The Artist // Manager Relationship

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Introduction

The relationship between an artist and manager is typically a complex and multidimensional one. The different layers of this relationship may well include the personal, the financial, the psychological, artistic and commercial aspects of their collaboration, with all of those different interacting layers operating within an overarching contractual framework.

Geoffrey Hull indicates some of the key attributes and areas of management activity, particularly in the case of artists in the early stages of their careers.

Personal managers are in charge of developing all aspects of a performer’s career. To that end they must possess good “people skills” to be able to work closely with the artist and others in all of the income streams. They must also possess significant knowledge of the industry and have contacts within the industry to be able to create the kinds of opportunities that the artist needs to develop a significant career. In the early stages the personal manager will work with the artist to develop a good live act and performance, giving the performer feedback and constructive criticism. (Hull 2010: 147)
In the first part of this chapter we will examine this relationship and the legal context that has developed in support of its operation within business models forged in the popular music industry of the post-war 20th century.

In the second part of the chapter we will look at the evolving nature of the relationship between artist and manager in the 21st century. Specifically, we will consider the way that technological innovations in music dissemination and forms of consumption within the music industry have led to the adoption of new roles and areas of activity in music industry management.
Part One: The Management Agreement

The complexity of the relationship between artist and manager underlines the need for it to be framed within a clear and comprehensive management agreement. A recognition of the delicate power balance between artist and manager forms the backdrop to the overall negotiation of a management agreement: while it is protecting the manager’s interest, it is also clarifying certain very important points from the artist’s perspective. While the popular image of the music manager has sometimes been of a rapacious exploiter of the naïve artist, that is very much a residual caricature with its roots in the early years of the rock and pop industry. At that time, music industry figures such as Allen Klein (Goodman 2015) and ‘Colonel’ Tom Parker (Nash 2003), with their reputations for intimidation and psychological manipulation, enjoyed shares of artist income that would be unthinkable today. Such figures may still loom large in the public imagination, but those stereotypes do not reflect the reality of music management in the twenty-first century.

In fact, the power equilibrium between artist and manager is more of a balancing act and the negotiation of a management agreement is vital in order to protect the interest of the manager. Unlike the artist, managers own no intellectual property: instead, they are dependent on ‘selling’ their professional services to their clients in return for commission. Typically, when a manager takes on a new artist, there is a bedding-in period before any contract is signed, of perhaps three to six months, after which it is commonplace for a lawyer to draft a contract on behalf of the manager.
When a draft contract is presented to an artist, it has almost invariably been drafted by the manager’s lawyer, rather than originating from the artist or their representative. However, experienced managers recognise that it is important for the artist to be legally represented at this point. Without the safeguard of independent legal advice, the legal principle of undue influence might allow the artist to challenge the validity of the management agreement, as it could be argued that the manager used their position of greater knowledge and power to make the artist sign an agreement that was not in the artist’s best interests.

For that reason, legal representation of the artist is essential, particularly in cases where the artist may be relatively inexperienced. It would be very unwise for a manager to allow their artist to negotiate their management contract on their own, because of possible non-enforceability of a contract down the line. If no third-party lawyer were involved, it might allow the artist to exercise a right to apply to the courts to walk away from the contract at some future point. A court may well decide that in such a situation, the manager is in the position of exercising undue influence, as in the case of O’Sullivan v Management Agency and Music Limited (1985).

Of course, specialist music industry legal representation cannot be bought cheaply and artists at the start of their careers may well be relatively impoverished. The UK Musicians Union offers very basic legal advice to members, but experienced managers will usually offer to make a contribution of a capped amount towards the costs incurred by the artist for legal representation in management contract negotiations. The payment would generally be recoupable from the artist’s future income from the entertainment industry.
This may seem altruistic on the part of the manager, but it is actually in their own best interests, as it guarantees that the artist gets the contract properly negotiated, thereby creating a robust agreement that is less vulnerable to future legal challenge.

The most lengthy strands of back-and-forth between the parties involved in the negotiation of a management agreement are typically the management term duration and the ‘deductibles’.

The management ‘term’ is the period during which the manager is the artist’s exclusive manager. The term duration of a management agreement is typically two to five years, depending on how developed an artist’s career is at the date of signing, and therefore how much speculative chance the manager is taking. The negotiation of the term is reflective of a risk and reward scenario; the more unknown an artist is the more there is a moral and commercial justification for the manager having a longer period of time over which to make a success of that artist’s career. The reality is that, as good a talent spotter as a manager might be, in truth there are so many variables (and indeed so much luck) involved in whether an artist goes on to be successful. Therefore, where an artist’s career is less developed, a longer management term is reasonable. Consequently, it is commercially normal for at least a three year management term to be negotiated with an unknown artist: some may consider that to be the bare minimum and may push for a five year term. In the case of a particularly experienced and well-connected manager who stands a greater chance of making the right strategic decisions for advancing the artist’s career, it could be argued that there is even greater commercial justification for the contract term to be longer. Of course, the management term must be seen in the context of the rights of the artist.
manager will struggle to hold an artist to their contract against their will, in restraint of trade, but a fair and well drafted management agreement acts as powerful leverage for the manager in settlement negotiations.

One eventuality that could potentially trigger termination on the part of the artist, arises from the fact that management agreements are frequently not between and artist and a named person, but between an artist and a management corporate entity, i.e. a management company. From a contractual perspective a company is considered a person in the same way that human being is considered a person. However, from the perspective of the artist, it is unlikely that the company enticed the artist through the door and persuaded them to sign up. That relationship will have been forged and maintained by an individual within the company. Consequentially, management agreements often contain ‘key person’ clauses that tie the relationship to a named management individual who is the artist’s de facto manager. Key person clauses mean that if the particular person who is the effective day to day manager of the artist leaves the management company, then the artist would be entitled to terminate the term of agreement.

The key person should ideally be a director of the management company and not an employee, otherwise a departing employee could trigger termination on the part of the artist. It therefore becomes more complicated if the person who enticed the artist on board is an employee of the company rather than a director. A departing employee could trigger termination on the part of the artist. Clearly an employee can leave whenever they wish.

1 Key person clauses mean that if the particular person who is the effective day to day manager of the artist leaves the management company, then the artist would be entitled to terminate the term of agreement.
Therefore a management agreement should insist that somebody whose connection to the company is more permanent, such as a director or a founder of the company, is identified as a key person (or at least one of the key persons) within the contract.

If there is a significant personnel change within the management company, there are other legal factors to consider. If the leaving staff member is an employee and has been the person with whom the artist has had a relationship, then the likelihood is that under the staff member’s employment contract there will be some form of restrictive covenant preventing them from taking artists away.

In such a case, the management company could enforce their restrictive covenant against their former employee to prevent them from poaching their artist, but there are a lot of legal constraints around restrictive covenants. Such restrictions must be reasonable, proportionate and not amount to restraint of trade as seen in *Esso Petroleum Co Ltd v Harper’s Garage (Stourport) Ltd* [1968] AC 269. As a general legal principle, restrictive covenants are unlikely to be enforceable if they last longer than six months and the broader an impact they have on the restricted party, the less likely they are to be upheld by the courts. Nonetheless, a management company faced with potentially losing their artists might understandably be keen to enforce relevant restrictive covenants, even in the case of an artist who was not of huge commercial value to the company, as such a defection might lead to a loss of face and create a problematic precedent.

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The other major element to be settled in the management agreement are the ‘deductibles’, namely the costs that can be offset by the artist against the manager’s commissionable income. The rate of commission which a UK music manager would expect to receive is typically 20% of the artist’s gross income, minus fixed deductions of pre-agreed expenses for all income streams except live performances. Live commission is charged on touring profit, for reasons we will explore later. (It is important to note that in the US, different approaches to the management term, fess and deductions apply). There is inevitably extensive negotiation to be undertaken in order to reach a position in the management agreement regarding which artist costs can be offset before the management charges commission upon that gross income.

In relation to income streams such as song writing, recording of tracks, endorsements and other commercial opportunities, without some degree of control within the management agreement, there would be no limit to the costs which could be offset by the artist against artist income before calculating the management commission. For example, if an artist decides that they want to boost their brand image or break into new markets by engaging hugely expensive PR companies or social media companies it would be an expense that is not necessarily reasonable for the manager to stand behind before receiving their fee. The frequently accepted position in management agreement negotiations is that such expenses would not reasonably be included as ‘deductibles’. The possible exception might be artists self-releasing their own records, as opposed to those signed by a record label. Sometimes, artist lawyers negotiating management agreements get lost in in a jungle of fighting the corner of their artist clients without looking at the commercial realities of being a manager. In order for a manager to earn £20,000 a year,
which is a relatively modest income, their artist needs to be making a profit of £100,000. The number of artists in the UK (or indeed in the world) who are making that amount of money is fairly limited.

In some cases, management contracts may specifically ring fence certain areas of the artist’s career as sitting outside the management agreement. This is only likely to happen in the case of an artist who has a particular pre-existing strength in a certain area; for example, they may have sideline businesses that they run themselves for which they feel that they do not require management involvement, nor pay the commission associated with it. As we will see in the second part of this chapter, the new digital music industry landscape has increasingly led to the establishment of artist-run labels. Consequently, this kind of ringfencing arrangement may become more common as musicians become more entrepreneurial in their approach to their careers. Paul Pacifico, CEO of the Association of Independent Music argues that, ‘artists today are pretty much by definition music entrepreneurs and owner-operated companies, building their businesses and their brands.’ (Coleman 2018). One of the most visible aspects of this new entrepreneurialism is the phenomenon of artists running their own record labels. In the second part of the chapter we will discuss the implications of this for the relationship between artist and manager, and its impact on the structure of management agreements.

In UK management contracts, revenues from live performance are the exception to the general rule that management commission is levied on the artist’s gross income. Live commission is charged on touring profit. This is because, as we have seen, for other income streams there are many justifiable questions about which expenses can be deducted.
from gross earnings. In the case of live performance and touring, the categories of costs that can be incurred are finite and fairly straightforward: travel, accommodation, backline, booking agent’s fees and possibly a tour manager, or merchandising costs. However, a management agreement may include wording intended to introduce a degree of proportionality to these. For example, the agreement may stipulate that travel costs to live performances have to be ‘reasonable’; if the artist chooses to fly first class around the world when their gross touring fees do not justify the expense, then it would not be proportionate to off-set the cost of first class flights. Contractual wording of that nature may be useful in controlling profligacy, but in general there is little dispute about what categories of touring costs can be deducted. Apart from reasonableness of travel costs, another key area for discussion might be commissioning of monies withheld by overseas taxation authorities as withholding taxes for foreign performances, but that perhaps falls more within the realm of accountancy than law. Overall, negotiating a management agreement frequently requires extensive discussion between the representatives of the two parties, but the resultant management agreement should, once signed, bring an end to any conversation about what is deductible in the calculation of commissionable income.

The manager has a fiduciary duty to act in the artist’s best interests. This is a default position under common law, but it is also frequently set out in the management agreement. It is not necessarily the position under common law that the manager has to act in the artist’s best interests in a general sense, but it is certainly the case that the management must act in the artist’s best interest from a financial perspective.  

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2 ‘Backline’ refers to on-stage amplification or other musical equipment used in live performance.
example, the payment of excessive fees to an associated or subsidiary company might
breach that duty as in the case of *Elton John v Dick James Music & This Record Company*
[1991]. As we consider the current evolutionary trends in the artist-manager relationship
in the second part of the chapter, this theme becomes more complex, but without explicit
agreement regarding a more collaborative business partnership, it might be a breach of the
manager’s fiduciary duties towards the artist to in any way profit from a transaction in
which the manager purported to be independent.

As Millet L.J. commented in a judgment regarding fiduciary duty:

> Where the fiduciary [manager] deals with his principal [artist], in such a case he must
prove affirmatively that the transaction is fair and that in the course of the
negotiations he made full disclosure of all facts material to the transaction.

It is therefore essential that the pitfalls and possible conflict of interest in a manager’s
involvement in his artist’s career beyond a commission entitlement are fully
negotiated and outlined in the management agreement.

This area of fiduciary duty is one that we will return to, as we consider the evolving and
expanding role of management in the new digital music industry landscape.
Another key third-party role in an artist’s career is that of the booking agent. There are a limited number of managers who also serve as booking agent as well as manager. Such cases are relatively rare (although it is the case for one of the authors of this chapter, in his role as an artist). Where the dual manager/agent role occurs, there are interesting conversations to be had about what would represent a reasonable level of commission. Typically, a booking agent charges a commission of 10% - 15% of gross income, whilst a management commission is frequently 20% of net touring income. This raises the problem of how to combine those two commission entitlements and reach a fair and comfortable middle ground.

Part Two: Novel Forms of Artist/ Manager Relationship

So far, we have described long-standing elements of the relationship between artist and manager, negotiated and then detailed within the management agreement. However, disruptive technology which has shaped popular music in the digital age has provoked a change and expansion of the roles of music managers, as increasing numbers of artists ‘self-release’, rather than being signed to a record label. The Music Managers Forum (2019) report, Managing Expectations, based on a survey of more than 180 managers, found that many had taken on roles that in the past had solely been performed by record labels; 65%
managed PR and promotion and 76% oversaw social media for their artists. In addition, 74% had invested their own money into clients’ careers. Increasingly, it appears that managers are becoming both financial patrons and record label administrators for their artists.

Historically, and up until a decade ago, the only conduit for an artist to get their music to market was a record label, whether it was one of the major labels or a small ‘indie’. A label provides a comprehensive set of services for the artist, doing everything from coordinating the recording of the tracks to delivery of the master recordings, and in many cases providing a recording budget as well. The label will also have an A&R function so that the artist has a point of contact within the label who will help in the development of their recording career, plus a marketing department to promote and advertise the records. In return, the traditional record company business model is for the label to retain between 70% and 80% of the proceeds and for the artist to receive between 20% or 30%, although certain smaller labels, who are less able to offer advances or large marketing budgets, operate on a ‘net receipts’ profit share basis.

However, with the evolution of the new digital music market, an alternative means of getting recorded music to market emerged. ‘Label Services’ providers developed out of the distribution companies historically used by labels to get physical product (CDs and vinyl) to wholesalers and into shops. As digital music consumption expanded, those companies increasingly began to provide services for artists who were releasing records independently of a record label. Some of the first artists to successfully take advantage of this alternative model were heritage acts, household name artists such as Kylie Minogue or the Pet Shop Boys.
Boys, whose records would receive significant ‘fan love’, but who were not necessarily highly valued by record labels that were more focused on younger or newer artists. Because such artists have a well-established and often very loyal fanbase, self-releasing via label services was a viable option. Indeed, for an artist with an established fanbase there is a powerful commercial advantage to releasing via label services. While the traditional record label deal typically involves an 80/20 split in favour of the record company, a label services deal reverses that split, with the artist receiving 80% of the proceeds.

If heritage acts led the way in releasing their material via label service deals, then they were swiftly followed by others, some of whom who saw it as not only as a commercially savvy option, but as a political statement of creative independence. For UK black music artists in the grime genre, who had often worked within collectives and developed fanbases from pirate radio and YouTube, the option of independence was a good fit: Skepta being a notable example who in 2005, founded Boy Better Know as a record label with his brother, in order to release his own material and tracks by collaborators. Enormous success followed. Since then, the model became increasingly common in the UK black music market and other key genres such as dance music and indie rock have followed suit.

This change has enormous implications for the relationship between artist and manager, and for the management agreements that formalise those relationships. While the label services entity takes a much smaller cut of the artist’s income, the corollary is that they offer a less comprehensive set of services than a traditional record company. At their most basic level, they simply upload the artist’s music to all the digital portals (Spotify, Apple Music, Deezer etc.). At the other end of the scale are label services entities like the
**Orchard, ADA and AWAL Plus**, that have developed into a hybrid of digital distributor and record label, with in-house marketing teams and recoupable marketing budgets for those artists whom they choose to actively support. Nevertheless, even in those comparatively rare cases, the artist receives much less support, staffing and infrastructure in releasing their records than they would receive under a traditional record company deal.

That effectively places the burden of running a record label entirely upon the artist, and though artists may be good at making records, it does not necessarily follow that they are good at running a record label or good at ‘the music business’ in general.

Since an artist needs time for his core competencies, music making and performing, it makes sense to get support from professional management, if this is affordable. Instead of the former long-time relationship with a record label, artists can now enter shorter-term collaborations with record companies as well as with other partners in the value-added network. Since the artist is centre stage in the new digitized music economy, she or he can benefit from very different income streams, as pointed out above. In this respect, music making is a 360 degree task in the early twenty-first century that covers economic and legal aspects in addition to the core artistic competencies. (Tshmuck 2016: 26)

As Tshmuck points out, in this complex digital music economy, the need for professional management is important, particularly for artists whose talents lie elsewhere. And when an artist is in need of someone within their orbit who would be good at running the record label, the manager is the obvious first port of call.
It is important to point out the enormity of the task of running a record label, should the manager agree to take on that role. Namely, the challenge of successfully releasing and marketing a record in a digital music market overflowing with product. In April 2019, Spotify founder Daniel Ek told investors that there were more than 50 million tracks available on Spotify and that the number was growing by nearly 40,000 per day. He added 'In Quarter 1, we saw a 20% increase in the number of artists streamed on our platform year-over-year and a 29% increase in the number of artists with at least 100,000 listeners'. (Ingham 2019) The role of record label boss is demanding, time consuming, requires very good contacts and a high level of commercial expertise.

This extension of the manager’s role into that of effectively being a record label boss raises questions about whether the manager should be rewarded differently to the commission based remuneration that we have described up to this point. Arguably, there are two ways in which managers can reasonably be rewarded for taking on this kind of work, containing activities that are over and above their normal duties. One is an increase in commission and the other is receipt of longer-term equity in the intellectual property of the label.

Where an increase in commission is to be the means by which the manager is recompensed for the extra work involved in running a label, it would be unreasonable to suggest that a manager should get an across the board increase in commission on artist activities. Rather, the increase in commission should be directly related to the income from the record label, given that this is where the extra work is being undertaken.
As label management is a fairly new addition to the portfolio of possible tasks a manager might be asked to perform, not every manager will identify it as a likely scenario at the point when the management agreement is being negotiated. But a manager should certainly address the issue before they get actively involved in the running of a record label. Unless a clear basis is negotiated and agreed before any ‘label running’ work is undertaken by the manager, it will likely be difficult for the manager to change the commission basis retrospectively.

Another impact of the move to a label services arrangement is the way it might affect permitted ‘deductibles’ in management commission calculation. If a manager is commissioning on label services released records, then it is reasonable for the artist to deduct those expenses that are directly associated with the release of those records. There are only a limited number of categories of record label expenses, and one of the most significant outlays relates to marketing costs. However, it is necessary to draw a clear distinction between defined label-related costs and those of any more ‘general’ artist marketing, PR or branding, which would potentially benefit the artist well beyond the term of the management agreement, so a clear distinction needs to be established between marketing costs of the label and marketing expenses related to the artist.

The second possible way of recompensing the manager for being a label boss is through a share in the intellectual property rights of the record label. Given their investment of additional time over and above the services a manager would traditionally have provided, there is a strong argument for a higher rate of commission, but perhaps less of a case for shared ownership of intellectual property. However, it is a different situation when a
manager makes a financial investment, be it in the record label or indeed in some other aspect of the artist’s career relating to recordings. As we have seen, many managers, if not bankrolling their artists, end up at least contributing to the costs of making recordings. Sometimes a manager will provide financial support in the form of a loan which may, subject to the terms of the management agreement, be repayable on demand. However, the reality of the situation may be the impossibility of extracting payment from an artist who has no resources to repay the loan. If, under a label services arrangement, a manager is actually contributing to the cost of running a business and sharing some of the consequent risk, then there is an argument for the manager to have some degree of ownership, i.e. longer term equity in the intellectual property of its recordings, or at least a longer term income right in recordings exploited by the label.

Such an arrangement could potentially be more beneficial to a manager than the traditional ‘sunset clause’, under which intellectual property created during the managerial term is still commissionable after the contract has terminated. A sunset clause relates to, amongst other things, artist compositions that have been written and recordings that have been made during the management term, released and or first commercially exploited during that term, or within a limited period afterwards. In many European agreements the sunset period is often five or six years at full 20% rate of commission followed by five or six years at half rate of commission. But, dependent on the relationship between the parties and what was negotiated, in a scenario where the manager took on the role of label boss in return for some ownership of copyright, there would be no percentage tail off, and the manager would enjoy an much longer-term right to income in relation to that copyright. Such a
longer-term approach is not unprecedented, as in United States there are instances of managers insisting upon a right to commission in perpetuity, even without taking on the extra work of running a record label on behalf of their artist. As the role of the personal management increasingly conflates with that of record label management, it strengthens case for the manager having a longer term equity in the intellectual property of recordings.

Conclusion

In the music industry of the twenty-first century the artist manager relationship is characterised both by continuity and by change. On one hand, the management agreement formalises the relationship within stable principles of responsibility, equity and transparency. On the other hand, negotiation of those agreements is increasingly taking place within the context of a business environment that has the potential for revision and expansion of the definitions and expectations around management duties. Some might argue that, in order to facilitate these extensions to traditional management roles, there is a case for making changes to the law on fiduciary duties. However, while existing law requires transparency, openness and 'informed consent', it does not expressly prevent a manager’s involvement in other artist income streams, so for that reason we would argue that a change to the law is not necessary. Clearly these are fast emerging areas of negotiation that relate directly to the changes in technology that have led to the development of label services as a significant means by which artists release their recorded material. As a growing reality of the industry, the implications of any extended roles need to be understood by managers and increasingly it will need
be part of the established conversation at an early stage in the artist / manager relationship.

References


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