



Paper to be presented at
DRUID-Asia, Singapore, February 23-25, 2016
Co-organized by DRUID, NUS Business School and SMU - Lee Kong Chian
School of Business.

Relationship Formation in the Market for Design Services

Michael Falk
University of Melbourne
Melbourne Business school
michaelrfalk@gmail.com

Kwanghui Lim
University of Melbourne
Melbourne Business School
k@kwanghui.com

Don O'sullivan
University of Melbourne
Melbourne Business School
donrosullivan@gmail.com

Abstract

Collaborative relationships are fraught with uncertainty for both parties. While past research has shown that in markets with high uncertainty firms favour repeated interactions with partner firms, it remains unclear how such relationships develop in the early stages. To explore this issue, we conduct an exploratory study based on interviews with dyads of firms in the design services market. We show that, when forming new relationships firms seek to reduce uncertainty by focusing on three attributes of their potential partners: design capability (what they can do), character (what they will do) and design process (how they will do it). We also find that firms are willing to collaborate with partners despite asymmetry on these attributes. Our finds help to extend the literature on trade in markets with high uncertainty

Relationship Formation in the Market for Design Services

Version: 13 December 2015.

Relationship Formation in the Market for Design Services

ABSTRACT

Collaborative relationships are fraught with uncertainty for both parties. While past research has shown that in markets with high uncertainty firms favour repeated interactions with partner firms, it remains unclear how such relationships develop in the early stages. To explore this issue, we conduct an exploratory study based on interviews with dyads of firms in the design services market. We show that, when forming new relationships firms seek to reduce uncertainty by focusing on three attributes of their potential partners: design capability (what they can do), character (what they will do) and design process (how they will do it). We also find that firms are willing to collaborate with partners despite asymmetry on these attributes. Our finds help to extend the literature on trade in markets with high uncertainty.

Keywords: uncertainty, capabilities, character, reputation, interfirm collaboration, design services.

1. INTRODUCTION

Design and design thinking have become increasingly important for firms in a range of industries (Brown, 2008; Lockwood, 2009; Verganti, 2008). Reflecting this, design services firms are an increasingly significant component of the professional services sector. While the market for design services is of growing economic importance, it is under-researched (Gruber et al., 2015). In particular, it is unclear how firms – providers and their prospective clients – deal with the high levels of uncertainty that characterise the design services market. As the intellectual property regime for design service providers is relatively weak (Bowen & Ford, 2002), these firms risk misappropriation of their ideas. Conversely, for clients, the high levels of information asymmetry typical of professional services (von Nordenflyth, 2010) heighten risks related to adverse selection and moral hazard.

To date, scholars have considered structural and transactional responses to the challenges associated with trading in markets with high uncertainty. Structural responses focus on vertical integration and repeated interaction to reduce transaction costs (Milgrom and Roberts, 1992). Yet, the presence of the market for design services, and more broadly the market for professional services, suggests that firms have adopted alternative mechanism to dealing with the challenges of trading in these markets.

Adaptations to market uncertainty have also been explored in the reputational literature (Castellucci and Ertug, 2010; Podolny, 1994; Benjamin and Podolny, 1999). This research stream highlights that, in response to high uncertainty, firms seek to retain a small number of ongoing trading relationships. While the reputational literature has been valuable in explaining why firms gravitate towards a narrow group of existing trading relationships, the question of how firms enact new relationships is less well understood. Moreover, while the reputational literature

suggests that, in response to high uncertainty firms select partners of similar reputation (Podolny, 1994), it provides limited insight into the many asymmetrical relationships that exist within high uncertainty markets. For example, it is unclear why a firm of high reputation and status such as Apple chose to engage with Frog Design – at a time when the latter firm was largely unknown (Esslinger, 2009). Similarly, while a high-profile design service provider like IDEO may be able to attract new clients amongst the world’s largest and most successful organizations, it is unclear how the firm secured its initial clients and built its reputation. We draw on insights from the capabilities literature and the reputational literature to explore relationship formation in the market for design services.

2. THEORETICAL BACKGROUND

2.1 Challenges of Participating in the Design Services Market

In contrast to markets for tangible goods, where strong property rights are common, participants in what is commonly referred to as the ‘market for ideas’ face acute challenges (Teece, 1986; Gans, Hsu and Stern, 2008; Gans and Stern, 2010). In a well-functioning market for ideas, firms are able to protect and thus trade their capabilities. With weak intellectual property rights, prospective clients may simply expropriate ideas or expertise without having to compensate the provider (Arrow, 1962).

As a professional service, design services also carry the uncertainty associated with an asymmetry of expertise between the expert and the non-expert client (von Nordenflycht, 2010).¹ One response to overcoming this uncertainty is for providers to present evidence of their

¹ Following von Nordenflycht (2010) we define a professional services firm as one where ‘an asymmetry of expertise between experts and their non-expert clients makes clients unable to assess the skill level of the expert and/or the quality of the expert’s rendered service.’

capability, by highlighting their roster of previous clients or client references. In addition, providers of expert services may provide insights, information and other indicators of their capability to the market (Nayyar, 1990). For example, many professional services practitioners invest heavily in providing prospective clients and the market at large with ‘thought leadership’ and other intellectual property (Anand et al. 2007). Similarly, clients may invest effort in detailing their needs and requirements – through extensive requests for proposals – as a means of reducing information uncertainty for potential providers.

While the revealing of information may facilitate collaboration, it also leaves each party open to opportunism (Harrison *et al.*, 2010; Cohen *et al.*, 2002). For example, prospective clients may access and utilize a provider’s process knowledge, such as heuristics and other ‘tricks of the trade’ (Arora 1995; 1996). Conversely, providers may promise more than they can actually deliver, by utilizing the client’s revealed needs in order to tailor how they market their own capabilities. Consequently, the relationship is marked by a ‘double-sided opportunism’: an expropriation risk on the provider’s side given the client cannot be forced to unlearn know-how, and adverse selection on the client’s side. Arora (1996), for example, describes a setting in which a client of technical services seeks to access and utilize a provider’s process knowledge in complement to provision of technological inputs.

The uncertainty associated with trading in a market for ideas increases with the extent to which the underlying relationship is collaborative (as opposed to transactional): collaborative relationships carry a heightened risk of adverse selection and moral hazard. In particular, it is more difficult to assess the ease of coordinating processes with the other party, the level of commitment that they will bring to the relationship and the likelihood that they will misappropriate information shared during intense collaboration.

[INSERT TABLE 1 HERE]

Clients and their service providers face uncertainty arising from the particular characteristics of the design services market. We summarize these characteristics in Table 1 as inseparability (Zeithaml *et al.*, 1985; Nam *et al.*, 2010), experience-based (Nayaar, 1990; Brush and Artz, 1999), and double-sided opacity (Vicente-Lorente, 2001; Alexy *et al.*, 2013).

2.2 Overcoming Uncertainty in the Market for Design

Studies in several streams of literature highlight the role of reputation in markets with high uncertainty. First, studies of organizational status (Podolny, 1994) suggest that with high uncertainty, firms are more likely to trade with those that they have with transacted in the past those of similar reputational status. A firm's reputation is an important indicator of its underlying capability (Ahuja, 2000; Rindova *et al.*, 2005). To this end, a firm's tangible outputs play an important role in enhancing and maintaining its reputation (Shapiro, 1983; Rindova *et al.*, 2005; Teece, 2003), providing an indicator of the firm's future capability development (Rao, 1994; Weigelt and Camerer, 1988). Firms with strong reputations benefit both in terms of demand from trading partners and in terms of the price they can command in the market (Shapiro, 1983).

Strategy scholars suggest that in the highly uncertain environments in which design service firms operate, reputational indicators of design capability – reputation as an indicator of ‘what a firm can do’ – may be insufficient. Agency concerns associated with moral hazard may lead market participants to also consider the character of prospective trading partners – ‘what a firm will do’ (Mishina *et al.*, 2012). By adhering to historical commitments, espoused values and incentives, a firm's reputation can provide an indication as to how it will behave in the future, including the likelihood it will honour its obligations (Love and Kraatz, 2009). With professional and expert service markets, firms not only seek to develop and maintain a reputation for quality,

they also adopt specific organisational and individual features as signals, such as ethical codes and the adherence to professional norms and codes of conduct (von Nordenflycht, 2010).

As we look beyond transactional relationships towards collaborative relationships, firms may consider issues other than design capability when seeking out partners. Several studies have shown that external validation is important for both clients and providers in the context of uncertainty. For example, within the early U.S. automobile industry, ‘accumulated wins’ in certification contests provide a source of advantage (Rao, 1994). This raises the possibility such signals are important to design services firms and their clients, which also face double-sided uncertainty.

Separately, studies of intra- and inter-firm collaboration highlight that in addition to questions of capability and character, successful collaborative relationships rely on process. Collaboration involves joint activities, thus the processes employed by each party has an important impact on the outcomes for the other party (Toppin and Czerniawska, 2005). Success depends upon each party having a good process for collaboration, as well as the process fit between them (Spohrer et al. 2008). Hence, firms seek to understand how their partners might collaborate and the extent to which there is a process fit (Fjeldstad *et al.*, 2012). Transparency of process fit has the advantage of attenuating the informational asymmetry associated with expert services. Recognizing the importance of process, many professional services firms go to great lengths to communicate their methodology and approach for engaging with clients.

In the next section, we discuss findings from work we have undertaken to better understand how firms trade in the market for design. We examine how firms select new trading partners, the role of reputation in relationship formation and why and how asymmetrical relationships emerge (relationships between firms with unequal evidence of design capability).

3. DATA AND METHODS

We present a multiple-case study that allows us to draw inferences from across cases and to assess whether, and to what extent, each confirms these inferences (Eisenhardt 1989; Bingham and Eisenhardt, 2011). The focus of our study is the early stage of collaborative relationships in the design services sector. The strategic importance of design services has been commented on increasingly over the past decade (Moultrie and Livesey, 2014; Verganti, 2008). Moultrie and Livesey (2014) categorise design investments based on their application in the ‘creation of new products and services’, or the ‘commercialisation, promotion and delivery of products and services or the overall business’. Sentance and Clark’s (1997) survey of around 800 manufacturing firms (representing approximately one fifth of the UK’s manufacturing industry) demonstrates that UK manufacturers have invested around £10 billion on product design and development, £3bn more than was spent on R&D in the same year.

The collaborative and experiential nature of design services makes the market an attractive setting for our research. Design activity is more pervasive than R&D and more easily spans organisational boundaries (Walsh, 1996). As a process that requires the integration of knowledge and expertise across firm boundaries, design services is an area where both clients and providers have to actively engage with the other party.

3.1 Data Source and Analysis

Our unit of analysis is the dyad of a design service client and its provider. Based on interviews with 20 market participants, we constructed a sample of eight firms based in Australia (see Table 2). We selected these firms for the emphasis they placed on collaboration. All subjects agreed to be identified in our study, allowing us to provide rich context around these cases.

[INSERT TABLE 2 HERE]

We identified the eight firms through pilot interviews with industry and policy thought-leaders and archival research. Our goal was to include sufficient variance in terms of the degree to which firms had design capabilities. We worked to elicit the perspectives of both the client and provider within each dyad. Our focus on firm dyads provided a useful approach for increasing internal validity, with insights corroborated through interviews with participants' partners and triangulated with secondary data (Yin, 2009).

We conducted semi-structured interviews with firm founders and executives, as well as other market participants. Interviews are useful in early-stage research as a means of identifying key relationships that can later be tested for generalizability (Yin, 2009). We also collected qualitative and quantitative archival data including internal documents, press releases, online reviews and articles. We conducted observational fieldwork at the workplaces of these firms.

We undertook 20 face-to-face interviews, averaging 1.5 hours each, involving two types of informants (providers and clients) providing complementary information on the same instances of trade. Following Moustakas (1994), our aim was to elicit narratives of market experience. We employed semi-structured interviews, covering: (1) the functioning of the market; (2) appropriability and intellectual property; and (3) firm-level attributes (e.g., organisational capabilities, marketing and strategy). A basic schedule is included in the Appendix. Combining nondirective and directive questions (Bingham and Eisenhardt, 2011) allowed us to mitigate some aspects of interviewer bias.

We analysed transcriptions of our recorded interviews using the Nvivo software package, coding for capability development, various types of reputation, partner engagement within each dyad and market frictions. After initial within-case analysis, we conducted cross-case analysis for both providers and clients in our sample. Moving between the data and the theory in iterative

‘cycles of confrontation’ (Danneels, 2007), we refined our classification over time. In this process, we sought feedback and verification from market participants at successive stages.

4. ANALYSIS AND PROPOSITIONS

Interview data from our exploratory study allows us to inductively derive two propositions (described in more detail below) that characterize the interaction between clients and service providers in the design services market:

1. In design service relationships, firms are sensitive to three distinct partner attributes: ‘design capability’, ‘character’ and ‘design process’, each of which we define below.
2. Relationships between clients and providers with asymmetric design capabilities may involve the weaker party being willing to pay a premium or expend high effort with the expectation of building future reputation or learning, while the stronger party may facilitate that relationship by communicating character or process.

4.1 Three attributes: design capability, character and design process.

In the design services market, we find that clients and providers seek and communicate three key attributes: design capability, character and design process.

The *design capability* attribute indicates that a firm can contribute to the production of quality designs. For providers, it refers to an ability to produce high quality design services. For clients, it refers to their capacity to evaluate and endorse partner quality. Both parties may seek validation and endorsement by trusted third-parties, and ratings such as certifications and awards, as reliable indicators of design capability.

The *character* attribute refers to each party’s professional service orientation and commitment to beneficial outcomes for partners and society (Larson, 2013). This professional orientation may be direct, as in the case where a party purposively avoids being perceived as

opportunistic, or it may be indirect, as in the case where a party publicly espouses philosophies and values that indicate service to society's interests. For clients, it may also involve investing in the mentorship of nascent talent, or facilitating the learning process.

The *design process* attribute indicates that the firm can effectively collaborate and engage in iterative development with the provider. It involves clients and providers articulating their methodologies, providing clarity in design briefs, and demonstrating a track record for implementation.

These attributes indicate what each party *can* do, *will* do, and *how* they will collaborate to do it. Table 3 shows a summary of these three attributes, as illustrated using quotations from our interviews and coded in Nvivo. We find that firms actively seek these attributes in their partners and invest in their firm's displays of each of these three attributes.

[INSERT TABLE 3 HERE]

Evidence of design capability. Due to the double-sided opacity within collaborative relationships, both clients and providers seek reliable indicators of their partners' design capabilities. In interview, Nectar Efkarpidis, director of property developer Molonglo Group, states that his firm evaluates prospective partners primarily on the basis of their design capability, as indicated by reputation and prior work: 'I think reputation is the one thing that we look at and evaluate about a creative supply firm, and the work that they've previously done, in order to evaluate whether they're good enough to undertake the new work, previous to having a relationship with them.' Digital publishing firm Right Angle Studio, a service provider to Molonglo Group, emphasises the importance of the client's reputation for capability in the partner engagement process. Barrie Barton, founder and Strategy and Insights Director, describes

how they seek clients: ‘we really want to build our reputation, we really want to learn a lot ... we want a different conferral of value.’

A client’s design capability may be attributed to her capacity to evaluate and endorse partner quality — particularly in a situation where the provider has low experience but strong growth potential. Henry Wilson, a provider of industrial design services to cosmetics and skincare firm Aesop, describes Aesop founder Dennis Paphitis as an expert in evaluating and selecting quality designers. ‘He’s got good taste... I see taste as being a training of the eye. Like someone could pick up a glass of wine, smell it and tell which region of France it’s from, that comes from knowledge and drinking a lot of wine.’

Service providers have several avenues for developing experience and reputation for a high design capability, including through awards and the building of client lists. Acquiring professional ratings may be particularly important in a context of high uncertainty, as in the case of an immature industry or early stage design firms. Industrial designer Henry Wilson traces the growth of his early career from winning the Bombay Sapphire Design Discovery Award. The significance of the award to Wilson’s career was that it allowed him to commercialise his ‘A-joint’ furniture product. The prize money funded ‘tooling up’ and putting his design into production, resulting in tangible outputs. While providing an avenue for building experience, Wilson also acquired a flow-on effect of reputational gain. ‘I initially got respected through design awards, which were industry awards that people saw and that garnered some kind of in-house respect among professionals. Product of mine started to be used in fit-outs [store interiors]; from there, people became more interested in the concept I applied to design and from that other jobs came.’ Subsequent to winning the award, Wilson was selected as a provider to Aesop.

John Denton, founding director of Denton Corker Marshal (DCM), an internationally renowned architectural firm, describes the importance of competitions. ‘With a lot of enquiries, you get this proof of experience: have you done any high rise residential [buildings]? And if you haven’t then the line goes dead. A lot of it is how you build up. It’s very hard to build up your practice in architecture, because you start out and you get [to design] a house for your uncle, or this or that, then you’re doing houses. How do you get a bigger building? We did that through competitions.’

Apart from competitions, firms also seek external validation from independent experts. For example, Lou Weis, founder of Broached Commissions, sought inclusion of his firm’s bespoke furniture designs in public museums and private galleries. The stature of the firm, he notes, is elevated by ‘the support and validation ... by external experts, who are called curators.’ Curators are experts that assemble design collections that embody discerning taste and consistency. For a provider, being selected as part of a high-quality curated collection offers an opportunity to be affiliated with other good designers featured in that collection, and is an important form of external validation for the firm’s design capability.

Evidence of character. Evidence of organizational character sets up expectations of ‘what a firm will do’ (Mishina *et al.*, 2012) and the likelihood it will honor its obligations (Love and Kraatz, 2009).

According to Efkarpidis of the Molonglo group, irrespective of the quality of the design team, there is high uncertainty so ‘you need to have the right group of people, stakeholders’. Thus, the assessment of character is an important criterion for engaging with new providers. Efkarpidis observes, ‘do they have integrity? Will they do the right thing when things are difficult...? They're the things that matter to us.’

Barrie Barton of Right Angle Studio identifies the preferred attributes of a client's character, presenting Aesop founder Dennis Paphitis as an exemplar: 'He's virtuous; he behaves as a good citizen should. He doesn't look for the opportunity to scrimp and save. He has a strong sense of what things are worth and he behaves consistently within that parameter.'

Character can also be communicated indirectly. Right Angle Studio has invested in multiple ways to establish its reputation for character, including publishing a popular online city guide for free. While it generates consulting work, this activity is at times also a source of financial loss. In the context of client engagement, Barton's firm also invests in communicating character: 'I want [clients] to feel like it's not just a financial outcome; that they are actually learning as well and that takes a lot of trust and finesse. In trust there's this imperative beyond the financial. We are going to leave this project better off intellectually.'

However this exposes the firm to risk. For instance, one of Right Angle Studio's activities is to design highly visible cinemas in major Australian cities. Barton recalls being engaged by a hotel developer on the premise of designing a rooftop cinema. 'I was very generous with describing how it is that a cinema business works and how we would set it up and run it, everything from marketing to film programming... When we gave him the contracts he went missing in action. Cut to three months down the path, I read an article about the rooftop cinema happening.'

Aesop founder Dennis Paphitis is acutely aware of the importance of character in establishing his firm as a major client of design services. When the firm was building its signature store in Chelsea, New York, it used a ladder system for displaying products based on a design by one of their former business partners. According to Paphitis, 'our European country manager then saw these and had an absolute fit. He said, we've violated the design of this young

French firm and there's going to be an IP issue here....' Aesop's eagerness to provide evidence of good character is demonstrated by its response, which was to quickly contact the original designers and seek their approval: 'Even though there was not malicious intention there, we need to respect that though they're being paid for that work, to take and replicate it is just morally wrong.'

Evidence of a firm's character helps build client trust. An example is provided by Lou Weis, the founder of bespoke furniture design producer Broached Commissions, who designed a \$40,000 table for a client: 'We just did a table [for a] private client. It was an original design and they asked for it to be a one-off—that we would never make that table for anyone else. It doesn't mean we can't do that style again but that's a grey area, right, because they go to a friend's place or they see it in a magazine and it's only 10% different... then you alienate a client who might have spent \$100,000 with you over the last two years.' In this instance, Weis signalled that his firm would honor the client's expectation that she has bought a unique product.

Evidence of design process. The third attribute that emerged from our interviews is that of *process*, or how each party works to collaborate with its partners in the context of a design project. A key feature of the design services industry is that firms invest significant effort to make their methodologies and process knowledge explicit. Sharing this information is important because of the inseparable nature of the design activity.

In our interviews, the customer experience manager from one of the top four banks in Australia, described process as her key criteria for selecting design service providers: 'It goes a lot on methodology: so what methods they use and how much integrity there is in those methods.' We interviewed one of the bank's providers, Crowd Productions. Founder Michael Trudgeon describes the emphasis he placed when engaging the bank on Crowd's rigorous

process, ‘in the strategic design model what we're selling is really our ability to design and that's going to produce physical outcomes. But we're also selling the process... the prototyping program, the design of the engagement, how all that data is collected, how it is then formally organized into a reverse brief, so the design of the communication, then how that is reflected upon and synthesised into a more physical, tangible design, which is then further tested and rolled out in a designed process.’ Crowd Productions’ design process enables it to attract large corporate clients, whose risk aversion may lead them to being less price-sensitive and more willing to pay for robust processes.

Firms leverage their design process by articulating a clear methodology and coupling it with a strong track record or experience implementing that approach. The dyad of Aesop and Henry Wilson Studio exemplifies the coupling of process to experience. Wilson characterizes Aesop as ‘a good client... their whole approach and their direct commissioning of design is polished; they know what their value is for the designer.’ Henry Wilson describes Aesop as having built up a stock of knowledge through iterations of store set-ups: ‘I think Dennis has a lot of knowledge and has executed a lot of stores. Part of his ability to foresee how things are going to happen is just having a well-trained palette.’ This explicit design process gives designers confidence in partnering with Aesop.

For Aesop founder Paphitis, the iterative development of new stores has contributed to his clarity: ‘The functional requirements are consistent globally: each store needs lighting, security, a cash desk, storage, a breakout area for the staff, basins because we demonstrate the product using water. But the interpretation and expression varies from store-to-store.’

One way that clients can commit to a shared collaborative process is in the specification of the design brief. Broached Commissions Director Lou Weis describes Nectar Efkarpidis as ‘an

ideal client, more ideal than someone that just writes a cheque and says, “do whatever you want,” because we’re not artists we’re designers and we respond to a [design] brief. He had a big, big brief. And a very established vision of what he wanted but it was a broad church. And he was open to us to rebel against that vision or fit within it in one capacity.’

Nevertheless, not all clients offering high-value commissions are willing to engage in a collaborative process. According to Weis, his firm was commissioned ‘to come up with the signature piece of a foyer for a large building... I quickly realized... that they’re not in the habit of a circular design conversation’. Expressing their response, Weis says: ‘No, we’ve got this much floor-play and we want you to fill it with something; we move at a pace and a commercial decisiveness that doesn’t incorporate conversation.’ Here, the client firm is enacting a more transactional trade, without signalling commitment to the sort of collaboration that the provider views as essential to producing a quality design product.

The analysis above is summarized in Table 3 and suggests that the three attributes are important within a dyad. Clients and providers actively seek these three attributes, and both parties invest in communicating such attributes to their potential partners.

Proposition 1: Clients and providers are sensitive to three distinct partner attributes in the formation of a design service relationship. Apart from design capabilities, each party looks for and communicates its character and design process.

Proposition 1 explains several common behaviours in the design services market that are ubiquitous but otherwise anomalous. These include heavy commitment to contests and competitions and the effort by firms to make their methodologies explicit. It also explains why parties tend to respect intellectual property despite the apparent weakness of formal design rights, and curation activities as a way to develop evidence that they possess these attributes. In

the next subsection we turn to why asymmetric relationships may develop within the design services market.

4.2 Asymmetry among providers and their clients

Our interviews reveal that firms enter into symmetric and asymmetric relationships. We coded the interviews based on the degree to which each party communicates their own design capability, design process and character attributes. We compared those with the degree to which their partner reports the attribute as mattering within the context of that dyad. We summarize the results in Table 4. By construction, we had chosen to explore a range of firms with varying degrees of design capability.

[INSERT TABLE 4 HERE]

We observe an interesting range of variation across the dyads shown in Table 4. Dyad 1 is a case where the client (Aesop) rated high across all three attributes while the provider (Henry Wilson Studio) rated low across the same attributes. In this dyad, the degree to which each party describes themselves as having design capability or process attributes is in line with the degree to which that attribute matters to their partner. There was a slight difference between the character attributed by each party and the level of its importance to the partner.

Dyad 3 (rows 3 and 4 in the table) also exhibits general consistency between the level of design and process attributes of each party and how much each attribute matters to the partner. However, we did not identify a response for the character attribute within this dyad.

Dyads 4 and 2 both involve the same client, the Molonglo group. It rated highly for all three attributes, capability, process and character. In Dyad 4, we explore Molonglo's relationship with Right Angle Studio, a firm with high design capabilities and which Molonglo engaged on the basis of its strong track record in prior work. In Dyad 2, we explore Molonglo's relationship

with Broached Commissions, a firm with low but growing design capability and in which Molonglo saw strong growth potential. Both Right Angle and Broached expected that working with Molonglo would help them build up their own design reputations over time. Both of Molonglo's partners also exhibit high process and character attributes but they differ in terms of what they expected of Molonglo. Right Angle Studio (dyad 4) is suspicious of collaborative arrangements and especially concerned about its ability to capture a sizable share of the value created. Broached Commissions, in contrast strongly favours collaboration, fully being aware that they may not always capture a large share of the rewards, but seeking broader for indicators of character to include indications of family and community involvement by the directors of Molonglo Group.

In order to further understand these relationships, we developed a framework shown in Table 5 and map the dyads described earlier onto it. In the table, we focus primarily on design capability, with the strength of each client's (provider's) design capability moving from low to high along the vertical (horizontal) axis. We focus on the top-left and bottom-right quadrants of the table with asymmetric relationships.

[INSERT TABLE 5 HERE]

Client has high design capability; provider has low design capability.

In the upper left quadrant, the provider has low design capability (e.g., a newcomer to the industry) and is faced with a client that has high design capability. This puts the client in a position of strength. For this relationship to develop, the provider may need to sacrifice current returns for future opportunity by working with the high-design client. The provider may be wary of the client's character, while the client in turn may build upon mentoring new talent as a means to reassure the provider.

Dyad 1 (Henry Wilson and Aesop) falls into this quadrant. As a client of design services, Aesop is a \$100 million firm with strong design capability stemming from its in-house expertise: ‘I don’t know whether the word taste isn’t interchangeable with design... it’s not outsourced, we don’t buy product formulas or recipes off the shelf, we develop and do all of that in-house’. According to Wilson, the service provider, ‘they’ve got to take a risk to want to work with a designer. And especially someone like me who is still really starting out—I haven’t had an enormous amount of experience.’ However as described in the previous section, Wilson is seen by Aesop’s founder, Dennis Paphitis, as having strong growth potential due to some early design success including winning prestigious awards.

Paphitis described being actively involved in scouting for and mentoring emerging designers. One criteria he uses is that ‘they are extremely well regarded by their professors ... I just had a meeting before you walked in with one of my treasured architects, who is a young 27 year old Chinese woman who studied architecture at Hong Kong university, went to MIT to do her Masters – was offered a place at Harvard and MIT. Incredibly bright, incredibly gifted young woman.’

Dyad 1 also exemplifies how the provider may sacrifice current returns for future opportunity. Designer Henry Wilson described the value of working with high-value clients such as Aesop: ‘Some of the best projects, even working for Aesop, the best quality design is not necessarily the best price. Some opportunities come that don’t pay particularly well, but often following in the wake of that, the reputation is the high-design part, the bit where you get paid.’. Dennis Paphitis describes how one such provider, March Studios, succeeded in benefiting from the learning and mentoring received while working with Aesop. ‘The purpose of doing a job for Aesop is not that it will be the most lucrative job. It’s certainly fairly paid and it’s above industry

measures in many instances. But our overall budgets are quite tight for a store.... I think they get something different out of it: it's the association, the shared learning, the kudos, the exposure that they get and the other jobs. So March Studios subsequently did another big-ticket job in Paris. They were approached by a very large watch firm and tended on something else for Switzerland.'

This view of mentoring is reinforced by Henry Wilson when he describes his experience working with Aesop's Paphitis: 'You learn a lot from working with someone who knows what they want and has a way of teasing an idea out, making you develop it a bit. It feels like being back at uni sometimes when you've got a really good client. They're kind of pushing you to do things that you maybe aren't so comfortable with, or you're rethinking things again.'

Dyad 2 (Broached and Molonglo) falls into the same quadrant of Table 5. Lou Weis of Broached reflects upon the firm's low but growing reputation for design capability: 'the difficulty is convincing clients that we have a genuine prestige about us and what we're doing... It's very difficult for us to pull together the external validation that makes clients relaxed about spending 100,000 plus on our objects.' As with Dyad 1, Broached finds it difficult to capture short-term value from the engagement, preferring instead to leverage the opportunity a way to build reputation and sell to a broader market later. During our interview, Broached Commission's founder Lou Weis sketched us a triangle representing the market and described how they hoped that building reputation in the bespoke segment of the market (apex of the pyramid) would help them yield a return serving the 'middle' segment of the market.

Much like Aesop, the client, Molonglo Group, sees the opportunity to work with them as a means for providers to build their own design reputations. Working with multiple providers, Molonglo plays the role of a curator, bringing together diverse inputs from many specialist

providers to create showcase projects. For example, in developing Hotel Hotel, a luxurious boutique development, Molonglo Group drew on the inputs of over 60 architects, designers and artists. Barrie Barton of Right Angle Studio describes the pitch made by the lead developer, Nectar Efkarpidis: ‘Nectar’s pitch to us was, “this is an intensely important project; you’ll work with all these exciting people.”’ Several interviewees referred to his intention to validate the work of each provider by affiliation with that of other well-known designers and artists. This process of curation is twofold – it allows high-design clients such as Molonglo to identify themselves as a valuable partner, leveraging a strong reputation for design with a process to demonstrate ‘good taste’.

For a high-design client, the importance of process is attenuated because the client can engage with a broad variety of provider types, given her own design expertise. In Dyad 2, Broached identifies its design process as one of the attributes it communicates to Molonglo: ‘it was an intellectual conversation from the beginning, and that is exactly what Broached was set up to do’. However, Molonglo de-emphasizes the importance of design process on the part of its providers. According to Molonglo’s Efkarpidis, ‘There’s a lot of talk and, you know, the processes are less important ... when someone hands you, this is the way we do things, I don’t pay that much attention to it. I think it’s more just about how we actually see them in practice organizing themselves.’ In the case of Dyad 1, emerging designer Henry Wilson Studio describes itself as being low on communicating the design process, while its client Aesop also identifies that attribute as being relatively unimportant in the relationship.

Provider has high design capability; client has low design capability.

In the bottom right quadrant of Table 5, the provider has high design capability and faces a client with low design capability. In order to facilitate this engagement and address the client’s

needs, the provider focuses on process. An example is articulated by Michael Trudgeon: ‘... strategic design² is saleable to those organizations that have a lot of resources [and] have spent a lot of time doing internal research and have come to the conclusion that this is what they need. But they haven’t spent a career doing it.’ The lack of design capability on the client’s part here means that Trudgeon focuses on selling based on methodology/process. This stands in contrast with the earlier case where a high-design client de-emphasizes the need for process.

While the client may have low design capability in this quadrant, they do have an opportunity to learn from the provider. Dyad 3 (Crowd Productions and the Major Australian Bank) offers an example of this situation. Crowd succeeded in persuading one of the top four Australian banks to adopt a particular prototyping process, which the bank has subsequently institutionalised. The bank’s Customer Experience Manager, who managed the relationship, says that the initial prototyping exercise, ‘directly influenced my way of thinking about it. Did I understand then as I understand now that what Michael was doing was introducing a design principle of iteration to the brand? No. Do I understand that now? Yes.’ For selecting external design suppliers, the bank has begun to rely both upon ‘reputation... and a lot on methodology’ as criteria. In this case the client paid a premium to Crowd Productions in order to complete the specific task they hired the provider for, but benefited from learning about design methodologies that they could use later, thus improving their own design process over time.³

² Trudgeon defines ‘strategic design’ as the application of a prototyping or design-based methodology for identify and solving client problems.

³ Within Dyad 3 we would expect it to be important for the provider to communicate a strong character attribute (Table 4, column 8) because the client is more vulnerable. Surprisingly neither party indicated character as an attribute that strongly mattered to them, and additional research is needed to identify whether this was due to its relative unimportance or omission.

To summarize, our findings in this section suggest that relationships between partners of asymmetrical design capability may develop but are contingent upon both parties balancing short-term investments and long term rewards.

Proposition 2: Relationships between clients and providers with asymmetric design capabilities may involve the weaker party being willing to pay a premium or expend high effort with the expectation of building future reputation or learning, while the stronger party may facilitate that relationship by communicating character or process.

Provider has low design capability; client has low design capability.

This bottom-left quadrant of Table 5 was not a focus of our study. We speculate that absent design capability on both sides, it would be difficult to form a relationship in the design services market.

Provider has high design capability; client has high design capability.

The top-right quadrant of Table 5 is one where both client and providers have high levels of design capability. In this situation, there is an opportunity for synergy, if the partners' capabilities are complementary. This fits with prior research suggesting firms seek partners of equal reputation to form a stable relationship (Podolny, 1994).

We observe that both parties face a strong partner, making it potentially difficult for each to dominate that relationship. According to Barrie Barton of Right Angle Studio (Dyad 4), 'it doesn't hurt our reputation to be associated with the project but we are not represented forcefully enough to turn it into material business advantage.'

We speculate that both character and process attributes matter when both partners have high design capability, but we have insufficient evidence from our interviews to explore this

further. However, our interviewees did report a potential risk when forming a relationship with high capability partners: the character and process attributes may not be given sufficient attention in the early stages, with the assumption that good capability comes with attendant levels of character and process. For instance, the Molonglo Group engaged with a high capability provider but only later discovered process fit to be an issue. Molonglo's Efkarpidis states, 'we had a problem with [a provider] who we dismissed in the end because they weren't truly collaborating in a way that we wanted them to. And they're a great practice, a really great practice ... they just didn't fit.'

Right Angle Studio presents an example of how working with a high design capability client caused them to initially overlook the character attribute. As described above, Barrie Barton's firm revealed significant process knowledge in the partner engagement stage, only to have the knowledge misappropriated. 'I am deeply suspicious of collaboration...You have to collaborate with care. I believe wholeheartedly that if you invest time in producing a product and that product is good you should be remunerated fairly for it.'

5. DISCUSSION

Design capability, character and design process emerge as important attributes in design services and our interviewees suggest these attributes have multiple effects. For instance, participation over time in high profile contests and high value projects affect not just reputation but also facilitate the development of new internal capability. For Denton Corker Marshall, architectural competitions have played an important role in developing proof of experience—directly, as a source of new business, and indirectly, in developing the firm's capability and providing a strong reputation for design: 'I think our skills have always been to be able to design fast and efficiently, and techniques that you learn to win competitions... Competitions are a very

significant part of what's built our reputation, and it's a significant part of what's income for us. I imagine we've probably won [a large sum of revenue through contests] and that in turn has got us other work as a result.'

Denton Corker Marshall has built its reputation through its designs for prestigious, one-off, ground breaking projects as the Stonehenge visitors centre in the United Kingdom. Prestige is derived not only from the project itself but also from association with a roster of valuable clients. Denton speaks about designing the new visitors centre at Stonehenge: 'You do that because that's an important image project and a really interesting project to do... It helps with the marketing because architects tend to get known, by and large, [for] the smaller projects... We'll get more kudos and better known for Stonehenge.'

Both providers and clients recognise investment in training and association with a prestigious institution as an important aspect of capability and character. Thus, Dennis Paphitis highlights Wilson's qualifications from a preeminent Dutch design school in Eindhoven as an important indicator of their aligned values. He observes: 'I think in the first semester there is a unit of respect that every student is obliged to undertake: it's respect for what design delivers, respect for materials, respect for the environment, respect for the institution and so on... They work very closely with the students in terms of protecting their intellectual property rights, because the graduate show that they do each year is attended by industry heavyweights and it's easy to take a vulnerable green student and have them on.'

A good process serves a dual role—as quality assurance as well as facilitating the *early* formation of designer-client collaboration. According to Michael Trudgeon, when Crowd Productions' freely describes its design methodology, it is betting strongly on the firm-specific nature of the design process as a capability to protect the firm against imitation. First, the design

process alone is insufficient, as the accumulation of design experience over the long term is seen as critical to its successful application. Second, the process is opaque, due to what Trudgeon describes as the ‘inherently chaotic’ nature of the creative process.

6. CONCLUSIONS

Our study focuses on the professional services sector, specifically on the design services market. The market exhibits inseparability, double-sided opacity and is experience-based. Following Bingham and Eisenhardt (2011), we employ a qualitative cross-case approach to explore relationship develop and capability creation within this context. While previous work has emphasised the role of reputation for overcoming market frictions (either through status or intellectual property), we identify three distinct attributes that firms seek in their partners and communicate with respect to themselves.

Participation over time in high profile contests and past experience working on high value projects contributes to the firm’s reputation for design capability. Firms build character exhibiting high integrity and behaving professionally, e.g., by avoiding misappropriation. Firms build a strong design process by expressing a clear methodology for interacting with partners and developing a track record for using that approach.

We explore the formation of relationships where design capability is asymmetric between client and provider. We find that character and process attributes may help offset concerns of the stronger partner’s dominant position. A weaker partner may participate in asymmetric relationships in anticipation of building future reputation or learning. Thus we observe asymmetric partnerships may be viable despite challenging market conditions.

Our study casts light on the behaviours of firms and functioning of the market in an underexplored but important setting. Research in this area is important due to the growing

recognition among firms of the strategic value of design. Our study offers one explanation why professional and expert service firms sometimes appear to overinvest in projects or reveal their intellectual property and process knowledge, since these are useful ways of developing reputation.

REFERENCES

- Ahuja, G. 2000. The duality of collaboration: Inducements and opportunities in the formation of interfirm linkages. *Strategic Management Journal* 21(3): 317-343.
- Alexy O, George G, Salter AJ. 2013. Cui Bono? The selective revealing of knowledge and its implications for innovative activity. *Academy of Management Review* 38(2): 270–291.
- Anand, N., Gardner H. K., & Morris, T. 2007. Knowledge-based innovation: Emergence and embedding of new practice areas in management consulting firms. *Academy of Management Journal* 50(2): 406-428.
- Arrow, K. J. 1962. Economic welfare and the allocation of resources for invention. In R. R. Nelson (Ed.), *The rate and direction of inventive activity: economic and social factors*: 609–626., Princeton: Princeton University Press.
- Arora, A. 1995. Licensing tacit knowledge: Intellectual property rights and the market for know-how. *Economics of Innovation and New Technology*, 4(1): 41–60.
- Arora, A. 1996. Contracting for tacit knowledge: the provision of technical services in technology licensing contracts. *Journal of Development Economics*, 50(2): 233–256.
- Benjamin, B. A., & Podolny, J. M. 1999. Status, quality, and social order in the California wine industry. *Administrative Science Quarterly*, 44(3): 563.
- Bingham, C. B., & Eisenhardt, K. M. 2011. Rational heuristics: The “simple rules” that strategists learn from process experience. *Strategic Management Journal*, 32(13): 1437–1464.
- Bowen, J., & Ford, R. C. 2002. Managing service organizations: Does having a “thing” make a difference? *Journal of Management*, 28: 447–469.
- Brown, T. 2008. Design thinking. *Harvard Business Review*, 86 (6), 84.
- Brush, T., & Artz, K. 1999. Toward a contingent resource-based theory: the impact of information asymmetry on the value of capabilities in veterinary medicine. *Strategic Management Journal*, 20(3): 223–250.
- Castellucci, F., & Ertug, G. 2010. What's in it for them? Advantages of higher-status partners in exchange relationships. *Academy of Management Journal* 53.(1): 149-166.
- Danneels, E. 2007. The process of technological competence leveraging. *Strategic Management Journal*, 28(5): 511–533.
- Eisenhardt, K. M. 1989. Building theories from case study research. *Academy of Management Review*, 14(4): 532–550.
- Esslinger, H. 2009. *A Fine Line: How Design Strategies Are Shaping the Future of Business*. John Wiley & Sons.

Fjeldstad, Øystein D., et al. 2012. The architecture of collaboration. *Strategic Management Journal*, 33(6): 734-750.

Gans, J. S., Hsu, D. H., & Stern, S. 2008. The impact of uncertain intellectual property rights on the market for ideas: Evidence from patent grant delays. *Management Science*, 54(5): 982–997.

Gans, J. S., & Stern, S. 2010. Is there a market for ideas? *Industrial and Corporate Change*, 19(3): 805–837.

Gruber et al., 2015. From the Editors: Managing by Design. *Academy of Management Journal*. 58(1): 1-7.

Harrison, J., Bosse, D.A., Phillips, R.A. 2010. Managing for stakeholders, stakeholder utility functions, and competitive advantage. *Strategic Management Journal*, 74(February 2008): 58–74.

Larson, M. S. 2013. *The Rise of Professionalism: Monopolies of Competence and Sheltered Markets*. New Brunswick: Transaction Publishers.

Lockwood, T. 2009. *Design Thinking: Integrating Innovation, Customer Experience, and Brand Value*. Allworth Press.

Love, E., & Kraatz, M. 2009. Character, conformity, or the bottom line? How and why downsizing affected corporate reputation. *Academy of Management Journal*, 52(2): 314–335.

Milgrom, P., & Roberts, J. 1992. *Economics, organization and management*. Prentice-Hall.

Mishina, Y., Block, E. S., & Mannor, M. J. 2012. The path dependence of organizational reputation: How social judgment influences assessments of capability and character. *Strategic Management Journal*, 33(5): 459–477.

Moultreie, J., & Livesey, F. 2014. Measuring design investment in firms: Conceptual foundations and exploratory UK survey. *Research Policy*, 43(3): 570–587.

Moustakas, C. 1994. *Phenomenological research methods*: California: Sage Publications.

Nam I, Gruca TS, Tracy R. 2010. The effects of competition on referral alliances of professional service firms. *Organization Science*. 21(1): 216–231.

Nayyar, P. R. 1990. Information asymmetries: A source of competitive advantage for diversified service firms. *Strategic Management Journal*, 11(7): 513–519.

Podolny, J. 1994. Market uncertainty and the social character of economic exchange. *Administrative Science Quarterly*, 39(3): 458-483.

Rao, H. 1994. The social construction of reputation: Certification contests, legitimation, and the survival of organizations in the American automobile industry: 1895–1912. *Strategic Management Journal*, 15(S1): 29–44.

Rindova, V. P., Williamson, I. O., Petkova, A. P., & Sever, J. M. 2005. Being good or being known: An empirical examination of the dimensions, antecedents, and consequences of organizational reputation. *Academy of Management Journal*, 48(6): 1033–1049.

Sentance, A., Clark, J., 1997. *The contribution of design to the UK economy*. Design Council, London.

Shapiro, C. 1983. Premiums for high quality products as returns to reputations. *The Quarterly Journal of Economics*, 98(4): 659–680.

Spohrer, J., Vargo, S. L., Caswell, N., & Maglio, P. P. 2008. The service system is the basic abstraction of service science. *Proc. 41st Annual Hawaii Internat. Conf. System Sci., IEEE Computer Society*, Washington, DC.

Teece, D. 1986. Profiting from technological innovation: Implications for integration, collaboration, licensing and public policy. *Research Policy*, 15(6): 285–305.

Teece, D. J. 2003. Expert talent and the design of (professional services) firms. *Industrial and Corporate Change*, 12(4): 895–916.

Toppin, G., & Czerniawska, F. 2005. Business Consulting: A Guide to How It Works and How to Make It Work. The Economist, in association with Profile Books Ltd., London.

Verganti, R. 2008. Design, Meanings, and Radical Innovation: A Metamodel and a Research Agenda. *Journal of Product Innovation Management*, 25(5): 436–456.

Vicente-Lorente, J. D. 2001. Specificity and Opacity as Resource-Based Determinants of Capital Structure: Evidence for Spanish Manufacturing Firms. *Strategic Management Journal*, 22(2): 157–177.

von Nordenflycht, A. 2010. What is a Professional Service Firm? Towards a Theory and Taxonomy of Knowledge Intensive Firms. *Academy of Management Review*, 35(1): 155–174.

Walsh, V. 1996. Design, innovation and the boundaries of the firm. *Research Policy*, 25(4): 509–529.

Weigelt, K., & Camerer, C. 1988. Reputation and Corporate Strategy: A Review of Recent Theory and Applications. *Strategic Management Journal*, 9(5): 443–454.

Yin, R. K. 2009. *Case study research: design and methods*. 5th ed. California: Sage Publications.

Zeithaml, V. A., A. Parasuraman, L. L. Berry. 1985. Problems and strategies in services marketing. *Journal of Marketing* 49(2) 33–46.

APPENDIX: SEMI-STRUCTURED INTERVIEW QUESTIONS

For the client

1. What are the **drivers** of your decision to source design services from an external supplier
2. Can you please describe how decided between doing all of the design in-house and buying in design services?
3. What **challenges** have you faced in maintaining a design capability in-house (sourcing design services from an external supplier)?
4. Follow up on each challenge identified by the interviewee – can you please explain how you have sought to address this challenge?
5. With regard to buying design:
 - How do you select suppliers of design services?
 - How do you decide on what design services are worth?
 - Do you manage service contracts to ensure objectives are met? And if so how?
 - Do you look to ensure that you have exclusive ownership of the designs that are created for you? And if so how?
6. What are the strategies you have found to be effective and strategies you have found to be ineffective in managing these challenges?
7. How does this shape the way you depend upon various forms of intellectual property protection (Patents, copyrights, trademarks, design marks, other)?
8. More generally, could you outline the challenges you've encountered, strategies you employ and benefits you've gained?

For the provider

1. What are the **drivers** of your decision to sell design services on the market?
2. Do you ever utilize your designs for your own firm? If so how do you decide between utilizing your design capabilities for the firm and selling your design capabilities as a service?
3. What are the **challenges** you have faced in selling design services to external clients?
4. Follow up on each challenge identified by the interviewee – can you please explain how you have sought to address this challenge?
5. With regard to selling design:
 - How do you recruit clients of design services?
 - How do you decide on what your design services are worth?
 - Do you manage service contracts to ensure objectives are met? And if so how?
 - How do you protect your IP during the client engagement process and throughout the project?
6. What are the strategies you have found to be effective and strategies you have found to be ineffective in managing these challenges?
7. How does this shape the way you depend upon various forms of intellectual property protection (Patents, copyrights, trademarks, design marks, other)?
8. More generally, could you outline the challenges you have encountered, strategies you employ and benefits you have gained?

TABLE 1:

Characteristics of the design services market

Characteristic	Definition	Representative quotes from our interviews
Inseparability	Production and consumption are co-located. <i>(Zeithaml et al., 1985; Nam et al., 2010)</i>	‘What I quickly realized, from the speed of the briefing... was that they’re not in the habit of a circular design conversation... If they say, “we’re interested in Art Deco combined with Cronenberg the filmmaker,” we would dive into that.’
Experience-based	Qualities are determinable only during or after trade (Nayaar, 1993; Brush and Artz, 1999).	‘I paid the fees, it wasn’t right—and not because any of the six previous schemes were bad but because design is iterative... You need to have the capacity to continue to evolve design.’
Double-sided opacity	Both parties utilize capabilities that are not directly observable to outsiders (Vicente-Lorente, 2001; Alexy et al., 2013).	‘They don’t have any idea what it’s going to cost, you don’t know what they’re willing to throw at it. You can sit them down and wow them in front of a big [design illustration], but it’s going to cost you a lot.’

TABLE 2:**List of Firms and Individuals Interviewed**

Firm	Dyad#	Interviewee	Activities
Clients of design services			
Aesop	1	Dennis Paphitis	Cosmetics & skincare retailer (both a client and provider of design).
Molonglo Group	2 and 4	Nectar Efkarpidis	Property development. Hotel management.
Major Australian Bank	3	Customer Experience Manager	Financial services.
Providers of design services			
Henry Wilson Studio	1	Henry Wilson	Industrial & furniture design.
Right Angle Studio	2	Barrie Barton	Digital publishing. Marketing services.
Crowd Productions	3	Michael Trudgeon	Architectural services. Interior design.
Broached Commissions	4	Lou Weis	Furniture design.
Denton Corker Marshall	5	John Denton	Architectural services.

Note: We interviewed a total of 20 market participants to triangulate these results, but only eight of them are featured prominently in the study and identified in the table above.

TABLE 3:

Three key attributes for participants in the design services markets

	Design capability What each party <i>can</i> do.	Character What each party <i>will</i> do.	Design process <i>How</i> each party will collaborate.
Attributes each party looks for in the other			
Client	Molonglo Group: ‘Reputation is the one thing that we look at and evaluate about a creative supply firm... previous to having a relationship with them.’	Molonglo Group: ‘Do they have integrity? Will they do the right thing when things are difficult...? They’re the things that matter to us.’	Major Australia Bank: ‘It goes a lot on methodology: so what methods they use and how much integrity there is in those methods.’
Provider	Right Angle Studio: ‘If we are to do work for a lower fee we really want to build our reputation, we really want to learn a lot and we want a different conferral of value, which might be reputational or learning’	Right Angle Studio: ‘[A good client is] virtuous; he behaves as a good citizen should. He doesn’t look for the opportunity to scrimp and save. He has a strong sense of what things are worth and he behaves consistently within that parameter.’	Henry Wilson Studio: ‘A good client... their whole approach and their direct commissioning of design is polished; they know what their value is for the designer.’
Attributes each party communicates about themselves			
Client	Aesop: ‘The purpose of doing a job for [a well-known client] is not that it will be the most lucrative job... it’s the association, the shared learning, the kudos they get and the other jobs.’	Aesop: ‘We need to respect that although [our provider is] being paid for that work, to take and replicate it just morally wrong.’	Aesop: ‘The functional requirements are consistent globally... but the interpretation can vary store-to-store.’
Provider	Henry Wilson Studio: ‘I initially got respected through design awards... That garnered some kind of in-house respect among professionals.’	Right Angle Studio: ‘People make bad decisions for themselves because they don’t know about the options... we guide [clients] towards decisions that we feel would make a better experience for them...’ Broached Commissions: ‘It doesn’t mean we can’t do that style again’ for a one-off design for a table.	Crowd Production: ‘What we’re selling is really our ability to design and that’s going to produce physical outcomes, but we’re also selling the process.’

TABLE 4:

Own characterisation of reputation versus importance of that characteristic to partner within dyad

Respondent			Design capability		Design process		Character	
<i>Dyad</i>	<i>Respondent</i>	<i>Firm</i>	<i>Degree to which each party communicates this attribute about themselves</i>	<i>Degree to which the partner reports this attribute matters to them</i>	<i>Degree to which each party communicates this attribute about themselves</i>	<i>Degree to which the partner reports this attribute matters to them</i>	<i>Degree to which each party communicates this attribute about themselves</i>	<i>Degree to which the partner reports this attribute matters to them</i>
1	Client	Aesop	High	High (good taste and curatorship)	High	High (ability to mentor, strong brief)	High	High (professional orientation)
	Provider	Henry Wilson Studio	Low	Low level but with growth potential	Low	Low	Low	High (aligned values)
3	Client	Major Australian Bank	Low	Low	Low	Low (but provider has business knowledge)	No response	No response
	Provider	Crowd Productions	High	High (strong external vendor)	High	Very high (methodology)	Indirect	No response
4	Client	Molonglo Group	High	High (curatorship, build reputation)	High	High (viability and rigor)	High	Unclear- suspicious of collaboration
	Provider	Right Angle Studio	High	High (prior work)	High (but cautious)	Low (but provider has managerial ability)	High	High (integrity and commitment)
2	Client	Molonglo Group	High	High (curatorship)	High	High (strong but open brief)	High	Indirect (family and community)
	Provider	Broached Commissions	Low (high capability, trying to build validation)	Some prior work but with growth potential	High	Low (but provider has managerial ability)	High	High (integrity and commitment)

TABLE 5:

Symmetric versus asymmetric design capability within a dyad

<p>Client's design capability</p>	<p>High</p>	<p>Henry Wilson & Aesop; Broached & Molonglo</p> <ul style="list-style-type: none"> • Provider may sacrifice current returns for future opportunity. • Client seeks indications of provider's future potential. • Client may emphasize the character attribute through mentoring emerging talent among providers. • Curation by client enables it to position itself as a high-value partner (leverages design capability and design process). • The provider having a strong a design process may not matter as much to the client. 	<p>Right Angle & Molonglo</p> <ul style="list-style-type: none"> • Reputations may reinforce each other, but each party faces a strong partner. • Each may overlook process and character attributes in relationship formation due to the partners' capability.
	<p>Low</p>	<p>Not the focus of this study.</p> <ul style="list-style-type: none"> • Client and provider may fail to form a relationship, or to depend on process and character instead. 	<p>Crowd Productions & Major Australian Bank</p> <ul style="list-style-type: none"> • Client may pay a premium to learn from the provider. • Provider focuses on selling the process (methodology). • Client may fail to get the most out of the provider as low capability may impede engagement.
		<p>Low</p>	<p>High</p>
		<p>Provider's design capability</p>	