Tools that are typically used for exploratory research are (Wrenn et al., 2001):

- Focus groups
- Personal interviews
- Case analysis
- Projective techniques

Saunders et al. (2003) supported that statement by stressing that there are three principal ways of conducting exploratory research: *a search of the literature, interviewing ‘experts’ in the subject and conducting focus group interviews*. Indeed, one of the best ways of obtaining insights and clarifications is to use personal interviews with ‘experts’, which is the tool to be used in this research. Thus, in this thesis personal interviews are selected as research strategy. A person with a special position or experience can provide unique insights for the research. The key in using personal interviews is not only to get all questions answered, but also to be as flexible as possible. The questions can be adopted depending on the course of the interview.

Compared to descriptive research design, which is very dependent on having all questions asked the same way, this research is freer in how to conduct the interview. This can result in that the interviews conducted might end in very different ways. The person to be interviewed is selected based on how interesting he/she is, and not based on that the respondent represents the “typical” one. The fact that the qualitative interview does not provide quantifiable data should not be seen as a weakness, as it can be used for powerful decision-making (Wrenn et al. 2001).

In regard to the choice of data collection technique and the analysis procedure, Saunders et al. (2003) argued that there are in general two methods – mono method or multiple methods. In the mono method the researchers combine either a single quantitative data collection technique with quantitative data analysis procedure; or a single qualitative data collection technique with qualitative data analysis procedure. In this study, mono method was chosen since single qualitative data collection technique is used, indeed personal interviews only, followed by the corresponding qualitative data analysis procedure.

3.6 **Time horizons**

Saunders et al., (2003) argued that there are two perspectives regarding the time horizon of a study: the ‘snapshot’ time horizon called cross-sectional and the ‘diary’ time horizon called longitudinal. The longitudinal studies refer to the change and development of the researched subject. It implies that the research should encompass a long period of time in order to be given a powerful insight into how the subject has developed and changed over the time (Saunders et al., 2003).
On the other hand, the cross-sectional studies focus on a particular phenomenon at a particular time. They are used usually in fast changing environments, turbulent environments, where the time is of importance for the industry, such as IT for instance (Saunders et al., 2003). Cross-sectional studies may seek to describe the incidence of a phenomenon or explain how factors are related in different organizations. Although the cross-sectional studies often employ survey strategy, qualitative methods are used as well, such as for instance interviews conducted over a short period of time (Saunders et al., 2003). Indeed, taking a ‘snapshot’ at the current situation of the body of the research, as well as explaining if and how record companies can collaborate with the BitTorrent networks is what this study aims at. Thus, a cross-sectional perspective is used for the thesis.

3.7 Data collection methods

It is possible to choose either an observation or a communication method to collect primary data. A communication approach includes specific ways of gathering data. The primary ways according to Wrenn et al., (2001) are:

1. Personal interviews
2. Telephone interviews (Including other electronic devices, such as Skype etc.)
3. Electronic/ Mail surveys

Since the focus of the paper is on three major record companies on one hand, and the three most popular BitTorrent networks on the other, the communication method was chosen and particularly telephone interviews. According to Wrenn et al., (2001), the advantages of the communication method are:

- Versatility
- Speed

There are some disadvantages however, and they address the willingness and ability of the subject to participate, as well as interviewer bias. Other things that can influence the communication method can be the subjects’ willingness to portray him in as positive approach as possible (Wrenn et al., 2001).

By using a telephone interview it is possible to have a speedy collection with respondents from a large geographically dispersed population, which is too costly to do in person. Advantages and disadvantages of telephone interview are presented in Figure 3-2 (Wrenn et al., 2001):
Advantages

1. Ease of reaching customer and calling back
2. Question flexibility, to skip or change questions
3. Speed in gathering information
4. Low cost
5. Access to people that are harder to reach

Disadvantages

1. Long interviews are difficult to conduct during phone interviews
2. Missing non verbal queues regarding interesting information or unease of participant

Figure 3-2 Advantages and disadvantages of a personal interview (Wrenn et al., 2001).

One of the main strengths of telephone interviews are that they are suitable for usage when the respondents are located in much dispersed geographical areas. The flexibility is also of great importance, since the respondents have a very busy time schedule and thus, telephone interviews allow the needed information to be collected fast and relatively easy.
3.8 Population, Study objects, Respondents

In this section the population, study objects and respondents are defined. As seen in Figure 3.3 the following five-step decision model by Wrenn et al. (2001) will be followed.

3.8.1 Definition of population

It was decided for this study to be used a sampling technique rather than analyzing the entire population Figure 3.4 shows how the population is defined. The definition of the population is linked towards the purpose of the thesis and the research questions. Thus, the target population for this study was defined to be represented by both record companies and BitTorrent networks. By choosing study objects instead of an entire census or population it will have the advantages of (Wrenn et al 2001):

- Saving costs – as it will be very hard and time consuming to interview all digital content providers and file sharing networks.
• Being time efficient – the information can be collected and analyzed more effectively with a smaller sample.
• More in-depth information – by having a sample more time can be devoted to the interviews at hand, making the researcher able to follow up questions to a greater extent.

![Diagram of population definition]

**Figure 3.4 Definition of population**

### 3.8.2 Determine the Study objects frame

All digital content providers are seen as the total population in the first circle in Figure 3-4. That includes record companies, movie companies, software companies, etc. Out of these, the further selection went on all the record companies narrowing down to the record companies that are perceived hostile against BitTorrent networks. The trial against The Pirate Bay in Sweden was taken as a reference point in this case, since its popularity and massive media coverage. Thus, record companies filing a lawsuit against the BitTorrent networks and particularly against The Pirate Bay were chosen as further study objects.

All file sharing networks are perceived as the total population in the second circle in Figure 3-4, including BitTorrent networks, Kazaa, Morpheus networks, etc. Out of these, all BitTorrent networks, were identified for further selection, narrowing down to all open BitTorrent networks, where all users are welcome and free to use the services of the website. Some networks apply a closed approach, where the users either needs to pay usually a monetary fee, or be invited by a friend in order to be accepted. However, these networks were disregarded in this study. Since there are plenty of open BitTorrent networks, the next step was to make a selection based on the popularity of the network; indeed the population was limited to the biggest BitTorrent networks from the webpage TorrentFreak (TorrentFreak, 2009b).
3.8.3 Select sample method of study objects

The third step of the decision model is to choose the sample method of the study objects. This is based on the decision of how to select population and sampling frame. Non-probability samples are sampling techniques that do not involve a selection of sample by chance. Probability samples on the other hand include samples where every element has equal and known probability of being selected. In this case a non-probability sampling method is selected. This goes in line with earlier reasoning of the importance for flexibility in exploratory research. Choosing a non-probability sample does not mean that the sample is less representative, but it is not possible to compute the likelihood of the element to be selected. This means that it is not possible to construct confidence intervals, which one can do with probability sampling. The aim with exploratory research is however to generate ideas, and insights. In order to do this it is important that the respondents with the right experience and information are addressed.

The most common methods of non-probability sampling according to Wrenn et al. (2001) are:

**Convenience sampling** is one of the least time consuming ways of selecting a sample. The method chooses the elements that are most close at hand. Convenience sampling is a very common exploratory sampling method (Wrenn et al., 2001).

**Quota sampling** divides the population into subgroups based on judgment; a quota is then picked from each sub group. Example of subgroups can be based on age, sex, occupation etc. (Wrenn et al., 2001).

**Judgment Sampling** is depending on the judgment of the researcher, and is thus a very subjective approach. This can typically be selected when a researcher is aiming for the decision makers in a population (Wrenn et al., 2001).

The trial against The Pirate Bay in Sweden took place during the writing of the thesis. Both record companies and BitTorrent networks were involved in the trial, thus convenience sampling is the method to be used since both parties were close at hand. Interviews were then conducted with representatives from both record companies filing lawsuits against BitTorrent networks and popular BitTorrent networks.

3.8.4 Determining number of study objects

When choosing study objects, the size will determine the accuracy. The non-probability samples do not use confidence intervals or statistical methods to choose a sample size, as well as the non-probability samples are made on subjective basis (Wrenn et al., 2001). Therefore, the insight, judgment, experience or financial resources of the researcher determine the size. The main important thing in determining the number of study objects in non-probability samples is that it should be representative, not to be statistically derived (Stevens, Wrenn, Ruddick, & Sherwood, (2005). Thus, the final decision about the number of study object depends on whether it is believed by the researcher to be representative of the population. In this research, the number of study objects was determined by the most popular BitTorrent networks, according to TorrentFreak (2009b), and the six record companies filing a lawsuit against The Pirate Bay in Sweden (IDG, 2009).
3.8.5 Selecting study objects

Dealing with the BitTorrent networks the study objects was taken from the most popular BitTorrent networks, presented by the news portal TorrentFreak (2009b). The popularity is measured in the amount of traffic the torrent sites had during 2008. Other ways of measuring popularity was to see how many files the torrent sites has access to and that is uploaded on the torrent network. However, in order to not get involved with the amount of relevant files on the torrent sites, the measurement of Internet traffic was used. The most popular BitTorrent networks in 2008, according to (TorrentFreak, 2009b):

- The Pirate Bay
- Mininova
- IsoHunt
- Torrentz
- Torrentreactor
- Demonoid
- BTjunkie
- SumoTorrent
- Torrentzap
- Torrentportal

Dealing with the music industry, the study objects were taken from the record companies that have filed lawsuits against BitTorrent networks, and have thus clearly declared their standpoint. The record companies that have filed a lawsuit against The Pirate Bay are (IDG, 2009):

- Sony BMG Music Entertainment Sweden AB
- Universal Music AB
- Playground Music Scandinavia AB
- Bonnier Amigo Music Group AB
- EMI Music Sweden AB
- Warner Music Sweden AB

Along with the above mentioned record companies, the record company Beep! Beep! was contacted as well, since in the process of writing this thesis, the first successful collaboration between record company and BitTorrent network, Mininova emerged (Beep! Beep!, 2009). Thus, in order for this successful collaboration to be investigated, the authors decided to conduct one additional interview with representative from Beep! Beep!.

Once the study objects were selected, requests for interview were sent to all the six record companies plus one additional to Beep! Beep!. Requests were also sent out to the most popular BitTorrent networks. However all organizations on the above list were contacted, some non-response were present. Thus, in total eight interviews were made, five with the record companies, and three with the BitTorrent networks. The questions of the interviews were adjusted towards record companies (see Appendix 1) and BitTorrent networks (see Appendix 2). According to Arksey & Knight (1999), using a semi-structured approach allows the interview to be held more like a discussion. Indeed, that material collection method was applies to collected the empirical findings in this thesis. The authors of the research based the interviews on the main questions, however not strictly followed the agenda when talking.
to the respondents. Thus, the interviewees were often asked additional questions that arouse during the interviews.

3.9 Non-response

Non-response deals with the part of the sample that does not respond. As the BitTorrent networks were contacted, some of them did not have any contact information apart from a web based form, or a website forum. A three-step method was used in order to contact the organizations. Firstly, an email was sent out to the respondents with a request for interview. Secondly, phone calls to the respondents were made when a phone number could be found, which mostly the case with the record companies was. Thirdly, follow up calls and emails were then made in order to get hold of the right spokesperson from the organization and find a suitable time for the interview. If there was no answer on the email request, two follow up emails were sent before the respondent was perceived as a non-response.

According to Wrenn et al., (2001) the following list can decrease non-responses:

- Notify respondent in time and make call-back when the respondent have time to consider the interview
- Ensure confidentiality
- Telling the respondent the importance of their participation.

In this regard, all the ten BitTorrent networks and all the six record companies were contacted. According to Baruch (1999), for most academic studies involving organizations’ representatives, a response rate of approximately 35% is reasonable. Indeed, in this research the response rate was met. There was only one direct refusal to participate, from Universal Music’s manager of digital department who was too busy to participate. The BitTorrent network The Pirate Bay with the spokesman Peter Sunde was also contacted for interview. The interview was scheduled, but unfortunately the verdict of the trial against The Pirate Bay was released before the meeting, and Peter Sunde could not be reached after this.

3.10 The interviews

The interviews were conducted either by phone or by using Skype. All communication was recorded and saved on a computer for later analysis. The length of the interview varied between 30-40 minutes. Two researchers were present during the interviews in order to get as objective view as possible of the answers. The interviews were furthermore held in English. The questions were based on the developed own model of collaboration, including discussed theories of open innovations, crowdsourcing, and outlaw innovations.

Respondents for the interviews can be seen in Figure 3-5:
3.11 Structure of the Empirical findings

Stake (1995) suggests that the researchers should transcribe the interview shortly after it was made. Following that assertion, the authors of this study transcribed the interviews the same day or the day after, and focused on retelling what the interviewees meant by their explanations, rather than transcribing word by word. Furthermore, the empirical part was structured and written the week after the majority of the interviews were conducted. Thus, the authors maintained high quality of the presented information, by decreasing misinterpretations and forgetting the experiences and meaning received from the respondents. In the beginning of the interviews the interviewees were asked if the conversation could be recorded. Moreover, the respondents were offered the choice of being anonymous or not in the thesis, although no one required this.

3.12 Trustworthiness

According to Richards (2005), a qualitative research can never be ‘tested’ as a quantitative study. In this research, representatives of both record companies and BitTorrent networks were interviewed in order to give answers regarding the research questions and the purpose. In this regard, the record companies’ representatives are all middle managers responsible for the distribution of both physical and digital material. On the other hand, the BitTorrent networks’ representatives are either the owners of the website, where the network are accommodated, or co-owners.

Critics towards qualitative interviews argue that the results are very hard to verify, and receiving the same results in similar studies are very hard if not impossible to replicate. The quality of the interviews are also very much related to the skill of the researcher, and how subjective the researcher is. The topic of this thesis deals with organizations and communities in constant change. Since several lawsuits against BitTorrent networks are currently taken place as this thesis is written a similar study will be hard to conduct. Merriam (1998) argues that if a qualitative research should have a high level of trustworthiness, similar results should be found if other researchers use exactly the same research methods. The aim of this thesis is to have a high level of trustworthiness, which is argued to be achieved using a combination of having two researchers present during all the interviews, as well as having carefully recorded conversations in order to not get any misunderstandings from the empirical findings.

According to Patel & Davidson (2003) the trustworthiness of empirical findings can be further increased if the authors have an in-depth understanding of the topic researched to understand both the questions asked and answers in a good way. Extensive research of
secondary data was studied in order to get a good understanding of the topic before the interviews were conducted.

Dealing with the interviews, a frame of questions was decided upon beforehand in order to reflect the research questions and was used as a basis for the interviews. Follow up questions were customized depending on the answers from the respondents. Emphasis was put on not to ask leading question in order to minimize the interviewer biasness. As two researchers were present at all interviews, the risk of being subjective was also kept to a minimum. All interviews were recorded and listened to carefully before making the transcription and further analysis in order to minimize the risk of misunderstanding the respondents.

Some criticism towards the timing of the interviews may be that during the time when the thesis is written much publicity has been given to the ongoing trial against the BitTorrent network The Pirate Bay. Some respondents felt that they could not answer certain questions due to company policy. The media coverage of the trial might have influenced the response rate, as well as the viewpoint of the respondents.

3.13 Validity and Reliability

According to Smith (2002) reliability of a study is defined as the extent which collection methods have consistent findings. Examples of this are if the study will yield the same results when conducted a second time. High reliability would also make other researchers come to the same conclusion based on the same data gathered.

In order to increase the reliability of the study emphasis has been placed on having high transparency in how the raw data is being analyzed. The reliability also increases, as two researchers have been present during all interviews.

Dealing with validity, Robson (2002) defines the term as whether a researcher’s findings are what they appear to be, or the accuracy of the study. Validity also touches upon how well the researcher is testing what is supposed to be tested. In order to increase the validity of this study more than a single record company and BitTorrent network were researched.

However a threat towards the validity is that as the interviews were conducted much media coverage was directed towards the ongoing trial against the BitTorrent network The Pirate Bay. This might then have affected the respondents in one way or another. The Media coverage can however also affect the researchers’ judgment of the interviews. By being aware of this, efforts are being placed on to disregard any prejudgments prior to the interviews.

As the interviews were held in English the respondents who were not native speakers in English, could have been affected by this, and not understand the questions correctly. Trying to prevent this the respondents were told in the beginning of the interview to ask questions if anything was unclear.
4 Empirical findings

This section will present the empirical data gathered in a summarized form. The qualitative interviews from the record companies will be presented followed by the BitTorrent networks.

4.1 Qualitative interviews – Record companies

4.1.1 Sony Music

M. Dennis, phone interview 2009-03-15, duration: 36 minutes

Sony music is an organization that has been represented in Sweden since the middle of the 1950’s. The organization has several partners all over the world, and is one of the major record companies on the market with several artists signing up each year.

The Digital department was implemented in Sony Music at the same time as the launch of iTunes during 2002-2003. The digital department is working with trying and evaluating new digital business models for Sony music, as well as looking into new consumption possibilities for its customers.

4.1.1.1 Innovations

The music industry made the mistake of trying to pursue the same business model to sell music online as they had offline selling CDs. This led to huge losses when people started to switch from physical music such as CDs to MP3s, online. Illegal downloading and file sharing started to increase rapidly which has led to even more record shops has needed to close down, especially in the Nordic region. The fact that online stores such as iTunes have been successful, but unfortunately not been able to cover up the losses incurred. Although this trend has been going on for some time, this is something the music industry has realized a bit too late.

In order to change this Sony Music has been for two years working together with the developers of Spotify. Spotify is a software, where the user is able to stream music from the Internet. Sony Music has not historically involved their users much, which has been the case with many of the bigger record labels, especially when it comes to development of new products. They are however trying to change this today. According to Dennis loyalty online is something that is changing rapidly. Things that are popular can very fast become obsolete as new technology leads the process of innovation forward. This has been seen in the case of Facebook and Myspace, as Myspace had most of the market, while Facebook appeared and captured significant shares very rapidly. In order to capture these changes the involvement of users will give good benchmarking. The consumers today do not want to be as distant from the artists as they have previously been during the 70’s and 80’s. More focus will be placed on special offers, like Nine Inch Nails made with special accessories.

4.1.1.2 BitTorrent networks

Something Sony Music has learned from the file sharers and in particular The Pirate Bay is that they need to learn new consumption models, which has taken too much time. The band Radiohead is seen as a good example when it comes to new innovative ways of distributing albums using BitTorrent networks.
Record companies are however still very much needed, since not every band is as big as Radiohead, or Nine inch Nails, and requires big investments in order to become popular to start with. The technique in BitTorrent networks are perceived as very promising in order to distribute music, and would require considerable less resources from the record company’s side, and still make it faster. At the moment this has however been used in a way that has not benefited the copyright holders of the music. The main reason why people downloads from illegal BitTorrent networks is perceived by Sony Music mainly because it is for free, and there has been limited chance of getting caught.

4.1.1.3 Collaboration

A legal alternative is thus perceived to be very attractive both for Sony Music and illegal downloaders and would push the later “right” direction. The hopes are that within a few years people will leave sites such as The Pirate Bay. The technique used is however seen as the future, and great for distributing music.

It is however argued that “if The Pirate Bay had come a few years earlier, saying that we know we are on the wrong side of the law, let us work this out together” (M. Dennis, personal communication 2009-03-15) lawsuits against the website could have been prevented. Unfortunately BitTorrent networks are perceived to follow their own agenda, which does not help the copyright holders of the music. Artists are supposed to be given a fair share for their work put into the songs, which has not happened in The Pirate Bay’s case.

Previously Sony Music has tried to prevent file by using DRM technology, which is now perceived as a big mistake, and was discontinued some time ago. It is however perceived that “It’s not a god given right do download music for free, and should have consequences, thus illegal downloader’s should get their punishment” (M. Dennis, personal communication 2009-03-15).

Giving away music for free is not a business model, however models where a monthly fee is taken, or advertisement is perceived as more attractive. Dealing with collaboration with BitTorrent networks, Sony Music is interested in looking into new business models, but not the way The Pirate Bay has been doing. It is argued that more resources needs to be devoted into pushing illegal file sharers to other alternatives, and at the same time developing legal alternatives, that exceeds the illegal ones in user friendliness and usefulness.

4.1.2 Bonnier Amigo Music

Patrik Pihl, phone interview 2009-04-28, duration: 32 minutes

Bonnier Amigo Music is one of the major record companies in Sweden and the Nordic region. Bonnier Amigo Music has been represented since the end of 1990’s. The name of the organization was changed to the current in 2001, when Bonnier Music and Amigo Music merged.

4.1.2.1 Innovations

Both artists and record companies have had problems coping with the changing consumption pattern of their consumers. This has led to a drastic decrease of revenues for the organizations. Today record companies need to fight for their survival in a way not seen before. One of the most important tasks for the record companies at the moment is to make
their customers realize the work and effort that the artists put down in their songs and this can in the long run not be given away for free.

In 2003 Bonnier Amigo Music started distributing music on iTunes, and CDOn, which made them able to reach new segments of Internet users. This investment, which proved successful, made users for the first time able to download music legally. However the sales have not been able to balance the losses incurred with a rapid increasing illegal file sharing. Even though iTunes is very successful it has not been growing that much in Sweden as in many other countries around the world.

It has however never been consumed as much music as today. When people exercise or jump on the bus they wear their iPod, which of course needs to be filled with music. Lately much effort has been placed in order to involve the customers more in the process. It has been realized that physical products such as CDs needs to give the customer something more than just the music, similar to more exclusive collector’s items. Bands like Radiohead have been very successful in doing this and the hope is that this can be adopted. The progress with technical advancements has been seen as something very promising. Experiments have been made with marketing Bonnier Amigo Music on Myspace.

In 2008 Bonnier Amigo Music signed a contract with IODA, which is the biggest organization when it comes to distribution and marketing of independent music. IODA distributes music to more than 1000 digital platforms such as iTunes, but also many smaller ones. This was taken as one step to give the customers a legal way of downloading music, and try to convince illegal file sharers to the right side of the law.

4.1.2.2 BitTorrent networks

BitTorrent networks can be seen as a symptom of that something is wrong in the music industry. However networks such as The Pirate Bay that makes money from advertising are just as bad as any Hollywood industry.

Some time ago Bonnier Amigo Music decided to remove the DRM protection on their songs, much earlier than other bigger record companies, such as EMI and Sony. The reason for this was to make it easier for the consumer instead of being an annoyance. People that have downloaded DRM protected songs have found it hard to play their songs and it has been a big annoyance. Even though the online sales of music has come to a bit of stagnation there is much music sold to cell phones, and the belief is that DRM free music will benefit both the consumer and the company in the long run.

It is however important to realize that record companies are not performing well today. Illegal file sharers needs to be dealt with harder, with higher monetary punishments, and clearer rules in order to scare people away from illegal file sharing. Countries like Sweden has for too long been seen as a free zone of illegal file sharing.

4.1.2.3 Collaboration

It is perceived that record companies and file sharers are becoming increasingly aggressive towards each other. Bonnier Amigo Music’s webpage has previously been hacked, spreading messages regarding the Pirate Bay trial. This kind of publicity is neither good for the record companies or the people sent to trial.
As The Pirate Bay earned money on someone else’s work the trial against The Pirate Bay was perceived as necessary but unfortunate. It is a question of survival, when it comes to that the artists need to get some return for the demanding work.

The BitTorrent technology is though perceived as a great way of distributing music and will much likely be a very important distribution tool in the future. New business models are required for sites similar to The Pirate Bay in order to prevent further lawsuits. The record companies however need to adopt as well, as they have been holding too tightly on their own rights. Possible ways of collaboration can be with monthly fees of the users, or in similar way advertising, but the money needs to be shared with the copyright holders.

4.1.3 EMI Music

Anders Livåg, phone interview 2009-05-05, duration 30 minutes

EMI Music is one of the major record companies and was founded in 1931. Anders Livåg is working for digital sales in the Nordic region. EMI music brings value to its customer by packaging and distributing the music in a way the customers prefer.

4.1.3.1 Innovation

EMI music does not involve their customers much in the development of new services. However the organization makes customer research from time to time in order to see what new services their customers' desire. It is argued that today it is more important to include the customers more, as sales of music have gone done dramatically. At the moment EMI music use most of the digital distribution systems available, including downloading as well as streaming of the material. The focus on digital distribution was initiated in 2002, but has more recently become more sales driven from a more experimental approach.

Livåg argues that even though technical changes on Internet goes fast, the record companies should focus on what they do best; developing artists, and market them, and make their music available in the format the customers desires. The digital supply chain is perceived to be very similar to the physical. EMI Music role is to distribute the music in the format and the quality as the retailers’ online desire. An online outlet such as iTunes then makes the songs available to the consumer. iTunes is seen as a milestone in the way of distributing music, as it has made it much easier for the consumer to download the songs. The iTunes concept has however been looking the same for some time and might need to look for ways of changing their business model. Downloading and streaming of music are perceived to benefit different kind of users. The next generation of music consumers is perceived to prefer not owning the music, but to just have it available when they wish.

Protective measures such as DRM protection was removed by EMI Music. The argument was that it made it more of a hassle for the consumer than the gains were. Even though the concept of protecting the music is something desirable this particular system was not perceived to be the right way. Some sort of control over the music is seen as essential according to Livåg.

4.1.3.2 BitTorrent networks

The technology of BitTorrent networks is perceived as a great way of distributing music. However it is important that it is done in a legal session. It is perceived that a new generation
of BitTorrent networks is soon to be developed where the business model is adopted in order to benefit both the copyright holders of the material and the file sharers in contradiction to what can be seen today.

According to Livåg, the reason why people download music today from BitTorrent networks are that it is easier than using the legal alternatives and it is for free. iTunes has created a legal service that competes in the same league, however there are many clients that are not as good.

According to Livåg, the BitTorrent networks affect the music industry in two ways. Firstly the huge decline in CD sales, can be directly linked to the growth of BitTorrent networks, and is something that the music industry is trying to prevent. Secondly the BitTorrent networks have forced the music industry to change and develop new services to the consumers. This process would probably not have seen this rapid process without the BitTorrent networks. However the growth of online outlets has not managed to offset the loss in revenues caused by the BitTorrent networks.

**4.1.3.3 Collaboration**

At the moment EMI music does not have any collaboration with other record companies or BitTorrent networks. EMI Music does not perceive it possible, or not very likely to establish collaboration with any of the current BitTorrent networks. However new organizations might occur using the technique in a different way. As EMI Music signs an agreement with the artists they also agree upon protecting the rights of the music towards the artist. This is something that does not comply with the illegal file sharing at BitTorrent sites.

Other issues dealing with that BitTorrent networks earns money on advertising on their sites also needs to be addressed so that these are split with the copyright holders and record companies as well. In order for a collaboration to work between EMI Music and BitTorrent networks to be possible a way to control the music needs to be developed, as well as a way for the record companies to benefit from this.

According to Livåg it is most likely that the collaboration will not be between record companies and BitTorrent networks, but between record companies and media companies using BitTorrent technique. The current BitTorrent networks are more seen as pioneers with new technique.

**4.1.4 Playground Music**

Lars Tengroth, phone interview 2009-05-06, duration 38 minutes

Playground Music was former known as Playground Music Scandinavia and founded in 1999. Mr. Tengroth started in 1999 at the same time as the new company started.

**4.1.4.1 Innovation**

The digital distribution of the company has been of high priority the latest years. Playground Music is currently outsourcing their distribution part of digital music to Kontor New media. This then distributes their music to all the major platforms such as iTunes as well as acts their digital warehouse. The media company then markets Playground Music’s songs towards the online stores as well. The customers are not very much actively involved in the development of Playground Music’s services. Playground Music is mostly just supplying the
online and physical shops with products. Then in turn the different shops are assumed to have different programs to involve the final customers.

The idea is to implement more and more of the web 2.0 concept, dealing with marketing in communities such as Facebook, and Twitter to a greater extent. Artists are also encouraged to make a more personal profile and actively participate in these communities as well. New strategies are developed when it comes to more Internet savvy artists frequently participating on community pages, and other strategies for more passive artists. The new trend is perceived to be more and more artists goes into streaming services such as Spotify. However the revenues from Spotify have so far not been seen.

4.1.4.2 BitTorrent networks

BitTorrent networks are perceived as a fantastic invention to spread music. However BitTorrent networks have misused it. One of the reasons why people choose to download from BitTorrent networks is that it sometimes is possible to acquire music that is not yet commercial available, that others have uploaded. BitTorrent networks have affected the record companies in the sense that the physical sales of CDs greatly have been reduced. The increase in digital sales has not been able to balance the loss of revenues caused by the illegal file sharing which has hurt the industry badly. As people are getting used to getting music for free the actual songs devaluates in value. Tengroth argues that legal actions towards illegal file sharers are something that is required to change this consumption pattern.

It is perceived in the future that BitTorrent networks can come up with a business model that makes the artists able to gain a share of the file sharing as well. However Tengroth argues that this is not something for the record companies to invent. Record companies role in the future is however perceived to be very similar to what they are today, presenting and marketing the artist, as well as distributing their music.

4.1.4.3 Collaboration

At the moment Playground Music does not have any collaboration with other record companies. The relationship with other record companies is more to the other extreme as they try to “Spy on them to look what is happening on the Internet” (Tengroth, Personal communication 2009-05-06). Regarding collaboration with BitTorrent networks it is seen as problematic as users might need to be monitored to see what kind of music they are listening to when they use for example a subscription service. The first step in the collaboration would be that the record companies and BitTorrent networks actually starts talking to each other, instead of being openly hostile which will in the long run only lead to high costs for both parties. Organizations like Google has managed better with their cooperation to the music industry, as they are more open, and becomes like a business partner. As BitTorrent networks previously have been contacted with requests of removing copyrighted material, only aggressive emails have been returned.

At the moment it is perceived that the BitTorrent networks secret agenda is to make money by selling advertising space on their webpage, at the same time as they give away material that is under copyright. This is under the impression that they are working for the best of the Internet users.
4.1.5 Beep! Beep!

Boudewijn Rosenmuller, phone interview 2009-04-28, duration: 31 minutes

Beep! Beep! is a record company with a very different approach toward their customers. The organization distributes free music to everyone. If the user then likes the music they are encouraged to make a donation or come to one of their shows. The organization also earns money on designing and selling hard copies of the artist’s albums.

4.1.5.1 Innovation

Beep! Beep! has had a close contact with their customers during a long time. By listening very closely to customer demands and suggestions for improvement the hopes are that trends can be foreseen in advance, as well as improving their own service. Besides using their own webpage for distribution of music, the organization uses a variety of BitTorrent networks such as Mininova, and communities such as Facebook and Jamendo. Beep! Beep! wants to show new possibilities for using torrent sites as Mininova. Rosenmuller argues “In our eyes torrent sites form an enrichment of the modern music landscape by facilitating a better distribution and more income” (B. Rosenmuller Personal communication 2009-04-28).

The artists can choose to present their material as they wish under a different license from the copyright property protection, and spread it as they please. This in relation to the fact that people nowadays prefer to listen to the music before deciding to purchase a MP3, a CD, or seeing a concerts. According to Rosenmuller, “First you listen the album, then you decide if you are willing to spend more time/money on the band” (B. Rosenmuller Personal communication 2009-04-28).

4.1.5.2 BitTorrent networks

BitTorrent networks are perceived as very important in order to reach all the consumers, especially since the big decline in the sales of physical CDs. Since Beep! Beep! already spreads the music for free, there are not any negative sides on BitTorrent networks for them as a record company, just another distribution tool. BitTorrent networks are forcing the music industry to change, however the major record companies are fighting the BitTorrent networks instead of seeing their potential and exploring new possibilities.

Measures such as DRM protection and disconnection of users are not perceived to have a positive effect for the music industry. By threatening with lawsuits and disconnection of illegal downloaders from Internet the record companies are only perceived to scare away their consumers.

4.1.5.3 Collaboration

According to Beep! Beep! there are multiple reasons that made them join forces with a BitTorrent site such as Mininova. The main idea is that if the music is popular it will spread via BitTorrent networks anyway. If record companies want to have some kind of control, they might as well do it themselves. By collaborating with Mininova Beep! Beep! were able to integrate their own web shop so Mininova’s users will be able to order a hardcopy very easily if they wish to. Mininova have around 60 million visitors a month, which is a big potential audience and very valuable for record companies.
It is perceived to not take long time before one of the major record companies will join forces with a BitTorrent network. As more record companies will spend less time distributing physical CDs and focus on online distribution the benefits will be more apparent. Distribution companies will probably disappear or be replaced with online versions.

When it comes to necessary changes that needs to be considered, the "copyright" that is used needs to be changed, so that record companies actually can use BitTorrent networks in a legal way. Finding a business model where BitTorrent networks can be used as distributors, sharing the profit with artists and record companies is something very important.

4.2 Qualitative interviews – BitTorrent networks

4.2.1 Mininova

E. Dubbelboer, Skype interview 2009-03-24, duration: 30 minutes

Mininova is today one of the biggest file sharing networks, and was initiated in 2005 after Supernova closed down in 2004. Their physical office is located in the Netherlands. Erik Dubbelboer is one of the responsible for PR and technical implementations at Mininova. The incentives of starting up Mininova were genuine interest in new distribution methods and technology.

4.2.1.1 Innovations

Mininova relies very much on user involvement. Besides the fact that all content on Mininova is submitted by the users they also listen to the users for improvements on the website regularly. This is described as a very important part of the development process of the site. Mininova would not exist if the users would not be involved in making the site better, and improve it on a regular basis.

One of the reasons Mininova has become so popular when it comes to distributing music is that people are interested in new releases from their favorite artists which Mininova provide, as well as an easy access to the same. Much experience is also shared with other BitTorrent networks, as a continuous feedback is given to each other, when new technique and ideas are released.

4.2.1.2 Record companies

Dubbelboer argues that major record companies obviously are very important for the music industry. Due to this it is vital that they are not neglected. However record companies have during a long time been pursuing an old business model. Recent actions against users such as DRM protection and disconnection from Internet are not the right way to go, and will just create a more hostile environment between file sharers and record companies.

4.2.1.3 Collaboration

Mininova tries to collaborate as much as possible with record companies. The organization offers a service where everyone can upload torrents and share the content for free called “Content Provider”. With this service an artist can distribute their artists for free to 47 million users that visits Mininova monthly. All the distribution is then provided for the artist,
which does not need to invest in expensive server equipment. An example of this collaboration is the Bleep! Bleep! which has been working very well.

After recent law suits against similar file sharer networks, Dubbelboer argues that the future will tell if and how Mininova needs to change. Record companies and BitTorrent networks are perceived to have a bright future ahead, if they learn to create a suitable business model.

4.2.2 BTjunkie

BTjunkie, Skype interview 2009-04-15, duration: 40 minutes

BTjunkie uses a similar technique as Google, with crawlers that look for information in other torrent sites. Today it is on of the largest torrent sites on the web. The goal was to make BTjunkie a Google for torrents, but it has grown to become something more. BTjunkie provides value to its users by not only giving them access to the torrents, but also having an extensive feedback and community systems, with reports if the files contain anything malicious such as viruses or spam.

4.2.2.1 Innovations

At the moment the users are mainly involved with feedback on the system, and not in the actual programming process. Dealing with why people download from BitTorrent networks such as BTjunkie, the main reason is perceived to be that there is so far no legitimate option available. There are different options such as streaming of music, but the “all you can eat” services are seen as the best option. This is service that for example Telia or Nokia has launched where the user can download as much music they want for a monthly subscription. Today many of these services offer the option of downloading protected music only, which means that when the user stop paying the monthly subscription they cannot continue listening to the songs.

BitTorrent networks could offer a legitimate service where the user can download as much music they want for a monthly fee. Internet providers, depending on how much you download, “Add $3 to every broadband subscription and everyone has access to unlimited music” (BTjunkie Personal communication 2009-04-15).

4.2.2.2 Record companies

Record companies’ goal is perceived to be just as other bigger organizations, to make as much money as possible. This does not include making people as happy as possible by spreading music to everyone. The record companies have during a long time been too greedy, making high profits on both artists and music consumers. The copyright is fundamental for artists, but has now become too expansive that it prevents creativity. If musicians instead would release their songs as a license similar to what Nine Inch Nails has done, thus getting compensation directly from their fans through special CDs, vinyls, shirts, and concerts.

At the moment the only real value record companies have is to produce and distribute CDs to people who still market them, and market the artist. As CDs becomes more and more a thing of the past, record companies should focus more on marketing their artists. It has too long been the case that record companies have used the artists in a negative way. BTjunkie describes it as “You make the music and put on all the shows, distribute all the music, and
leave the rest to us, while giving us most of the money” (BTjunkie Personal communication 2009-04-15). BTJunkie stressed that if companies make a compromise and let BitTorrent networks distribute some of their music, networks would make some trade-offs in the face of removing some other copyrighted material for instance.

Some record companies argue that smaller bands could not perform as well as previously mentioned band as they are not that famous. However the major record companies have such a bit influence on the media that smaller bands have it even harder to make a success on the traditional market. On the Internet artists such as “Soulja boy” who did not previously have a big fan club but made a success online.

4.2.2.3 Collaboration

At the moment BTjunkie is not collaborating with other BitTorrent networks, and the trend is that everyone seems to be doing their own thing. However BitTorrent networks builds on being a community. The goal of BTjunkie is not to make money, but originally to be a Google for BitTorrents, but right now to stay online and preserve the right of private communication between citizens on the Internet. At the moment effect on the music industry from BTjunkie is perceived to be minimal.

The goal of BTJunkie is not to compete with record companies, but the hopes are that they will give more freedom to the artists to own their music, and being of less control in the distribution. Dealing with collaboration it is not perceived as an option to work together with the record companies, as more commercial options are perceived available. Dealing with the BitTorrent technique record companies are not perceived to actually have use for BitTorrent networks as the price of distributing the music by them is seen as relatively low.

According to Btjunkie the reason why sites such as Bleep! Bleep! advertise on BitTorrent networks are that the networks have so many people visiting their webpage, not because it is a BitTorrent network. However the benefit for record companies to stop with lawsuits against BitTorrent networks would be that it is a great place to actually market new bands.

4.2.3 Torrentzap

Emadello, Skype interview 2009-04-25, duration 31 minutes

Torrentzap is a big torrent search engine and directory. The goal is to provide an easy-to-use directory and search engine for all kinds of torrent files. The reasons for running Torrentzap is that there are much information people should know about such as music, and bands which are also required to be distributed.

4.2.3.1 Innovations

Many people decide to use BitTorrent network based on that it is a very easy and convenient service to use. Previously people were required to go to a physical store in order to purchase music. Now the user can decide to listen to the song and then decide whether to purchase or not. The user involvement in Torrentzap is at the moment relatively low, as the programming is run by a small group of people with a feedback system from the user.

At the moment BitTorrent networks are perceived to be superior towards streaming material, since not everyone has a fast Internet connection around the world. It is more
attractive to then have the songs on the computer, as the connection to the computer might vary in quality.

### 4.2.3.2 Record companies

The perception is that BitTorrent networks help the music industry more than it hurts it. Even though there are services such as iTunes where the users can pay and download music relatively easy, many of the people that download the music today are very young, and would probably not purchase the music if they were required or forced to. Hunting file sharers are perceived as something unnecessary, as they will just find new ways of getting around their protective measures. Record companies could instead focus on making money from concerts and other live performances.

### 4.2.3.3 Collaboration

Torrentzap is perceived to “greatly help the music industry” as there is much music that people would never listen to without BitTorrent networks. If the user downloads music for free from the BitTorrent network, he/she should then go and buy it afterwards, which will happen when someone really loves the music. The people will also then go and visit their concerts etc.

Record companies might have the assumption that if BitTorrent networks were to be removed their profit would increase more, which is not true. Torrentzap would however be happy to work together with the record companies in order to receive mutual benefit. Collaborating with BitTorrent networks would be more beneficial for record companies, instead of working against them. When one site is closed down several new ones pop up. Other things that will continue to come up are services that make the downloader anonymous.
5 Analysis

This section is structured in accordance with the summarizing model of the frame of reference. The model will be used to analyze the empirical findings of both record companies and BitTorrent networks.

In order to answer the thesis’s purpose: to explore and analyze if, and how record companies can collaborate with the BitTorrent networks, the authors of this research made use of their own theoretical model of collaboration, presented in section 2.3 of the Frame of Reference. The model integrates theories in the external sources of innovation section in the Frame of Reference, namely closed and open innovations, crowdsourcing, community of creation and outlaw innovations, along with Hyder & Abraha’s (2004) model of the development of strategic alliances. In this section, the model is applied particularly for record companies and BitTorrent networks as it can be seen in Figure 5-1. It is used as a basis for the analysis in order to provide a deeper understanding of possible collaboration between record companies and BitTorrent networks.

Figure 5-1 Adapted model of collaboration.

In the model above the current activities of both record companies and BitTorrent networks are indicated as they influence the other party and thus, slightly changed the summarizing
model presented in Figure 2-4. As it can be seen, at the moment record companies adopt hostile approaches towards BitTorrent networks, such as lawsuits, protectionism and disconnection from internet. Moreover, BitTorrent networks as representative of outlaw innovations are defined as prosumer economy (Toffler, 1980) in which users design, build, develop and use products without the interaction of companies. It is indicated in the model as illegal acquirement of music or piracy, that is they do not need companies’ involvement in order to conduct their activities.

5.1 Closed and Open Innovations within Record companies

In this section companies hereby represented by the record companies, are analyzed for their innovation processes through the empirical data presented above. As can be seen in Figure 5-2 both closed and open innovations are dealing with the record companies’ activities, since the theories are related to the firms’ willingness to shift their strategies from exclusively relying on internal creativity and innovativeness, to opening up for creative ideas from outside (Chesbrough, 2003). Thus, in order to better understand the analysis of record companies’ innovation processes, the mini-model in Figure 5-2 is separately presented below. Theories are applied regarding the empirical data collected from the record companies’ representatives and hence, innovation processes are identified and analyzed.

It is clear from the presented empirical data that Internet and digitalization of content have strongly affected the music industry. A reason for this might be that record companies were not ready to react to the technological boom and therefore were unable to follow the stream. As Bonnier Amigo Music mentioned, digitalization of music has caused problems for both artists and the company when it comes to coping with the changing consumption pattern of the consumers. This has led to a drastic decrease of revenues for the organizations. It was further supported by M. Dennis from Sony Music who said that the company followed the same business model to sell music online as selling CDs, which led to huge losses. Furthermore, Anders Livåg from EMI Music pointed out that even though technical changes on Internet go fast, the company focused on what it does best – develop artists, market them, and make their music available in the format the customers’ desires. Moreover, Mr. Livåg said that the digital distribution system of the company is very similar to the physical one.

Consequently, the traditional business model of distributing physical material such as CDs for instance is no longer relevant for the current standards of digital distribution. A reason for this might be the fact that nowadays the digital media content is very easy to be transferred and distributed to a large population due to Internet. Therefore, if previously the traditional marketing activities, such as developing artists, marketing them and selling CDs were enough for the companies to prosper, they are apparently highly insufficient today referring to the drastic decrease of revenues. Thus, the old business model characterized by developing processes and marketing activities within the firm, hereby referred to closed innovations, is perceived obsolete in the digital world of
media content. Moreover, in closed innovations referred to the current mode, companies do not rely on customers’ involvements for developing organizational processes. Mr. Dennis from Sony Music who mentioned that the company historically has not involved their customers in the organizational activities supports the statement. It is in contrast with Sawhney & Prandelli’s (2000) assertion who argued that firms need to collaborate with their partners and customers in order to create knowledge and to further develop. However, record companies stayed inside their own four walls being unable to obtain knowledge and thus, they failed to uncover and exploit opportunities beyond their current technical or operational capabilities that led to huge losses (Wolpert, 2002).

As Mr. Dennis from Sony Music said, “When people started to switch from physical to digital music, the illegal downloading and file sharing started to increase rapidly which has led to closing down of more record shops. Although this trend has been going on for some time, this is something the music industry has realized a bit too late.” A reason for this might be that record companies have not been able to react that quickly to the digitalization of music from its very beginning. They did not take into consideration the innovation processes occurring with technologies related with music, the opportunities and threats that digitalization might bring. Thus, record companies failed to develop a business model adapted to the digital revolution and customers were not given the possibility to follow a certain direction in this transition. Instead, users have developed their own model for acquiring music in the face of the file sharing technologies and particularly BitTorrents that is however perceived illegal by record companies.

According to Bonnier Amigo Music, “BitTorrent networks can be seen as a symptom of that something is wrong in the music industry”. Therefore, record companies have recently started to change their traditional model of closed innovations and to look for alternative ways to market and distribute music. Indeed, all the interviewed companies stressed the importance of working together with online digital distributors such as Spotify, iTunes, etc., as they are perceived as great innovations, giving the opportunity for distribution on the digital market. Sony Music has been working together for two years with the developers of Spotify. Anders Livåg from EMI Music mentioned that iTunes is a milestone in the way of distributing music. It strongly relates with the Chesbrough’s (2003) statement that companies search for new technologies and ideas through cooperation with suppliers, distributors and customers in order to increase the efficiency and effectiveness of their innovation processes. That is, online distributors were identified as important partners for further development and innovativeness, which can be seen as an attempt for changing the closed innovation processes by giving more freedom to ideas coming from outside the companies.

However, the transition from closed to open innovations is still not fully supported by record companies since customers are not integrated in the process. Indeed, companies rely more on that their suppliers to engage customers as Playground Music asserted. Even more, users in the face of BitTorrent networks are isolated and restrained from companies’ innovations. As it was stressed above, users have developed their own model for acquiring music, namely file sharing which was further developed within BitTorrents networks, as companies failed to adapt quickly to the digitalization of music. As a reaction, record companies adopted hostile strategies towards BitTorrent networks, such as lawsuits, protectionism and disconnection from internet. A reason for these protective measures might be the unwillingness of companies to change their closed innovation model and to open themselves to users in order for them to collaborate and further support
innovativeness. Furthermore, another reason might be that companies refuse to accept the users’ business model due to the fact that they want to preserve their current status, thus keeping dominant position on market and controlling the distribution of music. Therefore, businesses fight so fiercely against these technological changes and try to restrict them as much as they can. However, the attacking approaches towards BitTorrent networks brought more restrictions, more complexity and more resistance from end-users. Moreover, the current attacks are perceived as a reasonable reaction towards BitTorrent networks, yet they might be perceived as a big mistake in the future as happened with the DRM technologies which were removed for this reason, according to Sony Music. Nevertheless all the protective measure companies are taking in order to keep their businesses, leads to strengthening of closed innovations, working exclusively within companies and estranging from customers.

Nevertheless, companies realized the importance of users’ involvement in the organizational activities. BitTorrent networks played an important role in the process as Anders Livåg from EMI Music stressed that “they have forced the music industry to change and develop new services to the customers”. According to Bonnier Amigo Music, the company has put much effort in order to involve customers in the processes. Sony Music asserted that customers today want to be close to the artists and Playground music mentioned that the company is working on projects including involvement of users through communities’ websites such as Facebook or Twitter. Moreover, Playground music said that company realized that physical products such as CDs need to give the customer something more than just the music, similar to more exclusive collector's items. Indeed, record companies are looking for new ways in order to improve their relationship with customers. However, it might be perceived as a bit late reaction to the BitTorrent networks’ model for acquiring music. Thus, it can be argued that users are actually the major actors on the music industry’s stage and the ones who set up the rules of the game and the means for playing it. It strongly relates with von Hippel’s (2005) assertion that users’ ability to innovate is improving radically and rapidly due to the progressively improving quality of computer software and hardware, as well as the access to steadily richer innovation commons. Therefore, record companies have to admit the fact that they are no longer the only major actor on the market and have to consider the role of the independent BitTorrent networks that are step ahead in their technological development. Moreover, companies are probably no longer the dominant force to set up the conditions and rules of the game, at least not at the present moment. Hence, they need to create value for customers and to cooperate, communicate and interact in a long run by opening themselves up (Chesbrough, 2003). Thus, both companies and customers will be able to create an innovation ecosystem where they can mutually cooperate and collaborate (Chesbrough, 2003).

5.2 Outlaw Innovations and Crowdsourcing of BitTorrent Networks

Networks, hereby represented by the BitTorrent networks are analyzed for the innovations led by users, namely outlaw innovations and crowdsourcing as seen in Figure 5-3. As Flowers (2007) emphasized, the outlaw users are a combination of elite users and the much larger group of users who demonstrate their willingness to adopt these outlaw innovations. However, because of their activities that are often considered as outlaw by companies, outlaw innovations are seen as criminalized actions in the context of music and film
downloading (Flowers, 2007). BitTorrent networks as representative of outlaw innovations are defined as prosumer economy (Toffler, 1980) in which users design, build, develop and use products without the interaction of companies. Theories are applied regarding the empirical data collected from the BitTorrent networks’ representatives and hence, processes are identified and analyzed.

It is apparent from the interviews that BitTorrent networks see the technology behind as a mean not only for file sharing but also for communication. Moreover, they perceive their role as “staying online and preserve the right of private communication between citizens on the Internet”, as BTJunkie said. The networks are based on users’ involvement and engaging in all activities, thus improving the infrastructure on regular basis, according to Mininova. Indeed, the system’s infrastructure in the face of internet and communication between users serve as a base for mutual cooperation between network’s parties. They all work in a self-developed ecosystem with no managerial hierarchies to organize processes, where sharing, exchanging and uploading of content is vital. It strongly relates with what Toffler (1980) described as a prosumer economy, where users design, build, develop and use products without any obvious interaction with firm-based innovation systems. However, the BitTorrent networks identified as typical representatives of outlaw innovations (Flowers, 2007) are facing the fierce resistance of record companies as they are directed at their activities, namely illegal acquirement of music or piracy. As BTJunkie said, “the record companies have been too greedy for a long time, making high profits on both artists and music consumers and their role should be focused more on marketing their artists”. It can be argued that BitTorrent networks perceive themselves as a major player on the current music market. As mentioned earlier, companies are perceived to no longer be the dominant force to set up the conditions and rules of the music distribution market. The rules has been changed already by the BitTorrent networks, as they have found the fun and pleasures in the face of sharing content and giving opportunity for free communication between users. It relates with Brabham’s (2008) crowdsourcing theory that stressed that applications are turned into fun and pleasures and the crowd into brand communities. However, in this case the company that aggregates talent is missing as record companies failed to open themselves for external ideas and activities. Indeed, the hunger for content which apparently was not satisfied by record companies have driven the crowd to take actions in uploading, sharing and exchanging of content, as well as further developing the file sharing infrastructure. Hence, it can be argued that BitTorrent networks are already developed and working ecosystems that have aggregated talents and leveraged ingenuity at minimum cost.

An incentive for transition from the outlaw position to crowdsourcing as seen in Figure 5-3 can be an open communication between record companies and BitTorrent networks. Indeed, record companies can strive for implementing a web-based business model that harnesses the creative solutions of the distributed networks through open communication, namely crowdsourcing (Howe, 2006). Thus, they would be able to harnesses the creative
solutions generated by the networks. However, it is hard for the record companies to open themselves up and to share knowledge due to the ‘piracy ideology’ of the BitTorrent networks. Indeed, what hinders free sharing of information between business and end-users is the excessive openness of the file sharing network and the outlaw status of the innovations they generate (Flowers, 2007). This hinder needs to be overcame by record companies rather than the networks, since the process of file sharing is done by the millions anonymous end users all over the world and it simply cannot be stopped (Flowers, 2007).

At the moment record companies have adopted monitoring and hostile approaches to the outlaw innovations of BitTorrent networks (Flowers, 2007). Indeed, they are observing the activities, admit the weaknesses of their business model (according to Bonnier Amigo Music, BitTorrent networks can be seen as a symptom of that something is wrong in the music industry) and took aggressive actions against networks, such as lawsuits, protectionism, and disconnection from Internet. Instead, record companies can focus on influencing and absorbing the outlaw users (Flowers, 2007). Thus, companies would attempt to turn them into a commercial form by influencing the future direction of the innovation processes, as they perceive them as highly attractive and to change their business model by response to users’ activity (Flowers, 2007). As BTJunkie stressed, if companies make a compromise and let BitTorrent networks distribute some of their music, networks would make some trade offs in the face of removing some other copyrighted material for instance. That can be accepted as an important incentive for transiting from the outlaw status to the crowdsourcing mode where users’ creative solutions can be further harnessed (Howe, 2006).

However, what record companies are doing at the moment, meaning working on projects with streaming services provided by Spotify for instance, are perceived as insufficient activities since streaming is less advanced than the BitTorrent technology, according to Torrentzap. He continued saying that “It is more attractive to have the songs on the computer, instead of streaming them only, as the connection to the computer might vary in quality.” Moreover, “previously people were required to go to a physical store in order to purchase music. Now the customer can listen to the song and then decide whether to purchase or not.” Indeed, the technology behind BitTorrent networks serves as a tool for acquiring of the content users desire, enabling them to distribute the media content to other users. As Bonnier Amigo Music said, “the BitTorrent technology is a great way of distributing music and will much likely be a very important distribution tool in the future.” EMI Music supported this by saying that “the technology of BitTorrent networks is a great way of distributing music. However it is important that it is done in a legal session.”

Thus, BitTorrent networks can be perceived as a distributor in the world of media distribution with its self-developed and well-supported distribution network of end-users. However, the copyright issue of the content is a hinder for the record companies to open themselves to the users’ network and needs to be overcome. Consequently, by opening up to the market and looking at the BitTorrent networks as partners instead of threats, record companies can benefit and bring great value for both companies and consumers.
5.3 Collaboration between record companies and BitTorrent networks

The community of creation lies between record companies and BitTorrent networks, suggesting that both parties should form a community where they share knowledge and ideas that benefit both sides (Sawhney & Prandelli, 2000). It was identified in the above sections that although record companies are turning to external partners, such as online distributors, in order to improve their current status on the market, they are still restricting users from company’s activities. Thus, despite their willingness for open communication with customers, record companies are practicing closed innovation processes, characterized with traditional marketing activities and in-house R&D.

On the other hand, BitTorrent networks’ in general are willing to go from the current outlaw to crowdsourcing mode. However, open communications with record companies, as well as certain trade-offs that have to be made from both sides are needed. Playground Music said that “the first step has to be that both sides actually start talking to each other, instead of being openly hostile which will in the long run only lead to high costs.” Bonnier Amigo Music supported this by saying that “the record companies need to adopt changes as well, as they have been holding too tightly on their own rights.” However, Sony Music stressed that the company is interested in developing own business model different from the BitTorrent networks, as well as that “more resources needs to be devoted into pushing illegal file sharers to other alternatives”. Developing an own business model according to Playground Music has to be directed to gaining a share of the file sharing. However, Playground Music argues that this is not something for the record companies to invent.

As for the BitTorrent networks, BTJunkie and Torrentzap mentioned that they are willing to work together with record companies, however a new model has to be developed that works equally good for both sides. E. Dubbelboer said that Mininova is trying to collaborate as much as possible with record companies through the service “Content Distribution System”. This service and the collaboration with Beep! Beep! are separately presented in the next section.

Thus, collaborating in a community of creation is suggested as a new model, where both record companies and BitTorrent networks have to make certain trade-offs as mentioned above. However, the collaboration variables as seen in Figure 5-4 are assessing the collaboration process and serve as catalysts for a successful partnership. The major motive for collaboration was identified as the distribution of music through BitTorrent networks. Thus, overcoming weaknesses of the current record companies’ business model, as well as taking advantages of already developed distribution system. The BitTorrent networks have their self-developed and well-supported distribution network of end-users. Record companies on the other hand are lacking of new business model that overcomes the challenges of digital distribution. Indeed, by opening up to the market and looking at the
networks as partners instead of threats, both companies and consumers can benefit. The common interest in the newly created community of creation would be the distribution of music through open communication and gaining mutual benefits for both companies and customers. Fulfillment of the motives is however still to be decided upon the copyrighted issues that are a certain hinder at the current moment.

The technology used by the BitTorrent networks is a resource and is linked with learning. All record companies’ interviewees stressed the fact that the BitTorrent technology is great for distributing music and might be the future of distribution practices (M. Dennis, Sony Music). However, learning how to further develop the technology and efficiently use it in the new community of creation is what needs to be clarified. Meaning that both parties should commit knowledge and resources to the other side in the partnership in order to keep the current users and to attract and engage new ones. On one hand, if companies decide to adopt the technology for their needs only, they will have to catch up with the positions already gained by the networks. On the other, BitTorrent networks need to share the technology and knowledge with companies in order to get closer contact with artists and to overcome the copyright issues.

Relationship and trust development are important parts of the network and success in building long-term relationship is often considered as a sign of good performance in collaborations. However, developing a relationship can be a long process. Both sides need to be aware of this and should be prepared for any outcome. Trust plays a major role in the successful continuation of such collaboration. However, the problem with trust still exists, since BitTorrent networks are perceived as ‘pirates’ and ‘intellectual property’ thieves’. Therefore, open conversations and inclusion between companies and BitTorrent networks are necessary for a mutually beneficial collaboration because only if it is based on a shared understanding of the present and future situation and complemented by shared language between parties (Sawhney & Prandelli, 2000), it can progress and succeed in time and with innovative quality output.

Complementarity is related to resources and creates scope for the partners’ learning from each other. By entering each other’s networks and thus acquiring the necessary complementary resources, record companies and BitTorrent networks would strengthen their own networks. Networks can help both parties expose themselves to new opportunities, to obtain knowledge, to learn from experiences, and to benefit from the synergistic effects of pooled resources (Hyder & Abraha, 2004). However, the body that plays the role of developing organization is necessary (Sawhney & Prandelli, 2000) in order to offer prerequisites for development to the community of creation and leverages the innovation process within that community. Record companies should be the guiding party in this new community, using their human resources such as experience, relationships, as well as professional management. They have to play the role of the sponsor in this case and to provide a reward system for innovation, hence lessening the learning sharing within the community (Sawhney & Prandelli, 2000). That reward system can be expressed in strengthening the contacts with artists and groups, such as winning special items, tickets for concerts, watch sound check, eat dinner backstage with the group, take pictures, get autographs, watch the show from the side of the stage, etc.
5.4 Successful collaboration between Beep! Beep! and Mininova

In the process of writing this thesis the first successful collaboration between record company and BitTorrent network emerged, as it was mentioned in section 3.8.5 of the Methodology (Beep! Beep!, 2009). The record company Beep! Beep! joined forces with the BitTorrent network Mininova. Both sides came to an agreement concerning the distribution of the record company’s digital repertoire as well as all its physical albums. Thus, Beep! Beep!’s entire catalogue, consisting of eighteen releases, is made available as a free download at Mininova. The successful collaboration is analyzed through the community of creation model, supplemented by the collaboration variables as seen on Figure 5-5.

Unlike the major record labels mentioned so far, Beep! Beep! has changed its traditional marketing activities and opened to the customers by transferring the distribution activities to Mininova. The company understood the fact that people nowadays prefer to listen to the music before deciding to purchase a MP3, a CD, or seeing a concerts, according to Beep! Beep!. Besides the distribution system of Mininova, the company is using its own webpage for promotion and distributing music, as well as community websites such as Facebook and Jamendo for marketing. Thus, Beep! Beep! combines external and internal ideas, as well internal and external paths to market, obtaining future technological developments (Chesbrough, 2003). Both internal and external business actors are creating an innovation ecosystem where they mutually cooperate and collaborate. It strongly supports the open innovations’ arguments for working with external actors such as distributors in order to create knowledge, as well as customer value (Chesbrough, 2003).

On the other hand, Mininova can be seen as an example for a successful change of the outlaw status of BitTorrent networks by turning into an independent distributor. In this particular case, the BitTorrent network has seen the opportunity of commercializing its activities and engaging a record company using its distribution system. The “Content Distribution System” allows record companies to distribute their artists for free to 47 million users that visit Mininova monthly (E. Dubbelboer from Mininova). In the same time, it allows content publishers to offer the users the option to buy related products. Thus, the new business model offers the possibility of record companies to monetize their releases, as well as the customers to download the music they want. The mutual benefit for both sides is apparent.

The main motive for collaboration between Beep! Beep! and Mininova is the distribution of music and making profit. The BitTorrent network is entering in this collaboration with its developed and well-supported distribution network of end-users. The record company on
the other hand is giving all the content to be distributed through the network. The goal is downloads and music sales to stimulate each other. Thus, pooling mutually beneficial resources, such as distribution system and legal content, is also a motive for achieving common as well as individual goals (Varadarajan & Cunningham, 1995). As for the resources involved in the collaboration, complementarity not similarity is achieved for mutual benefits. The acquirement of the necessary complementary resources for both sides is done mainly by the record company since it is the party that uploads the music content on the “Content Distribution System”. Hence, by this one-sided act both sides learn from experiences and benefit from the synergistic effects of pooled resources (Hyder & Abraha, 2004). The operations however are based on relationship and trust, allowing the network to perform in the desired manner. As it was mentioned, developing a relationship can be a long process. However, the time will show whether this collaboration is successful or not, since it was announce one month before this thesis was written and the performance still cannot be measured.

It is an important fact that both sides share same ideas and have open communication based on a shared understanding of the situation. Moreover, they are complemented by shared language between parties which according to Sawhney & Prandelli (2000), can be successful and beneficial in time. In contrast with the community of creation model however, there is no guiding party and sponsor. Both the record company Beep! Beep! and the BitTorrent network Mininova are complementing each others activities and additionally stimulating the process of development with financial or other incentive is not necessary. Still, the interest of Mininova’s users on Beep! Beep!’s music can be strengthened with additional stimulus such as winning special prizes if they buy music or adding more value in the CDs such unique artwork for instance.
6 Conclusion

In this chapter the conclusions based on the analysis and interpretations of the empirical findings will be presented.

The purpose of this thesis was to explore and analyze if, and how record companies can collaborate with the BitTorrent networks. In order to answer the purpose, the authors have developed a theoretical model that integrates theories in the closed and open innovations, crowdsourcing, community of creation and outlaw innovations, along with Hyder & Abraha’s (2004) model of the development of strategic alliances. It is argued that record companies can find a way in communicating and cooperating with BitTorrent networks. Instead of adopting hostile approaches and trying to restrict the technologies adopted by end users, companies should open themselves up, and accept the current changes initiated and developed by BitTorrent networks. Thus, it is concluded that companies have to concentrate around collaborating with BitTorrent networks rather than fiercely protecting old business models. Furthermore, the supporting research questions are hereby discussed and conclusions are derived based on the analysis.

How can external innovation strategies bring together BitTorrent networks and record companies?

It was identified that record companies are practicing closed innovations characterized by developing processes and marketing activities within the firm (Chesbrough, 2003), that are perceived obsolete in the digital world of media content. Moreover, record companies did not take into consideration the innovation processes occurring with technologies related with music, the opportunities and threats that digitalization might bring. Thus, record companies failed to develop a business model adapted to the digital revolution and customers were not given the possibility to follow a certain direction in this transition. Although they have partly opened up their processes through cooperation with distributors such as iTunes and Spotify, the transition from closed to open innovations is not fully supported by record companies since customers are not integrated in the process.

BitTorrents networks as typical representatives of outlaw innovations (Flowers, 2007) are facing the fierce resistance of record companies as they are directed at their activities, namely illegal acquirement of music or piracy. Indeed, the ‘piracy ideology’ of the BitTorrent networks hinders record companies to open their processes and activities up to users. As a result, free sharing of information between business and end-users is hampered due to the excessive openness of the BitTorrent network and the outlaw status of the innovations they generate (Flowers, 2007).

Therefore, it is argued that companies need to make transition from closed to open innovation, thus opening up their processes and activities for customers in order to cooperate, communicate and interact with them in a long run. On the other hand, an incentive for transition from the outlaw position to crowdsourcing for BitTorrent networks can be an open communication with record companies, as well as certain trade offs regarding copyrighted content that have to be clarified between both sides.
How can BitTorrent networks and record companies collaborate?

It is suggested that BitTorrent networks and record companies can collaborate in a community of creation (Sawhney & Prandelli, 2000), where they share knowledge and ideas that benefit both sides. By opening up to the users, record companies will adopt open innovations approach that is characterized by combining external and internal ideas, as well internal and external paths to market, thus obtaining future technological developments (Chesbrough, 2003). As for the BitTorrent networks, by going from outlaw to crowdsourcing mode, the networks’ creative solutions can be further harnessed by record companies.

The major motive for collaboration was identified as the distribution of music through BitTorrent networks, thus overcoming weaknesses of the current record companies’ business model, as well as taking advantages of already developed distribution system. The technology used by the BitTorrent networks is the main resource and is linked with learning. Indeed, learning how to further develop the technology and efficiently use it in the new community of creation is what needs to be clarified. Meaning that both parties should commit knowledge and resources to the other side in the partnership in order to keep the current users and to attract and engage new ones. Moreover, open conversations and inclusion between companies and BitTorrent networks are necessary for a mutually beneficial collaboration. Record companies should be the guiding party in this new community, using their human resources such as experience, relationships, as well as professional management. They have to play the role of the sponsor in this case and to provide a reward system for innovation, hence lessening the learning sharing within the community (Sawhney & Prandelli, 2000).

How can BitTorrent networks and record companies benefit from the collaboration?

BitTorrent networks can be perceived as a distributor in the world of media distribution with its self-developed and well-supported distribution network of end-users. Record companies on the other hand are the party that can supply that distribution system with the music. Thus, the collaboration can help both parties expose themselves to new opportunities, to obtain knowledge, to learn from experiences, and to benefit from the synergistic effects of pooled resources (Hyder & Abraha, 2004).

In the process of writing this thesis the first successful collaboration between the record company Beep! Beep and the BitTorrent network Mininova emerged. The processes and activities in this collaboration are based on relationship and trust, allowing the network to perform in the desired manner. They are complemented by shared language between parties which according to Sawhney & Prandelli (2000) can be successful and beneficial in time. Finally, strengthening relationships between customers and music artists can be considered as beneficial for both record companies and BitTorrent networks. Thus, giving opportunities for customers to win special items, tickets for concerts, watch sound check, eat dinner backstage with the group, take pictures, get autographs, watch the show from the side of the stage, etc. can lead to valuable relationship in a long run.
7 Discussion

7.1 Managerial implications

This thesis should be of practical use for both record companies and BitTorrent networks. The outcome of the research strongly suggests that there are ways for record companies and BitTorrent networks to gain much from collaborating. The empirical material presented in section four, as well as the analysis support these beliefs. Examples of successful collaboration between a record company and BitTorrent network have been presented with the organization Beep! Beep! and Mininova.

Until very recently several record companies have had a very narrow minded approach on how to distribute music. However, as have been presented in the empirical material the changes of collaborating from the viewpoint of record companies have now changed with emerging technologies. Managers of record companies should realize that the users of BitTorrent networks are consumers of music, and if targeted with hostile actions such as lawsuits they will not be keener on paying for the music. Rather give the users of BitTorrent networks legal ways that can compete with the illegal file sharing in user friendliness, using the BitTorrent technology, which has been done by music bands such as Radiohead and Nine Inch nails.

In addition, the overall result of this study implies that managers need to focus on creating mutual values for both record companies and BitTorrent networks, or else a relationship cannot be developed. Both artists and record companies need to feel that they are not kept out of the revenues created through the BitTorrent networks. At the same time the users of BitTorrent networks, should have the feeling of belongingness to the community, since they are making the networks work. This will make the customers to feel as a part of the organization as they will feel that the values surrounded in the organization, instead of being perceived as a criminal.

Moreover, the managers should regard the benefits and activities that offer more than monetary values as communication tools. Building a brand takes a long time and is easily destroyed. As record companies spend large sums of money prosecuting file sharers and taking other legal actions against individuals, the resistance against these record companies will grow, and create loss in revenues. On the other hand BitTorrent networks that fail to collaborate with record companies will continuously face much resistance from record companies. Thus both organizations would benefit from working together.

7.2 Limitations of study

This thesis used qualitative interviews dealing with the respondents. As qualitative interviews are conducted the number of respondents is not very important. However the non-response rate from the BitTorrent networks was perceived as high. This can be a consequence of the trials filed against the networks from the record companies. The people that run the BitTorrent site might perceive it as negative to give interviews as the trials are to be settled. This was particularly the case with The Pirate Bay, which could not be reached after the results from the trial had been released. Several attempts were made in order to decrease the number of non-response from these BitTorrent networks, although they continued to be unavailable. It is however argued that enough information was gained from the interviews.
that were held with other BitTorrent networks.

The laws and regulations dealing with copyrighted material and file sharing has been decided to not go further in depth on in this thesis. The main reason for this is that they are as the thesis is written under revisal and tries to adapt to the new technology. Laws and regulations also differ much between different countries. Practical costs that the record companies have incurred by filing lawsuits against the BitTorrent networks have not been investigated. This is money that could have been used on establishing a working business model between the different organizations instead.

The technology used in the BitTorrent networks has not been elaborated much upon. This technology is under constant change and adopted to meet the changing laws, as well as to protect their users as much as possible with examples from the Ipredator etc.

7.3 Suggestions for further research

The study of BitTorrent networks in collaboration with record companies is a very new phenomenon. Earlier studies have dealt with research regarding outlaw innovations as mentioned in the Problem Discussion section. As BitTorrent networks is a technology in constant change this is something that needs to be looked more upon. As the legal actions are taken place as this thesis is written future studies should concern how this affects BitTorrent networks and their users.

As this research has been dealing with record companies that are located in Sweden, although being international, it would be interesting if the attitude from the larger record companies would differ, depending on which country they are situated in. The respondents from the music industry have been record companies, which might have a different attitude towards BitTorrent networks than the individual artists. Further research should also deal with interviews of individual artists and see if they are keener on collaborating with BitTorrent networks. This research has focused on respondents from the major record companies. By investigating the viewpoint of smaller record companies the answer might be different.

As much of the criticism towards BitTorrent networks from record companies have been that they do not share the profit made from advertising, further research should investigate how profits can be shared between BitTorrent networks and record companies in order to create a suitable business model.

This research was conducted during a very critical period for BitTorrent networks in Sweden, as the trial against The Pirate Bay was held. Further research is required at a later stage when laws and regulations against file sharing that previously has been pretty vague are established, and how this will affect BitTorrent networks and record companies.
List of References:


Appendix 1 – Interview question for record companies

1. Please present yourself and your role in the company.

2. How does the company bring value to its customers?

3. How much do you rely on user involvements in order to improve your process development?

4. What distribution system do you use at the moment?

5. Do you work with other record companies and what kind of cooperation do you have?

6. How do you perceive the BitTorrent networks?

7. Why do you think people prefer to download music and content from BitTorrent networks instead of buying it?

8. How do you think BitTorrent networks affect the music industry?

9. Do you have any collaboration with BitTorrent networks or do you plan to work with such networks?

10. What benefits do you think BitTorrent networks can give to record companies?

11. What do you think about the protective measures the record companies are taking against file sharing, such as DRM technologies, disconnection from internet, etc?

12. What do you think about the protective measures the BitTorrent networks are taking against file sharing, such as BRGuard (of BTJunkie) or IPREDator (of The Pirate Bay)?

13. What do you think is necessary for record companies to change in order to work with BitTorrent networks or what BitTorrent networks have to change in order to stop fighting against each other?

14. What do you think will be the role of record companies on one hand and BitTorrent networks on the other in the future?
Appendix 2 – Interview question for BitTorrent networks

1. Please present yourself and your role in the organization. (You don’t have to give your real name if you don’t want to)

2. What are your incentives for running the BitTorrent network?

3. How do you think the BitTorrent network bring value to its users?

4. How much do you rely on user involvements in order to improve your processes?

5. Why do you think people prefer to download music from BitTorrent networks instead of buying it?

6. Can for instance the online streaming of media content, such as music or movies, to substitute downloading of files?

7. Do you collaborate with other BitTorrent networks and if yes, what forms of collaboration? If no, do you have any plans to collaborate with others in the future?

8. How do you perceive the major record companies?

9. How do you see the record companies–users’ relations and what is your role in these relations?

10. How do you think the BitTorrent network affects the music industry?

11. Besides the copyright issues, do you think it is OK to download music from the BitTorrent network and not to buy it from digital stores?

12. What do you think about Nine Inch Nails or Radiohead business model to give their music for free to people? And do you think that a small band can release and distribute its music alone, as it does not have a big fan base as NIN for instance?

13. Besides the copyright issues, why do you think record companies are fighting so fiercely against BitTorrent networks?

14. Do you have any collaboration with record labels or do you plan to collaborate with such, just like Mininova is collaborating with Beep! Beep! at the moment?

15. What benefits do you think the BitTorrent network can give to record companies?

16. What do you think about the protective measures the record companies are taking against file sharing, such as DRM technologies, disconnection from internet etc. on one hand and BitTorrent networks’ measures, such as BTGuard (BTJunkie), IPREDator (The Pirate Bay) on the other?
17. What do you think is necessary for the BitTorrent network to change in order preventing further lawsuits?

18. What do you think will be the role of record companies on one hand and BitTorrent networks on the other in the future?