



Paper to be presented at the DRUID 2012

on

June 19 to June 21

at

CBS, Copenhagen, Denmark,

## **Towards a Theory of Industry Emergence: Entrepreneurial Actions to Imagine, Create, Nurture and Legitimate a New Industry**

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### **Abstract**

Industry 'life cycles' are widely invoked, but surprisingly little is known about earliest phases of an industry's development. Industry emergence implies two contradictory forces. First, the provision of novelties for which there was no previous supply or demand. This implies creativity and non-conformity. Second, an industry implies conformity, such that the products or service offerings of the various providers are substitutes for one another: they are comparable. A complete theory of industry emergence therefore needs to account for both divergent and convergent behaviours. This paper makes a start at this, drawing on literature from entrepreneurship (especially 'creation theory?'), as well as organizational theories (especially concerning legitimacy and isomorphism), studying the emergence of a new industry that was not based on an exogenous technical invention. The industry studied, service design consulting, was instead created, legitimated and nurtured by entrepreneurial actions. The industry is about a decade old, and three firms are, by common consent, credited with having pioneered its development. We examine their entrepreneurs' attitudes and behaviours, as well as their strategies of cooperation and competition, which helped to build the industry. We highlight

the significance subjective nature of the opportunity space developed, and the importance of path creation through the development of case studies, which are a key form of capital for these firms. Ultimately, the study seeks to contribute to our very limited understanding of industry emergence.

# **Towards a Theory of Industry Emergence: Entrepreneurial Actions to Imagine (not Discover), Create and Nurture (not Evaluate), and Legitimate (not Exploit) a New Market**

## **Abstract**

Industrial evolution and industry ‘life cycles’ are widely invoked, but surprisingly little is known about earliest phases of an industry’s development. The emergence of a new industry implies two contradictory forces. First, a new industry is based on the provision of novelties for which there was no previous supply or demand. This implies creativity and non-conformity. Second, an industry implies conformity, such that the products or service offerings of the various providers are (broadly) substitutes for one another: they are comparable. A complete theory of industry emergence therefore needs to account for both divergent and convergent behaviours. This paper makes a start at this, drawing on literature from entrepreneurship (and especially ‘creation theory’), as well as organizational theories (especially concerning legitimacy and isomorphism), this paper studies the emergence of a new industry that was not based on an exogenous technical invention. The industry studied – service design consulting – was instead created, legitimated and nurtured by entrepreneurial actions. Service design consulting in the UK is about a decade old, and three firms are, by common consent, credited with having pioneered the industry’s development. We examine their entrepreneurs’ attitudes and behaviours, as well as their strategies of cooperation and competition, which helped to build the industry. We highlight the significance subjective nature of the opportunity space developed, and the importance of path creation through the development of case studies, which are a key form of capital for these firms. Ultimately, the study seeks to contribute to our very limited understanding of industry emergence.

**Key Words:** Industry Emergence; ‘Industry Life Cycles’; Entrepreneurship; Creation Theory; Legitimacy; Isomorphism; Path Creation; Cases as Capital

## 1. Introduction

An industry is commonly defined as a group of firms producing products or service offerings that are close substitutes for one another. In other words, consumers are able to switch between suppliers without a complete loss of satisfaction. This implies a degree of conformity at the level of the product or 'offer'. Firms within the same industry are also likely to have knowledge (and practice and procedures) in common (Metcalf, 1998, Mina, 2009): this includes knowledge about demand, about what customers' value in products, and about how to produce. Industries are thought to 'evolve', and the concept of 'industry life cycles' is widely invoked. Despite this, surprisingly little is known about the origin of new industries (Rao, 2004; Giarrantana, 2004; Forbes and Kirsch, 2011): "few studies investigate the birth of new industries" and "Big-Bang questions [concerning the origin of industries] are usually unanswered in the literature" (Giarrantana, 2004, p. 787). Rao (2004) agrees, claiming "there is little empirical work that explicitly unravels how new industries become understood and taken for granted". For Forbes and Kirsch (2011) the emergence of new industries or markets remains an important phenomenon that has been neglected by researchers. Most 'industry life cycle' studies instead start post-infancy; that is after the industry has already survived its most vulnerable life stage. But who were these earliest entrants, and how did their behaviours shape the subsequent development of the industry? We know surprisingly little about these questions.

In this paper we study the emergence of a new industry: that of service design consulting, particularly in the UK. This 'industry' is roughly a decade old and remains very small, despite having considerable potential: it is still in the pre-take-off stage. By common consent the UK service design consulting industry has been pioneered by three firms, two new firms and one established firm. Drawing on access to the owner-managers and the practice leads from these firms, we seek to understand the processes by which service design consulting developed from its inception, both within these individual firms and as 'an industry' as a whole.

To understand the origins and early development of this industry, we draw insights from three conceptual literatures. The first and most critical is entrepreneurship. There are several theories of entrepreneurship, and we find the most widely used theory, that of 'opportunity-discovery' (where opportunities are recognized, evaluated and exploited) to be fundamentally inappropriate to the study of new industry and market formation. Creation based theories, which are based on entrepreneurial imagination, conjectures and commitment, make much more sense. The second concept at the heart of our study is that of past and future 'paths' (i.e., 'path-dependency' and 'path creation'). Here we draw on the Penrosian (1959) perspective of resource development but couple this to Lachmann (1986) and Shackle's (1979) idea of 'possibilities', and the 'Imagined made Possible'. Peculiar paths, which are based in history and 'histories-to-come', make firms different. But the paths firms follow are influenced by the paths followed by others: they are not independent. This, we argue, is for two reasons. First differences between firms may be deliberately constrained, particularly during the earliest stage of the industry's development. This

relates to organizational theory, and particularly that that concerns legitimacy, and legitimation. Rao (2002; 2004) states that it is a staple premise of organization theory that new industries require constitutive legitimacy to flourish. Constitutive legitimacy is achieved when an industry is ‘understood’ and ‘taken-for-granted’ by consumers, investors, and potential employees (Rao, 2002). Mechanisms to increase constitutive legitimacy include mimetic behaviours, actively collaborating, and engaging in evangelical activities. By engaging in mimetic behaviour and/or by sharing knowledge, firms in the young industry tend to ‘huddle together’ and contribute to industry-level activities which help to build legitimacy (Suchman, 1985). Second, market success in winning and satisfying one customer is likely to increase the probability of stimulating demand for other, similar projects both from the same customer and from its near neighbours. This is true both at the level of the firm and across the industry as a whole. Hence, early wins will favour some paths and ‘possibilities’ over others, and encourage herding behaviours amongst both providers and customers. It is only later, when firms and industry as a whole become more established, that firms can afford to, and benefit by, diverging from one another (Deephouse, 1999).

The rest of the paper is structured as followed. First, we examine the entrepreneurship literature for perspectives on industry emergence. We use this review to heighten our alertness (Kirzner, 1973) to aspects of the empirical study at the heart of the paper, which is a study of the emergence of service design consulting in the UK. We briefly introduced service design, then, after a methodology section, we outline the development of [the ‘opportunity’ of] service design consulting, focusing in particular on the behaviours of the entrepreneurs who pioneered this industry. Following this, we review our findings, particularly with regard to the entrepreneurship literature and literature on the emergence of new industries/markets.

## **2. Literature Review: Entrepreneurs as Pioneers of New Industries**

An obvious place to start in seeking to understand the origin of new industries or markets is the entrepreneurship literature, as “entrepreneurship is concerned with the discovery and exploitation of profitable opportunities” (Shane and Venkataraman [S&V], 2000, p. 217) and “involves the nexus of two phenomena: the presence of lucrative opportunities and the presence of enterprising individuals.” (p. 218)

However, we immediately run into a problem, which is the nature of opportunities, and the extent to which they ‘exist’. In his paper, “Prior Knowledge and the Discovery of Entrepreneurial Opportunities”, Shane (2000) draws on Kirzner’s (1973) work and argues that entrepreneurs ‘discover’ opportunities.<sup>1</sup> More recently, Shane has distanced himself from this view, arguing that “Efforts to pursue opportunities for profit within existing means-ends

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<sup>1</sup> Indeed, in this paper he uses the terms discover, and derivatives of this, such as discovery, around 140 times, 95 of which are made in conjunction with the concept of ‘opportunities’.

frameworks, such as arbitrage, do not involve entrepreneurship because entrepreneurship ... [requires] recombining resources” (Shane, 2012, p. 18).

Meanwhile, in their highly influential paper, S&V (2000) clearly state that “opportunities are objective phenomena” (p. 220), the recognition of which “a subjective process” (ibid), and therefore opportunities, although objective, are not known to all parties at all times. Shane (2012) still insists that opportunities are objective, whilst entrepreneurs address these through subjective ‘business ideas’: “Entrepreneurial opportunities are situations in which it is possible to recombine resources in a way that generates a profit. Business ideas are entrepreneurs’ *interpretation* of how to recombine resources in a way that allows pursuit of that opportunity” (p. 15, emphasis in original). In this ‘discovery theory’, (profitable) opportunities are assumed to exist, having arisen exogenously from, for example, changes in technology or consumer preferences (Kirzner, 1973; 1997; Alvarez and Barney, 2007). For the study of new industry or market emergence, this implies that a demand already exists, even if it is latent. The Kirznerian entrepreneur only has to make buyers aware that their needs can now be satisfied. Shane’s entrepreneur faces a stiffer challenge, which includes ‘recombining’ resources in accordance with a ‘business idea’. But the required resources are taken to exist: they are not created anew.

For S&V ‘enterprising individuals’, are people with two crucial attributes: first they have the capacity to recognise, or ‘see’, opportunities that others do not. This is also taken from Kirzner (1973), who emphasised the ‘alertness’ of entrepreneurs to opportunities. And second, that they have to have the capacity to act on this recognition in order to “exploit” the opportunity. This is done by providing products or services that address it. Entrepreneurship does not occur if the opportunity is recognised but not exploited. This raises the issue as to what is meant by ‘exploiting the opportunity’. According to Kirzner’s (1973) original account, the exploitation of opportunities required no investment: his entrepreneurs were engaged in arbitrage and did not need to be creative at all: “he simply needed to be alert to price differentials that others had not yet noticed” (Kirzner, 2009, p. 147). According to Eckhard and Shane (2003) entrepreneurial opportunities are “situations in which new goods, services, raw materials, markets and organizing methods can be introduced through the formation of new means, ends, or means-ends relationships. ... [T]he entrepreneur constructs the means, the ends, or both. (p. 336).” This seems somewhat at odds with the idea that opportunities are ‘objective’ (Shane, 2012), but it does imply uncertainties as well as investments of money and/or time.

Particularly in the context of studying the emergence of new industries and markets, there are some obvious difficulties with the dominant ‘discovery theory’ in entrepreneurship, based as it is on the ‘recognition, evaluation and exploitation of opportunities’. First, if opportunities exist to be discovered, then this fails to account for the origin of opportunities. Do opportunities really exist ‘out there’ waiting to be discovered? You just need to know where to look! We know that demand for new technologies is rarely immediate and spontaneous (e.g., Agarwal & Bayus, 2002,

2004; Bijker et al., 1987), so it seems more plausible that opportunities have to be created, or crafted, by human endeavour. The creation of opportunities implies that they are not objective phenomena, and that 'business ideas' may indeed forerun (profitable) opportunities.

Second, what is meant by evaluation? There is no 'time frame' in Kirzner's original work, and the entrepreneur simply calculates whether the likely income will exceed the cost to serve, which, if it does, indicates profit. This is relatively easy for 'alert' entrepreneurs, especially when opportunities are scarce (or infrequent), short-lived, and require little or no investment to exploit. Add in time and matters become more complicated. As Eckhard and Shane (2003, p. 339) put it: "To establish if the opportunity has value in the first case, 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. In the latter case, the individual will need to 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". Consider for a moment what is implied here. The entrepreneur is asked to form expectations about both future prices and future costs to serve. Future costs to serve will be influenced by future process and organisational innovations, which will reduce the unit cost of production. But the rate of process innovation is likely to be impacted by, amongst other things, the future scale of the market. Secondly, the cost to serve will be influenced by the institutions in the market: in other words the way of doing business. Is there, for example, a clear route to market (e.g., a clearly identified buyer)? In the context of a new market it is difficult for the entrepreneur to know *ex ante* about market institutions on the demand side. Meanwhile, to estimate future prices the entrepreneur should determine *ex ante*, not only how (future) customers will respond to the product, but also how future competitors will respond, for if the product is highly successful competitors are likely to respond sooner. To conjecture all of this with any accuracy over a reasonable length of time is extremely difficult. Now if we assume that entrepreneurs are likely to identify more than one opportunity, and that they have limits on their cognitive and managerial capacity to pursue multiple opportunities, then the evaluation rapidly becomes horribly complex, as in these circumstances the entrepreneur faces the daunting task of assessing the future value of each opportunity, ideally against the future values of all other 'recognised opportunities', and indeed against the time discounted probability that he will recognise other, possibly more valuable opportunities in the future. For if opportunities are not scarce but require commitment to be exploited, then a failure to cross-evaluate opportunities likely to imply an opportunity cost, quite possibly a severe one.

In the context of a new market these calculations are essentially meaningless. For by definition the future size of a new market cannot 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! Unless we assume that there is pent up, latent demand waiting to be served, the entrepreneur will have to inspire demand for his product. Success in finding

customers may encourage others to join the industry, but will rival firms be incompetent and damage the industry, or will they be led by marketing geniuses who inspire a wave of demand on the back of which many can surf? The *ex ante* likelihood of either cannot surely be known, not least because market entry by rivals is not entirely exogenous to the behaviour and performance of the initial entrants. As Holcombe (2003, p. 33) observes: “the most important source of entrepreneurial opportunities is the activity of other entrepreneurs”.

Realistically, and particularly in the context of a new market / industry, it difficult if not impossible for entrepreneurs (and especially inexperienced entrepreneurs) to evaluate opportunities in the manner suggested by Eckhard and Shane. As Alvarez & Barney (2007, p. 17) put it, “It is not possible to measure the height of a mountain that has not yet been created”. Much more likely is that these entrepreneurs act on conjecture, conviction and commitment, not calculation, or as Shackle (1979, p. 4) put it: “There is formalism, and there is poetry”. Being more alert or prescient than others is not sufficient for new market entrepreneurship, as it “requires that ‘abstract’ prescience be supported by psychological qualities that encourage one to ignore conventional wisdom, to dismiss the jeers of those deriding what they see as the self-deluded visionary, [and] to disrupt what others have come to see as the comfortable familiarity of the old-fashioned ways of doing things” (Kirzner, 1999, pp 12-13). Ironically, these ‘opportunities’ may even be widely known, and thus already ‘discovered’ or ‘recognised’. ‘Discovery’ is not the issue. The issue is that their development needs boldness, initiative and perhaps even foolhardiness. This is not a matter of calculating risks (Knight, 1921) and exploiting information asymmetries, for whereas “Kirzner’s entrepreneurs respond to changing data, Schumpeter’s [Lachmann and Shackle’s] cause the data to change” (Loasby, 1989, p. 178). It is senseless to evaluate *ex ante* the value of opportunities when the data itself is unstable.

In this world, opportunities cannot be understood until they exist, and they only exist after they are enacted, or created, in an iterative process of action and reaction (Berger and Luckmann, 1966; Weick, 1979, Alvarez & Barney, 2007, 2010). This implies that the entrepreneur begin with a conjecture about what he can sell, which relates to Shane’s concept of ‘business ideas’ and to Shackle’s ‘possibilities’. Entrepreneurial problem solving differs from general human problem solving in that it involves a transaction with some intended future customers: in effect, it involves solving other peoples’ problems (Chiles et al., 2010, p. 18). In the context of a new market raises some interesting questions, including does the customer know he has a problem, or does he need to be persuaded that he does. And does the entrepreneur have the resources to address these (perhaps through recombining existing resources) or does he have to create them. There is a lot of uncertainty, here, but success in finding a buyer will encourage retention of the ‘business idea’ as appropriate, whilst failure will encourage alterations to it.

An industry implies several producers and customers, and some conformity around the product, such that the products of the various producers are close substitutes for one another. It also

implies some significant degree of shared knowledge amongst the producers (and customers). Within the context of a new or emerging industry, the entrepreneur may also be able to learn and adjust his 'business idea' and offer on the basis of the successes and failures of rivals, rather than depend entirely on his own experience. At each stage, the entrepreneur therefore combines information from the environment with his imagination of possible 'histories-to-come' (Shackle, 1979) and makes choices about where to place effort: "The future is unknowable, though not unimaginable" (Lachmann, 1976, p.59). This leads to both path dependency and path creation (Penrose, 1959). Path dependency arises because success breeds success, creates resources and what Penrose calls 'productive services' (or Shackle 'possibilities'), whilst failure breeds resistance. Meanwhile, path creation occurs because in this uncertain world entrepreneurs almost always have choices as to where to place their efforts. Indeed, Shackle (1979 p.19) writes of the 'paradox of choice'. If we knew the best choice to make we would have no choice to make. Thus the choices and actions of the entrepreneur create their paths in the first place (Garund et al., 2010).

An interesting issue then is the extent to which the paths taken, or chosen, by different firms are independent of one another. At one extreme, firms' initial choices may set them out on different paths, and small initial differences may be magnified (e.g., by network effects) such whilst one firm identifies (by luck or judgement) the 'winning formula', whilst others are unable or unwilling to adapt and replicate this, leading to a winner takes it all situation (Hannan & Freeman, 1977; Arthur, 1989). At the other extreme, firms may initially make different choices, but may closely monitor not only their own successes and failures, but those of their close rivals, and adapt their offers accordingly. This relates to legitimation and enhancing legitimacy. Mechanisms known to increase constitutive legitimacy (Rao, 2002; 2004) include mimetic behaviours, actively collaborating, and engaging in evangelical activities. This need or desire to 'huddle together' will lead to herding effects. Indeed, the firms may even go further, and actively collaborate to develop similar offers. In the early stage of market and industry development, particularly when value is in the process of being constructed (Berger & Luckmann, 1967; Bijker et al., 1987), isomorphism, herding and actively collaborating typically enhance legitimacy (Deephouse, 1999).

In summary, to understand the emergence of a new industry we must attend to two contradictory forces. On the one side, a new industry is based on the provision of novelties for which there was no previous supply and demand: i.e., no market. This implies creativity and non-conformity. On the other, the concept of an industry implies conformity, such that the products or service offerings of the various producers are substitutes for one another. By extension, this implies that the knowledge used to produce these goods and services is also broadly similar. This implies conformity. A complete theory of industry emergence therefore needs to account for both the initial creativity and non-conformity, as well as the subsequent conformity or homogeneity in products and knowledge. Such a complete theory is beyond the scope of this paper!

### **3. Service Design: A New Opportunity for Design(ers and) Consultants**

Everything in the human world has been designed, although not necessarily by a professional designer. For example, it is possible to construct a building without involving an architect. Service design is the design for experiences that reach people through many different touch-points, and that happen over time and 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.<sup>2</sup>

Whereas buildings of any complexity are typically designed by architects, and industrially produced products now typically involve product or industrial designers (a ‘profession’ that emerged in Europe and the United States in the inter-war period), services have not, in general, been ‘professionally designed’ (Design Council, 2005). This is for three main reasons. First, there is no or a very limited supply of service designers. Second, the transformation of design skills from material objects – such as buildings or industrial products – to fundamentally intangible or experiential services is not simple. Third, there has been little or no demand for professional ‘service design’, where service design involves the design of intangible products and experiences from the customer’s point of view, ensuring these are useful and desirable, whilst also effective, efficient and different for the provider. According to the service design network:

“Service Designers visualize, formulate and choreograph solutions that are not yet available. They watch and interpret needs and behaviours and transform them into potential future services. ... A redesign of existing services is just as much a challenge as the development of new innovative services.”

Given that roughly three-quarters of advanced economies are based on the provision of services, rather than the production of goods, the potential of service design is huge. To illustrate, the construction of buildings constitutes around 7% of the UK economy, and the UK has over 30,000 registered architects. If services constitute 75% of the economy, then, on a simple, pro rata basis, this suggests the opportunity for around 350,000 service designers! Even this may underestimate the opportunity, as almost all firms provide at least some services (Tether and Bascavusoglu-Moreau, 2011).

The roots of service design can be found in the work of G. Lynn Shostack (1982; 1984), who developed service blueprinting, which maps the sequence of events involved in the provision of a services, and how this sequence relates to the ‘customer’s journey’. Shostack’s ideas were developed in the context of marketing, but were later ‘discovered’ by Design. In 1991, the newly established Köln International School of Design in Germany, was the first university to explicitly identify ‘service design’, whilst a further decade followed before the first ‘service design consultancy’ – Live|Work, opened for business in London. Our research investigates the origins

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<sup>2</sup> See <http://www.servicedesign.org> and [http://en.wikipedia.org/wiki/Service\\_design](http://en.wikipedia.org/wiki/Service_design). Accessed, 21<sup>st</sup> Feb. 2012

and development of Live|Work and two other consultancies that pioneered service design consulting in the UK: Engine, and IDEO.

----- **Table 1 here** -----

#### 4. Methodology

To examine the emergence of service design consulting we relied upon a qualitative field-based study of consultancies. This methodology was selected because of the exploratory nature of the study. We chose to study the nascent field of service design because we had become aware of its existence and became familiar with the leading companies and entrepreneurs in the industry. The composition of the sample was informed by the theoretical sampling procedure (Glaser and Strauss, 1967). For this study we focus on three consultancies which are generally acknowledged to have pioneered the development of ‘service design’ as a consulting practice, and therefore “the industry”. These firms are Live|Work, IDEO and Engine. Service design pioneers from all three of these businesses were interviewed and, adopting a “snowballing” (Miles & Huberman, 1984, p. 28) approach, we then asked these informants to suggest other people and organizations that could help us deepen our understanding of the industry and its emergence. We also used secondary sources to understand the position and significance of the firms, whilst other ‘key players’, such as people in academia or key clients were also identified, and interviewed.

Over a period of seventeen months (Jan-2010 to May-2011) we conducted 49 ‘formal’ in-depth, semi-structured interviews following a common protocol which was adapted to the specific position and background of the interviewees (See Table 1). We started with the entrepreneurs who founded Live|Work and Engine and the practice-leads at IDEO, before moving toward employees, clients, and others. Interviews lasted 90 minutes on average, and were recorded and transcribed. We also had a number of informal interactions with the entrepreneurs/practice leads, their employees, and some clients.

----- **Table 2 here** -----

In relation to archival data, we conducted extensive searches of the websites of the consultancies investigated, the Service Design Network, the UK Design Council, and the Design Management Institute. We read service designers’ blogs and our informants shared with us corporate brochures, and presentations relating to specific projects. We read articles, books, and pamphlets about service design, including *The Guardian* newspaper’s (15<sup>th</sup> March, 2010) supplement on service design, all the issues of *Touchpoint*, the journal published by the Service Design Network. We used these sources to familiarize ourselves with the service design, its methods and tools. Archival data was also used to triangulate and integrate the evidence derived from interviews (Glaser & Strauss, 1967, p. 65).

----- **Table 3 here** -----

The interview transcripts represented our primary data source, and in this particular paper we focus especially on interviews with eight company founders and practice-leads at the three companies. We read and coded the interviews, and then compared our interpretations. The other interviews and field-notes written during the observations were used to reinforce or challenge these initial interpretations, while archival material served to increase our general understanding of the context.

**5. Creating Service Design (Consulting): A Tale of Three Companies**

Interestingly, the three firms that, by common consent, are credited with pioneering service design consulting in the UK had very different origins or routes into service design.

***Live|Work – pre-founding***

Live|Work was established in 2001, explicitly as “a service innovation and design company”, by three friends: Chris Downs, Lavrans Løvlie and Ben Reason, then in their late 20s or early 30s. None had previously started a business. Live|Work now styles itself “a service design company creating Service Equity through Improvement, Innovation and Strategy”.

Downs and Løvlie both graduated in ‘industrial design’. But the timing of their graduation is significant, for while both trained in a traditional design discipline they immediately found themselves working in the new and fast evolving space internet and web design consultancies:

We ... became the first design-educated generation to work with the Internet ... [We] started thinking differently because we worked with the web as our material ...; network thinking became integral to the way we approached design (L-LL).

By the late 1990s they had therefore migrated from industrial design toward computers and interaction design, and both took a Masters in Computer Related Design (CRD) at the Royal College of Art (RCA) in London, where they met. Downs recalls: “We were much more web oriented than everyone else at the RCA”. After graduating, Downs and Løvlie worked for the Interaction Design Institute at Ivrea, Italy. While following in the spirit of the RCA’s CRD course, until it closed in 2005, Ivrea explored business as well as design and technology.

Ben Reason is not a ‘designer’ by training, but a fine arts graduate, who after graduating also worked in web consultancies, latterly as an art director. There that he met Downs, and together they worked together on a project for Orange, the mobile phone company. Later, whilst Downs and Løvlie studied CRD at the RCA, Reason took a Masters in ‘Responsibility in Business Practice’ at Bath University’s School of Management. He recalls:

I read Natural Capitalism ... by Amory and Hunter Lovins and Paul Hawken, and it’s [about] opportunities for transformative change and environmental performance. [T]here’s a chapter that’s all on services [including] an Electrolux case study, where

Electrolux were looking at providing washing services rather than washing machines. So I got excited about that, and [joined Chris and Lavrans] who'd been excited about product design being - in a provocative way - dead" (L-BR).

These experiences sowed the seeds for the 'big idea' behind 'service design':

... everything went, "that's it!". That's the thing that makes sense: interaction design, customer experience, web changing the world, network technologies and sustainability, triple bottom line: we've got something now that feels like it makes sense. (L-CD).

So when we started Live|Work it was based on that fundamental insight – that what clients needed was service experiences design, not particular touchpoints [like a website] (L-LL)

They therefore decided instead to start a "service innovation and design company", abbreviated to 'service design'.

## *IDEO*

Unlike Live|Work and Engine, which we discuss below, IDEO was not a new start-up when it entered into the design of services. Employing around 500 people, IDEO is instead an international and high profile "design and innovation consulting firm" that is headquartered in Palo Alto, California, and eight other offices worldwide, including London.

IDEO was established in 1991,<sup>3</sup> and the company became successful by effectively blending engineering design with a human centred approach to industrial design. It later developed ethnographic approaches to design, and interaction design, particularly under the leadership of Bill Moggridge. IDEO recruits and promotes people with unusual backgrounds, embracing both engineering and design. Fran Samalionis, for example, who with Alan South pioneered service design at IDEO, has a first degree in electronic engineering but later studied for a Masters in Human Factors at University College London: "a classic IDEO cross-dressing type approach" (I-FS).

Around 2003 IDEO decided to reorganize its business, away from geographical offices and towards practices. This led to the identification of 'service design', or 'design for service(s)' as a new practice area, originally headed by Samalionis and Alan South (then also head of IDEO Europe) in London, with the other main centre being Chicago. As South recalls:

By 2003, most product stuff [IDEO's traditional area of expertise] was actually quite well designed; it got increasingly difficult to find a really lousy product. However, if you look at services, most services were then and still are terrible. Therefore it had to make sense to apply all of [IDEO's knowledge and practices] to services. ... Second, the local [London] market was all services. (I-AS)

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<sup>3</sup> Through the merger of three existing design firms: David Kelley Design; Bill Moggridge's ID Two (which had had an office in London since 1969), and Matrix Product Design, founded by Mike Nuttall.

Initially, IDEO simply adapted to services the design and development methodologies that it had previously developed for tangible products, but later found these to be inadequate:

We did two very different types of work, one of which was the sort of product innovation that you do for products and just applying it to companies that didn't have products. And the other was the actual design of services, end-to-end. (I-AS).

The former, is essentially consumer experience design, which was much more “traditional IDEO” (I-MH). ‘Service design proper’ involved issues of organizational change, which were then essentially unfamiliar to IDEO, and co-design, that is designing with others, rather than designing for others.

Although they had been doing design projects for service businesses from the mid-to-late 1990s, for which they drew on the early, seminal work of Shostack (1982; 1984), IDEO was not familiar with other service design methodologies. One client led them into this, broadening IDEO's perspectives, encouraging them to break from their “born and bred in product design” heritage:

“Old school product design was very linear .... I design it, I engineer it, then I get round to marketing it and retailing it. You can't do that with a service. It's just all too interconnected ... it's too meshed up. (I-FS)

IDEO therefore drifted into services, discovering – partly by working with demanding and ‘smart’ clients – that they were different from their prior competences in product design. In 2004 the firm formally recognised Service Design as a practice area, and drawing on their strong network decided to push forward their thinking on designing for service, and service firms.

### *Live/Work – post-founding*

Having set up their company, Downs and friends were painfully aware that, unlike IDEO, they were three young guys with little experience:

We'd never run a business before ... We had no formal training [in service design], weren't that well networked either, and felt a bit lost. ... we had no tribe: “what am I?, I don't belong to any group”. ... We were alone; we needed a framework” (L-CD)

Interestingly, their first concern was not to find a customer, but to find a framework and community:

We expected loads of companies out there to be selling service design. We thought it was obvious, from a logical point of view, that both private and public organizations needed services to be designed. ... [But] there was no commercial awareness. So we said we wanted to be the first. We wanted to bring that thinking into the commercial world (L-LL).

Notice the emphasis is on the thinking, not on ‘making a profit’. Having decided to pioneer service design, they realised they would have to find a way to define and communicate it:

We started thinking, ‘if it’s a new design field, what does it need in order to exist?’ ... well it needs its own language and community .... We spent a lot of time on developing that ... things like service blueprinting and how to prototype a service, the experience of a service. ... We also [knew] it needed academic credibility, so ... we taught service design [various universities and design schools] (L-LL).

What is remarkable here is that Live|Work did not set out to ‘own’ service design, developing and protecting intellectual property. Instead, they set out to build a ‘community’, and engaged in evangelising activities to help spread the word and build a community. Moreover, they were not driven by the need for commercial success and personal gain.

Overall, they considered the design of services was not well catered for by existing design approaches. The branding world knew quite a lot about the big picture of customer experiences, but they lacked an attention to detail. By contrast web and traditional industrial designers tended to focus on the detail but not the bigger picture: “So we took quite a lot from branding, then we took quite a lot from interaction design: we took the best out of the fields we knew”. (L-LL)

They also took the view that to build service design as ‘an industry’, ‘field’ or ‘community of practice’, they needed competition, even though this might be against their commercial interests: “we needed competition” (L-BR).

### ***Emerging Competition: Engine Service Design***

“Engine” (later Engine Service Design, but hereafter Engine for brevity) was established in April 2000, by Joe Heapy and Oliver King, both then about 30 years of age. Both were graduates in industrial design, with Heapy later doing a Masters in Product Design at the RCA, whilst King did a Masters in Design Strategy and Innovation at Brunel University.

Following graduation, both worked in consultancies as industrial and product designers, and met while working in one of these. As Heapy recalls: “It was a very archetypal, industrial-product design consultancy” (E-JH). Unlike Live|Work, Engine was not established with a mission to create service design, but largely as a result of Heapy and King’s frustration with working as traditional product/industrial designers: “just detailing up components ... the backs of televisions” (E-JH). Neither had ever started or run a business before.

We began [Engine] because ... we were getting frustrated by the sort of design that we were doing ... We wanted to [be more creative and] to become more strategic. ... We found ourselves drawn into this vacuum ... we struggled with our identity for a number of years ... we stopped calling ourselves designers [and] felt quite alienated from the design community. ... We called ourselves innovation consultants, ... pathfinders, ideation consultants.” (E-OK)

The first three years at least were very much ‘what the hell are we doing?’ ... We were lost. ... We [were] trying to steer ourselves away from other companies doing innovation in the marketing space ... [We wanted to use] design practice to develop a more substantive, tangible problem solving approach to innovation.” (E-JH)

The contrasts with Live|Work are striking, for Live|Work seems to have been founded on the basis of identifying the need to bring design (thinking and methods) to services, Engine was founded on the basis of frustration with industrial design as it is practiced in London consultancies. Heapy and King did not really know initially to what they wanted to apply their skills and experience in design thinking and methods. Initially, they were clear about where their strengths lay - product design approach to problem solving - and in what did not interest them: “building websites”. It was only really because of a lack of interesting opportunities in product/industrial design that they began to look elsewhere.

Also unlike Live|Work, Engine started with a client: Orange, the mobile phone network provider. This was due to a project for which King was able to take with him from the consultancy where he and Heapy worked. The project concerned making billing information more accessible and ‘fun’, but King and Heapy did not initially recognise this as a part of something bigger – i.e., ‘service design’.

Whereas Live|Work was founded with a clear sense of mission, and responded to their lack of a ‘tribe’ by trying to build one, Engine initially kept themselves to themselves, explored alternative identities and even avoiding the using the term ‘design’. They took a more pragmatic approach to their business development. “We needed work. ... We didn’t know about service design until we started doing service design”, King explains. Whilst Heapy expands:

There just wasn’t time to go and build a category, to set up conferences, and there was no money. ... We didn’t have the credibility either, ... or the skill. ... 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. ... We [only] started talking about ourselves as designers in the last two or three years ... it has become a more legitimate term. ... Fortunately the market caught up and we felt confident coming out as being designers.” (E-JH)

Through reflective practice (Schön, 1983), Engine came to recognise service design as something different to traditional product/industrial design, as involving both an organizational challenge and form giving. King adds that unlike product/industrial design, where the designer is the ‘author’ of the work, in service design the designer is more a facilitator and an editor: “it is a collaborative and participatory process.” Heapy acknowledges that realising these differences between traditional product/industrial design and service design: “has really framed our practice.”

### ***Collaboration between Live|Work and IDEO***

Whilst Engine pursued a ‘heads down’ approach, Live|Work initially built their business by collaborating with IDEO. During his Masters degree, Downs had had an internship at IDEO in San Francisco. There he had learnt about the ACELA train project – an early service design project undertaken by IDEO. He had also made connections within the company. So having established Live|Work, Downs contacted IDEO in London, and explained that they had started a ‘service design company’ and asked to meet up: IDEO’s seniors agreed.

Downs recalls that, much to his surprise, at that time IDEO didn't really design services: they were instead mainly designing intangible products for service companies. Nonetheless, Live|Work were keen to work with IDEO:

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. ... They really helped us out; they taught us a lot and we had a really good working relationship for a couple of years ... they had the network, they'd got [or could access] clients, they'd got some money. ... we knew that if we were going to build a market ... three young guys with not much experience was never going to build a market, but if IDEO start talking 'service design' then people will believe them and trust them, and we'll have a market. We knew we were helping to build a competitor, but we couldn't see any other choice." (L-CD)

Alan South, then head of IDEO Europe recalls:

I never saw that IDEO and Live|Work were direct competitors ... In the early days they had the privilege of a huge amount of time to intellectualise. [Whereas] IDEO had the privilege of credibility and access to some of the best clients and best projects in the world (I-AS).

Mat Hunter, also then at IDEO, their thinking: "There ought to be so much work in this area [Service Design] that if everyone did help each other, then, you know, you grow the pie, not your slice of the pie, as the old saying goes." Reason feels Live|Work helped IDEO move from the 'design of service products' into 'service design'.

At this stage (or indeed subsequently) none of the firms set out to 'own the space' or 'appropriate the returns'. Engine wanted work that stimulated them, whilst Live|Work combined their desire to have fun, with a sense of mission: "it has been our mission to create service design" (L-BR); "we wanted to do was turn Volkswagen into a service company" (L-CD); We were in it to create a new field. ... 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 ... we thought the world needed it." (L-LL)

Whilst they collaborated with IDEO, Live|Work had a more distant relationship with Engine, 'just agreeing on some language and definitions ... to try to create a bigger market than just one for us kids' (L-LL). However, the founders of both companies permitted and encouraged their staff to socialise and to share knowledge through the forum of 'service design drinks and thinks', a set of occasional meetings organised by staff in the firms. Both firms have also been active in the Service Design Network, which was established in 2004 by Professor Birgit Mager, for example attending and giving talks at the SDN's annual conferences, and writing articles for the Network's journal: Touchpoint: The Journal of Service Design.

### ***Getting Clients: Encountering Institutional Differences and Using 'Stealth'***

A new 'industry' needs both a number of providers (and competitors) on the supply side, but it also needs clients. As mentioned, unlike Live|Work, Engine began life with a client, which

enabled them to “work with major brands right ... from day one” and so acquire a lot of knowledge about how major businesses worked and commission consultants” (E-JH). Both Live|Work and Engine had a problem of inexperience and lack of credibility. This was exacerbated by the nature of what they were selling: consultancy services are credence goods. Unlike search goods, it is difficult or impossible for the consumer to ascertain the value of what is being provided prior to buying it. And the term ‘design’ was also more often a hindrance than an asset, as design is associated with ‘flaky stylists’ rather than serious business.

Even IDEO, a well established and high profile design firm, experienced difficulties engaging with service organizations, due to differences in the nature of what is being designed, as well as institutional differences between product based companies (with which IDEO were familiar) and service based companies (with which it was not) in how firms undertake design/innovation projects, and how they ‘buy’ consultancy services. As South explains:

[The] person inside a product firm that looks after a product it is called a product manager. It’s a well understood discipline. ... The discipline of a product manager within service organizations is much less well understood. [And] if you look at the profit and loss statement of a service company you don’t expect to see a big line on development” (I-AS)

And Samalionis expands on these ‘fundamental differences’:

Product type organizations, they do R&D. They spend time figuring out what a future product might be. ... There is a well understood process for prototyping .... Prototype is an alien word in service, completely alien, “What on earth is a prototype?” ... And you’re lucky if you can get [service organizations] think further than their profit and loss cycle. ... It’s all done in current business. ... it means they have a very different perspective on innovation ... [And] the clock speed is different; the clock speed [in services] is much, much faster (I-FS)

So the challenge was not just ‘finding a buyer’, but finding a buyer with the institutional arrangements needed to buy consultancy services and/or to rapidly adjust to the way in which service development is undertaken in (would be) client firms. For a company like IDEO, with ‘product and engineering design’ in its DNA this was a significant challenge:

With product, there is a language [and] there is an intuitive understanding inside your client around what it is you’re actually going to do: there is no design language for service. ... You [also] need so many more different perspectives in the conversation early and throughout the design and development process. (I-FS)

IDEO had to develop new techniques, such as ‘faking an advert’ to encapsulate a proposition.

Live|Work and Engine faced similar challenges of ‘finding a buyer’. Downs recalls that:

At the beginning it was stealth. We'd do interaction design projects, but we'd always push it a little bit further than a traditional interface, we'd just give them more. We'd talk them into expecting more from us. ... You'd just learn to keep quiet about certain things, so the sustainability thing didn't really creep in much. We'd bring it into projects rather than make it explicit that that was part of our DNA. .... we just looked like interaction designers ... we started by stealth and built trust over time. (L-CD)

Despite later including the term in their name – Engine were (and still are) coy about using the term service design when meeting new clients:

We [still] don't go in talking about service design. We go in talking about business issues and how we can help, and then refer to that as a process of service design; we talk about customer experience [and] our research techniques ... and that is what companies buy-into. (E-OK)

Gradually, Live|Work and Engine accumulated project experience and encapsulated this into their portfolios of case studies, which are vital for both gaining credibility with clients, and for illustrating service design, both to new hires and a wider audience. As King, Reason and L. Løvlie observe:

... [service design] became much easier to sell once we had case studies. ... You begin to get a very solid base of work, and then it becomes much easier to deliver. (E-OK)

A big difference [compared with when they were starting out] is we now have lots and lots of good case studies. When we set out, we were going out and saying "service design is really great", but we hadn't done any; ... with businesses, there needs to be some real-life success stories. (L-BR).

It's design, so you have to show it, you can't just talk about it. ... It's the best way to both teach people and to show clients what we can deliver. ... In terms of our capital, our case studies are our most important capital. (L-LL)

Clients can understandably relate to projects done for organisations that are similar to themselves, and an interesting difference has arisen between the public and private sectors in their attitudes to sharing experiences. In the public sector, clients do not seek to achieve competitive advantage from their new or redesigned services. They are generally relaxed about their project's being used as a case study to illustrate service design and its benefits. In the private sector, meanwhile, clients often insist on non-disclosure agreements, which make it much harder for the agency to a portfolio of cases and to be propagate service design. In other words, due to these institutional differences, the path to development has been easier in the public than private sector.

### *Isomorphism and New Entrants*

As service design has developed, as a small, infant industry, a degree of convergence occurred in the service offers advanced by the three pioneers. For example, Live|Work's original emphasis

on “natural capitalism” and on people ‘using things rather than owning them’ (recall that they “wanted to ... turn Volkswagen into a service company”, and that this was perceived as part of the company’s core mission, or its DNA) is now much less prominent. It has become something more personal to Ben Reason: “I’ve got a thing about looking for opportunities based on ‘natural capitalism’, so service design for a green agenda, [but] it’s actually quite hard. ... It’s a kind of ambition. It’s mine, but I am not sure everyone here is quite so keen on it.”

More broadly, Reason reflects:

We had quite a few years of ‘service design’ not necessarily being a useful thing to say to people, [so] we had [to develop] other routes to market. [But] it has changed over the past couple of years. ... Now we have to kind of own it a bit more than we used to. .... [now we have to think] ‘how do we stand out?’. ... ‘how do we win this?’ So [now] it’s not selling ‘service design’, it’s selling why we are a better service design company. That’s a sign of change, isn’t it? (L-BR)

But simultaneously “service design is [now] going in slightly different directions; [with] different firms have their own take on it”. Here, aside from Engine and IDEO, he was referring to (amongst others) companies like Think|Public (founded in 2004), which focus on design for social innovation, and STDBY (founded in 2003), which focuses on only on the ‘research front end’ of the service design process. The pioneers show no animosity towards these young companies, and show no desire to own ‘service design’. Løvlie, for example, says:

“[There is] nothing that I’d say is ours. .... I don’t think we can claim ownership to any [specific methods]” (L-LL)

There is however some shared annoyance that having established a market for ‘service design’ some existing web- and industrial/product- design companies are now starting to market themselves as ‘service designers’. Whilst there is some concern about increased competition, there is probably greater concern that these existing practices are simply applying their existing design techniques to services, with no concession to the specificities of service. The concern is that this may do reputational damage to ‘the industry’ as a whole.

## 6. Analysis

Services dominate advanced economies, but few services have been ‘designed’ by professional designers.<sup>4</sup> The purpose of this paper has been to examine the emergence of an industry and market. Despite the widespread acceptance of the concept of industrial ‘life cycles’ remarkably little is known about the origin of new industries (Giarrantana, 2004; Rao, 2004). We hope to make a contribution to this literature. Moreover, the few studies which do exist are largely based on technical innovations giving rise to new products or product categories. Rao, for example,

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<sup>4</sup> For example, typing “service design” into LinkedIn produces 4,625 ‘hits’ for people in the UK, whilst “service designer” produces just 414 hits. This indicates there are between a few hundred and a few thousand self-identified ‘service designers’ in the UK. By contrast, we know there are roughly 30,000 registered architects in the UK. Service design remains a small occupation with big potential, and this is also true of the service design consulting industry.

states: “A staple premise of organization theory is that new industries are based on radical product” (Rao, 2004, p. 359). The second part of that statement is arguably tautological, and in our case the first is not true. There was no ‘radical product innovation’ at the start of this industry.

Drawing on concepts from three literatures: that on entrepreneurship, on path dependency and creation; and on institutional theory, we consider that this paper has made contributions to understanding entrepreneurship and new industry/market emergence.

First, with respect to entrepreneurship, the literature is dominated by an ‘opportunity discovery’ theory of entrepreneurial activities. Our case fits very poorly with that interpretation, which perceives opportunities are ‘objective’, waiting to be discovered and ‘exploited’ through the development of ‘business ideas’ (Shane, 2012). Of the three companies, only IDEO may have approached the opportunity of ‘service design’ in this way, and IDEO was the only established company of the three. IDEO sought to find new applications for their design methods, aware that opportunities for product design were drying-up and that their location in London meant there were potentially many major service companies who could be clients. At a basic level they may then have recognised ‘the opportunity’, but they did not and could not really evaluate it accurately, not least because they did not anticipate the very different ways of doing business in service as opposed to manufacturing companies, a point which we discuss below. Furthermore, although they were motivated to ‘get into services’ as part of profit seeking behaviour, they were also motivated by a desire to ‘stretch design (thinking)’. Of course this may reflect deliberate, long-term strategy to position IDEO in the most profitable segment of the design consulting industry. But they did nothing to inhibit the entry of others, especially unknown new firms, which in the short run at least would have been beneficial to their market position.

With the two start-up companies, neither followed the ‘recognise-evaluate-exploit’ logic of discovery theory. Engine drifted into services. Its founders were disenchanted with work they were being asked to do in London consultancies. They left to start their own business, but were ‘lost’, not knowing what to call themselves. Live|Work were different. They developed a proposition, involving ‘interaction design, customer experience, web and network technologies as well as sustainability and the ‘triple bottom line’. This ‘clicked together’ for them as service design. Having ‘discovered’ this, they then ‘discovered’ that nobody else was doing it. In Shane’s (2012) language, their ‘business idea’ ran ahead of the ‘market opportunity’. Because of this, they set out to build a language, a community and market. But they had no sense of the size of the opportunity, its profitability, and nor did they set out to protect the idea from others. Indeed, quite the opposite. So the ‘recognise-evaluate-exploit’ logic of ‘discovering opportunities’ makes very little sense in this context.

Instead, a logic of ‘imagine-create/nurture-legitimate’ makes more sense. All three companies imagined a demand for the application of design to services. All three companies recognised the importance of creating and legitimating a market, although the way in which they did this differed. Live|Work deliberately set out to build a language, build a community, and engaged in a variety of evangelistic behaviours (Rao, 2002, 2004) including teaching. They also recognised the need for competition, and so collaborated with IDEO. Engine was the most ‘heads down’, but not because they were unwilling to share or engage, rather because they needed money and

did not think they had the time, skill or credibility to ‘build a community’. None of the companies sought to ‘own the space’, and have participated in collaborative activities (e.g., being active in the Service Design Network). All have also encouraged their staff to network amongst themselves and share experiences (von Hippel, 1987; Schrader, 2002). In this way, they have not sought to exploit something that exists, but rather to construct and nurture something that does not. These collaborative activities have helped build service design’s legitimacy.

The legitimacy of service design was enhanced by the convergence in the offers of the individual companies. Live|Work began with a strong evangelical mission which included sustainability and a ‘use not own’ agenda, but this proved a difficult sell, and it is now difficult to find this sense of mission on the company’s website. Engine and IDEO meanwhile both evolved from designing service products to designing services and service organisations. The companies now find themselves in more direct competition. The challenge now is less how to sell service design, and more how to be a better service design consultancy. Each has had to reflect on its own strengths and weaknesses and ‘find their space’. This fits the pattern of evolution identified by Deephouse (1999) and his theory of ‘strategic balance’, in which firms face a tension between ‘being different and being the same’. In the early phase of a market, there are benefits from being the same. Later, when the market is established there are benefits to ‘being different’.

This also relates to paths and institutions within the market. Obtaining one project ‘opened doors’ to other similar project, both for individual firms and for the industry as a whole. This was particularly the case because the firms tended to ‘over-deliver’ to build their reputation. Market institutions also facilitated or hindered the selling of service design. IDEO in particular was struck by the differences between how new product development is typically organized in a product firms – with which they are familiar – and how new service development is organised in service organizations, an environment with they were unfamiliar. Live|Work engaged in ‘stealth’ to find clients, initially pretending to be interaction designers. Where the institution of ‘design managers’ existed in firms this also opened a route to market. Another important institution in this story is the non-disclosure agreement (NDA), which make it difficult for consultancies to talk about their past projects, and this is significant because cases (i.e., past projects) are amongst these firms’ ‘most important ‘capital’. Because they were not concerned with confidentiality, public sector clients were typically much more relaxed about confidentiality, often not requiring an NDA. This made it relatively easier to sell service design to public service organisations rather than private sector companies. Several public service organizations then set up service design teams or departments, which provided further opportunities to sell and build relationships. These findings show how market institutions inter-relate with paths. Institutions ease or hinder market activities, and past successes influence the opportunity space going forward. But the past does not determine the future: firms still have choices to make which shape their ‘histories-to-come’ (Shackle, 1979).

Finally, we note that service design may be moving into a new phase. That service can and should be (professionally) ‘designed’ is increasingly legitimate idea. In 2012 *Design Week*, an industry magazine, introduced a new category for ‘service design’ amongst its annual awards. And universities and colleges, including the Royal College of Art, are introducing courses on ‘service design’. These are indications that ‘service design’ is becoming legitimate. Yet the danger is that having painstakingly built the market for ‘service design consulting’ another wave of

entrepreneurs will now ‘discover’ this opportunity. But unlike the pioneers they may have little emotional attachment to it, and instead just see it as an opportunity to ‘exploit’. These carpetbaggers may rush in, providing design services which are poorly adapted to the specificities of services, and service organizations. Such behaviour may well tarnish the reputation of the whole industry, undoing the painstaking work of the pioneers.<sup>5</sup>

## 7. Conclusions

This paper offers a rare glimpse into the emergence of a new industry, and particularly a new industry based not on a technical invention, or a radical product innovation, but rather on a consulting offer, which is a ‘credence good’: i.e., something that customers find difficult if not impossible to evaluate prior to purchase and ‘use’. Given the dominance of services in advanced economies this itself is a significant contribution.

Although the development of this industry was clearly based on entrepreneurial activities, we find the dominant ‘discovery-theory’ of entrepreneurship to be wholly inadequate for the task of understanding this industry’s emergence. Discovery theory presupposes the existence of opportunities (i.e., their emergence is exogenous to the behaviour of entrepreneurs), yet beyond observing that most of the economy is based on services and that services, like everything else in the human world are designed, it made little sense to talk about the ‘opportunity’ for service design as something objective waiting to be discovered. This opportunity had to be created, or constructed by endogenous actions, and we have shown some of the ways in which the entrepreneurs did this. Secondly, discovery theory also presupposes the existence of resources, which may need to be ‘recombined’ to address entrepreneurial opportunities. But do all resources exist and just need to be ‘recombined’, or do new resources need to be created. Thirdly, beyond the scale of services as an aggregate category it made no sense to evaluate the opportunity to design services. A proper evaluation needed to take account of routes to market, and therefore the market institutions, and even the established firm amongst the trio that developed this industry had very little prior knowledge of these issues. Fourthly, exploitation makes little sense, for it implies that there is an existing opportunity to exploit, which there was not. Instead, the opportunity had to be built, through creative, nurturing and legitimating activities. Also notable is that none of the pioneers ever tried to ‘own the space’: i.e., to maximise their own benefits from exploiting this opportunity by keeping others out.

Indeed, it is rather shocking that the dominant view of entrepreneurship says so little that is relevant to the emergence of this new industry. Instead, we find valid and useful insights in the work of Penrose (1959) and Shackle-Lachmann (Shackle, 1979; Lachmann, 1986) on path dependency and path creation. Existing and creating (market and non-market) institutions is also important, as is firms’ behaviour with regard building legitimacy, through to convergence and knowledge sharing.

Of course this is only a single case study. More should be undertaken to develop a full understanding of the emergence of new industries, which is a fascinating area of study.

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<sup>5</sup> This, at least, is the pattern of industry development that affected the market for Total Quality Management (TQM) consulting (David and Strang, 2006).

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**Table 1: Timeline of events in the emergence of Service Design especially in the UK**

Early 1980s	G. Lynn Shostack publishes a paper on ‘How to Design a Service’ in the <i>European Journal of Marketing</i> . Two years later she publishes ‘Designing Services that Deliver’ in the <i>Harvard Business Review</i> . Other marketing scholars also write about service as experiences, and as experienced.
1996-1997	IDEO Boston works with Amtrack on the “ACELA” project, IDEO’s first service design project. Richard Eisermann, who leads the design team working on this project will later be the Design Director at the Design Council in London and, after that, found the agency Prospect.
2001	After helping develop the Interaction Design Institute Ivrea in Italy, Chris Downs, Lavrans Lovlie, and Ben Reason found Live   Work, and adopt the label ‘Service Design’ to create the first Service Design consultancy. They establish a Wiki to help build a shared language, etc.
2002	Bill and Gillian Hollins publish “Total Design. Managing the Design Process in the Service Sector (Pitman, London). Bill Hollins was one of the teachers who inspired Oliver King
2002	Live   Work and other service designers organize and run an event on Service Design at the UK Design Council
2002	Engine, founded in 2000 by Oliver King and Joe Heapy, starts to use the label ‘Service Design’.
2004	The UK Design Council embraces Service Design after an initially resisting the concept. It starts publishing articles on Service Design on its website to help spread a common understanding.
2004	IDEO formally introduces a Service Design and Innovation practice, based in London and Chicago.
2004	The UK Design Council sets up RED a ‘do tank’ aimed at developing new thinking and practice on social and economic problems through design-led innovation. It closed in 2006.
2004	The Service Design Network is created by Köln International School of Design, Carnegie Mellon University, Linköpings Universitet, Politecnico de Milano/Domus Academy and the agency ‘Spirit of Creation’. The aim is to create an international network involving organizations and institutions dealing with service design in a professional way.
July 2006	Joe Heapy of Engine and Sophia Parker of the think-tank DEMOS, publish a pamphlet entitled “The Journey to the Interface”. It makes the case for a fresh approach to public service reform less based on competition and contestability, and more focused on closing the gap between what people want and need and what service organisations do. Ed Balls MP, then Economic Secretary to the Treasury (and the Prime Minister’s right hand man), launches the pamphlet.
2007	The UK Design Council sponsors DOTT (Designs of the Time) 2007, a year of community projects, events and exhibitions based in North East England. Amongst other activities is a project involving Live Work aimed at exploring how service design can improve the quality of daily life in five aspects: movement, health, food, school and energy.
2007-2008	Lucy Kimbell at the Said Business School, Oxford University runs a project on Designing for Services (as part of the AHRC/EPSRC “Designing for the 21st Century programme”). IDEO, Live Work and RadarStation, another agency are involved. At one project meeting, Chris Downs says to Bruce Tether (the first author) in relation to IDEO: “We need them to do well”, indicating that Service Design is still then in its infancy and rather vulnerable.
2008	The first international Service Design Conference, organized by the Service Design Network, takes place in Amsterdam. The theme of the conference is “Connect.Share.Enable”. The network has 43 members by the end of the year.
April 2009	The Service Design Network publishes the first issue of “Touchpoint”, the Journal of Service Design. The journal represents “a platform for sharing experience, expertise, and experiments in the field of Service Design.”, and publishes contributions by practitioners, academics, industries and students of Service Design.
March 2010	<i>The Guardian</i> newspaper, one of the UK’s most respected ‘quality’ national newspapers, publishes a ten-page supplement dedicated to Service Design
April 2010	The Design Management Institute (DMI) launches a seminar series called “Service Design for Business: Key Methods and Strategies for In-House Teams” in collaboration with Engine.
Dec. 2010	23 service design professionals publish the first comprehensive textbook on Service Design, called “This is Service Design Thinking”.
Sept. 2011	The Service Design Network has 189 members: including 44 universities, 44 business companies (including McDonalds, Orange, Virgin Atlantic, and Volkswagen AG), and 86 agencies.
March 2012	<i>Design Week</i> , the UK leading trade magazine for the design profession, includes ‘service design’ for the first time in its annual awards. Service design thereby joins other longer established categories, including ‘identify’, product, packaging, interiors, print communications, brands, product, furniture, exhibitions and interaction design.

**Table 2: Summary of Interviews and Interviewees**

Organization (# of informants)	Position of Interviewees
Design Agency: Live   Work (5)	Co-founders (x 3); Former head of design; Service Designer.
Design Agency: Engine (11)	Co-founders (x 2); Senior and Principal Service Designer(x 4); Service Designer and Associates (x 6); Business development manager; Office manager.
Design Agency: IDEO (6)	Former Head of IDEO Europe; Former lead of Service Design and Innovation; Former head of Consumer Experience design; Lead for Service Design and Innovation; Lead for Organizational Factors; Service designers (x 2)
Design Agency: STBY (2)	Co-founders (x 2)
Design Agency: Plot (2)	Co-founders (x 2)
Design Agency: Prospect (2)	Co-founder (1 of 2); Senior service designer
Design Agency: ThinkPublic (1)	Founder
Independent service designers (4)	Independent service designers (x 4)
'Clients' Business firms (7)	Director of Service Design at CAPITA; Director of Customer Experience, Cisco IBSG; User Experience Principal at Microsoft; Director of Design and Usability at Orange; General Marketing Manager at Unilever; Service Designer at T-Mobile (x 2)
Other: UK Design Council (2)	Chief Design Officer; Head of Design

**Table 3: Data Sources and their Use**

Data source	Type of data	Use in the analysis
<b>Interviews</b>	<i>Interviews with company founders and practice leads</i> working in the three consultancies discussed in this paper.	Understand the dynamics characterizing the emergence and legitimation Service Design as a design field and as a 'market'. Gain insight into behaviours, motivations, and difficulties encountered
	<i>Interviews with service designers (c.30)</i> working in seven consultancies	Gain a fuller understanding of what Service Design is, and how it differs from other, more established design disciplines.
	<i>Interviews with clients</i>	Investigate the extent of acceptance and legitimation of Service Design among clients.
	<i>Interviews with members of the UK Design Council</i>	Gain an external perspective on the emergence of the discipline/industry /market from informed observers.
<b>Observations</b>	<i>Field notes from attending meetings.</i>	Understand the methods, tools and techniques of Service Design. Triangulate interpretations emerging from interviews.
	<i>Informal conversations.</i> Informal talks with founders, practice-leads, managers, and service designers at social events, before and after meetings, workshops and conferences.	Familiarize with the Service Design community, gain trust of informants, discuss insights from observations and interviews and reflect on emerging interpretations.
<b>Archival data</b>	<i>Company-related documents</i>	Familiarize with the organizational context.
	<i>Blogs , websites and publications</i>	Analyze the evolution of the discourse about the emerging field and category of Service Design. Support, integrate, and triangulate evidence interviews.