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Entrepreneurial Actions and Industry Emergence:

A study of the origins of service design consulting

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Question?

- Where do new industries come from?

- Industries 'evolve' and have life cycles (Utterback and Abernathy 1975; Gort and Klepper, 1982; Reinganum, 1985; Klepper and Graddy, 1990; Klepper 1996; Winter et al., 2003; Carroll and Hannan, 2004; McGahan et al., 2004), but surprisingly little is known about the earliest stages of an industry's life (Mezias and Kuperman, 2001; Rao, 2002, 2004; Giarratana, 2004; Sine and Lee, 2009; Forbes and Kirsch, 2011)

- Giarrantana (2004): "few studies investigate the birth of new industries"; "Big-Bang questions [concerning the origin of industries] are usually unanswered in the literature".

- Rao (2004): "there is little empirical work that explicitly unravels how new industries become understood and taken for granted."

Study of …

- Service design consulting
- Roughly a decade old
- Still tiny (i.e., in 'pre-take off phase) – less than twenty firms, with a hundred or so employees.
- But big potential. If 'service design' were to become as big as architecture = 350,000 service designers in UK alone.
- UK service design industry pioneered by three firms: two start-ups and one established firm.

Theory

- Q. Who starts new industries? ... A. Entrepreneurs!
- Theory of entrepreneurs and entrepreneurship

- Note, service design consulting is a 'credence good' ... highlights the importance of social construction of value and hence of legitimacy (Suchman, 1995; Rao, 2002, 2004).

- A new industry implies contrasting pressures – creativity and breaking away, but also huddling together for legitimacy, and later diverging again for distinctiveness.
- Organizational theory of 'strategic balance': To be different or to be the same? (Deephouse, 1999)

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Mainstream Theory of Entrepreneurship

- "Entrepreneurship involves the nexus of two phenomena: the presence of lucrative opportunities and the presence of enterprising individuals" (Shane & Venkataraman, 2000, p. 218)

- "[It] is concerned with the discovery and exploitation of profitable opportunities" (Shane & Venkataraman, 2000, p. 217).

- What does this assume, about:
    - The nature of these 'lucrative opportunities'
    - The characteristics and motivations of 'enterprising individuals'

"Enterprising Individuals"

- Assumed to be motivated by pecuniary rewards.

- Are 'alert' (Kirzner, 1973) to opportunities (that others don't see).

- Are willing and have the capacity to act on this 'alertness'.

- Kirzner's (1973) discovered opportunities require no investment to exploit (i.e., simply arbitrage)

- Shane (2012): entrepreneurs develop peculiar 'business ideas' to address opportunities. Extent of investment required is not specified, but 'business ideas' require a 'recombination of resources' (which implies these exist)

- No assumption is made about the entrepreneur's emotional commitment to the opportunity (just a way to make money).

"Opportunities"

- ... are objective phenomena (Shane & Venkataraman, 2000, p. 220)
- ... although their recognition is a subjective process.
- So opportunities exist! – they can be 'discovered'.

- Once discovered, they should be 'evaluated'.
- If positively evaluated, they are 'exploited'.
- Exploitation implies running these down, i.e.,'milking' them.

What does Evaluation Mean?

- Eckhard & Shane (2003, p. 339) "To establish if the opportunity has value ... the individual must conjecture that a positive probability exists that the future price of the item will exceed its costs and that future demand will exist. [And also] conjecture that once others are presented with the actual product, they will respond positively to it. In both cases, the individual must attempt to foresee the characteristics of future markets to determine *ex ante* if the opportunity has potential value".

- OKish if: markets exist, opportunities are scarce, short-live and require little or no investment (of time and money) to exploit.

- But, what if opportunities are abundant, long lived and require lasting commitments? This is horribly difficult!

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Summary: in mainstream theory, entrepreneurs act in markets, they do not create them

Holcombe (2003, p. 29), "Entrepreneurship is a market activity that arises solely within the context of markets. A profitable opportunity is spotted by an entrepreneur, and acted upon."

This implies that markets must exist prior to the entrepreneurial activity: entrepreneurial activities cannot create markets!

Unorthodox theory: Entrepreneurs as a creative activity

"In the context of a new market these [evaluation] calculations are not only forbidding, but essentially meaningless. For by definition the future size of a new market cannot be know. The entrepreneur can only speculate as to both likely future demand and the likely future intensity of competition to supply the market. And these are not independent!" ... "It is not possible to measure the height of a mountain that has not yet been created" Alvarez & Barney (2007, p. 17).

Much more likely is that these entrepreneurs act on conjecture, conviction and commitment, not calculation.

Unorthodox theory: Entrepreneurs as a creative activity

- No requirement for 'alertness' to discover opportunities
- Opportunities may be widely known (and long 'discovered'), but discounted by others as unattractive
- This is a matter of commitment & conviction. Of "imagined 'histories to come' deemed possible"(Shackle, 1979).
- It is a matter of learning by trial & error, success & failure.
- It is a matter of creating resources and routes to market

   "[Ultimately, whereas] Kirzner's entrepreneurs respond to changing data, Schumpeter's [Lachmann and Shackle's] cause the data to change" (Loasby, 1989, p. 178).

Unorthodox theory: Sarasvathy: Effectuation Theory

- Effectual not causal reasoning: not seeking 'the best way'

- Instead, using resources to hand (bricolage)

- Sarasvathy – Entrep.'s begin with 3 means (or resources)

  - Who they are: i.e., their tastes, abilities, values.

  - What they know: i.e., their education and expertise

  - Who they know: i.e., their social and professional network

- Effectual reasoning involves:

  - Affordable loss (i.e., not so concerned to 'maximises returns)

  - Strategic partnerships (i.e., more oriented to partners than competitors)

  - Leveraging of contingencies (i.e., taking advantage of chance events)

Context:
Service Design (Consulting)

- Everything in the human world has been 'designed', although not necessarily by a professional designer.

- Buildings are very likely to have been designed by a professional designer – i.e., an architect

- Physical products also – by industrial designers and design engineers (n.b., industrial design emerged in the 1930s as a consulting industry)

- Services are unlikely to have been professionally designed.
  - Due to virtually no 'professional service designer'
  - Difficulties in switching from design of things to services
  - Lack of demand for professional service design

Context: Service Design

- Service design is ... "design for experiences that reach people through many different touch-points, and that happen over time",

- ... "the activity of planning and organizing people, infrastructure, communication and material components of a service in order to improve its quality and the interaction between service provider and customers."

- Service design's potential is huge: UK alone could possibly support ~400,000 service designers

Methods

- Qualitative study ...

- First, became aware of Service Design and the consultancies pioneering it.

- Interviewed the founders and practice leads of pioneering consultancies

- Further interviews with workforce, clients and others

- Archival and other sources used to fill out / confirm understanding

- This paper draws on interviews with the 8 founders and practice leads (3 at Live|Work; 2 at Engine; 3 at IDEO)

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LiveIWork

- Founded in 2001 by Chris Downs, Lavrans Lovlie & Ben Reason – three friends, all then in late 20's, early 30's.

- None had started a business before.

- Had worked in web-consultancies before doing Master's degrees

- Web experience changed thinking about design: away from 'things'

- Reason is not a designer, brought a different way of thinking. Became very interested in Natural Capitalism: 'use not own'

- Downs and Lovlie wanted to do more than design websites – felt that clients needed more than another distribution channel.

LiveIWork

"Ben started brining books in on natural capitalism, and started talking about triple bottom lines, sustainability, and for Lavrans and me, everything went, "that's it!". That's the thing that makes sense – interaction design, customer experience stuff, web changing the world, network technologies and sustainability, triple bottom line: we've got something now that feels like it makes sense." ... [And calling themselves] 'service designers' just seemed logical." (L-CD).

Live|Work's Idealism

"We've always said, 'we are a service design company'; it has been our mission to create service design" (L-BR)

"We were in it to create a new field. That was just as important as to make an individual company. We thought that a new defined field would be a bigger achievement than making a company. So there's been a lot of idealism involved in it because we thought the world needed it." (L-LL)

"What we wanted to do was turn Volkswagen into a service company" (L-CD).

IDEO

NEWS   RSS

+ Bedsider.org's Behavior, Service Design in
  Core77
+ Tim Brown in *McKinsey Quarterly*
+ UK Prime Minister Visits IDEO London
+ TechCrunch Features Scanadu
+ Rodriguez an HBS Entrepreneur-in-Residence

TOP PICKS

+ *Metropolis* on Designing for Governments
+ OpenIDEO: An Open Innovation Network
+ IDEO.org: out to design a better world
+ Tim Brown at TEDGlobal
+ Imagining the future of the book

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OUR EXPERTISE

Brand	Business Design	Digital Experiences	Education	Energy
Engineering	Financial Services	Food and Beverage	Health and Wellness	Organizational Design
Play	Public Sector	Social Innovation		

SELECTED WORK

Pilates Allegro 2 Reformer
Balanced Body

**Building the Ultimate Utility
Bike**
Oregon Manifest

In-Home Sanitation Solutions
WSUP and Unilever

Business Process Redesign
*The Ministry of Manpower's
Work Pass Division*

IDEO

- Founded in 1991 by merger of three existing design firms
- Perhaps the most famous of all design consultancies
- Strong background in 'product design' (marrying human centred industrial design to efficient engineering design)
- History of pushing the limits: pioneered human centred design & ethnographic approaches & interaction design.
- Early 2000s: opportunities for product design drying up, esp. for London office (products increasingly good & not made in UK)
- But major service organizations are right on their doorstep (and most service "were then and still are terrible").
- A few clients pushed them to do more radical work in services

Live|Work post founding

- Were surprised to find that "service design" did not exist

- [We] felt like we had no tribe: "what am I?, I don't belong to any group". ... We were alone; we needed a framework"

- "We started thinking, 'if it's a new design field, what does it need in order to exist?' ... needs its own language and community ..."

- Engaged in teaching and other evangelical activities (only had to work 30-40% of time to pay themselves – used 'free time' to 'do investigations and evangelise).

- Contacted IDEO, met up – suprised they were not doing 'service design' but rather product design for service companies.

- Started a happy collaboration with IDEO – as subcontractors "We need competition, otherwise we're just three crazy guys. So we deliberately went in with IDEO to help them become our competition and they were great."

Engine service design
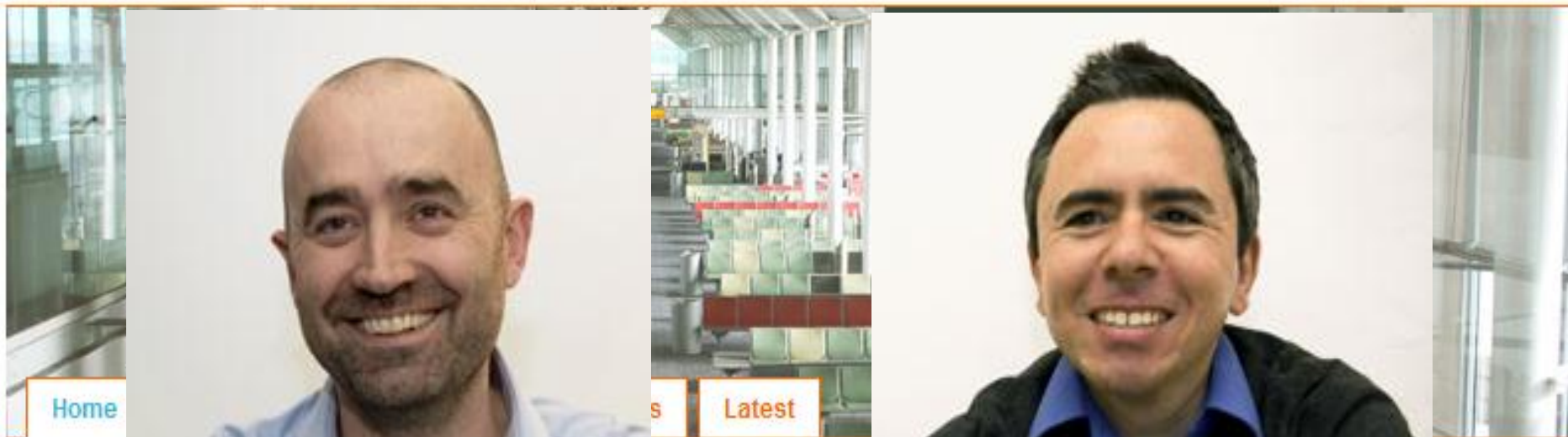
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Engine's work in Europe

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18.10.11
We're on a boat!

read more

12.10.11
Mr Cameron, it's time to get

Service design is a design specialism that helps develop and deliver great services. read more

Seminars, training and development by Engine

Engine

- Founded in 2000 by Joe Heapy & Oliver King – both industrial designers, bored of working in product design consultancies (too little creative and strategic work).

- Did not know what to do – struggled with their identify, did not call themselves service designers, knew more what they did not want to do than what they wanted to do.

- Did not engage in evangelistic behaviours:

"We needed to go after everything we could and that was entirely our focus, ... there just wasn't time to go and build a category, ... there was no money. ... We didn't have the credibility either ... We needed to find a buyer. Who is the buyer? ... We were just finding the light in a sense that it [the work] felt right, so we did it. And we did it without a business plan; we were led by our clients and we recruited really well."

Cases as Capital, NDAs, etc.

- Gradually, all three accumulated experience and captured these as 'cases' ... Cases became their most valuable capital

- Institution of 'non-disclosure agreements' made publicising past work as cases more difficult in the private than in the public sectors; hence greater growth of service design in public sector

- Firms increasingly found themselves in direct competition – evidence of isomorphism of offers – had then to focus on their own particular advantages and 'how to stand out'

- New entrants now growing ... Is this the end of the beginning?

Reflections & Contribution

- Service design was not 'discovered' ... it is being created.

- Creation requires commitment, & builds emotional attachment

- None of the entrepreneurs took a selfish 'exploit' attitude
  They have been remarkably open and community oriented.

- All worked effectually to build the legitimacy of the new industry.

Service Design & Effectuation (1)

	Live|Work	IDEO	Engine
Who they are?	Three young evangelists: "use not own"	Leading design firm, renowned for stretching design	Two bored product designers seeking stimulation
What do they know?	Ind. and CR design applied to web. + Bus. sustainability	Eng design + Human centred … to products & experiences	Product and industrial design + design strategy
Who do they know?	IDEO! … and connections in academic (weak with clients)	V. well connected in design world & with 'product based' clients	Orange as first key client, but not well connected (ex. w. academics)

Service Design & Effectuation (2)

	Live|Work	IDEO	Engine
Affordable loss?	Nothing to lose – lots of time to evangelise	Need to diversify from product d., esp. in London	Intrinsic rather than extrinsic motivation
Strategic partnerships?	IDEO! (& Streetcar = key case study)	Live|Work and few pioneering clients	Not formally – but in Internat. SDN & SD thinks & drinks
Leveraging contingencies?	Using 'stealth' to develop market?	Few pioneering clients used to push thinking?	Public sectors openness (not using NDA) to build general model?

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- Are industry pioneering entrepreneurs different from archetypal entrepreneurs (who discover, evaluate & exploit opportunities)?

- 2nd wave now entering an increasingly 'established opportunity'

- Ironically, all the nascent industry could be severely damaged by selfish, 'opportunity discovering-calculating' entrepreneurs
  (c.f., TQM consulting – David & Strang, 2006)

Thank you!

Q&A