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## Introduction: Design for Design The Influence and Legacy of John Heskett

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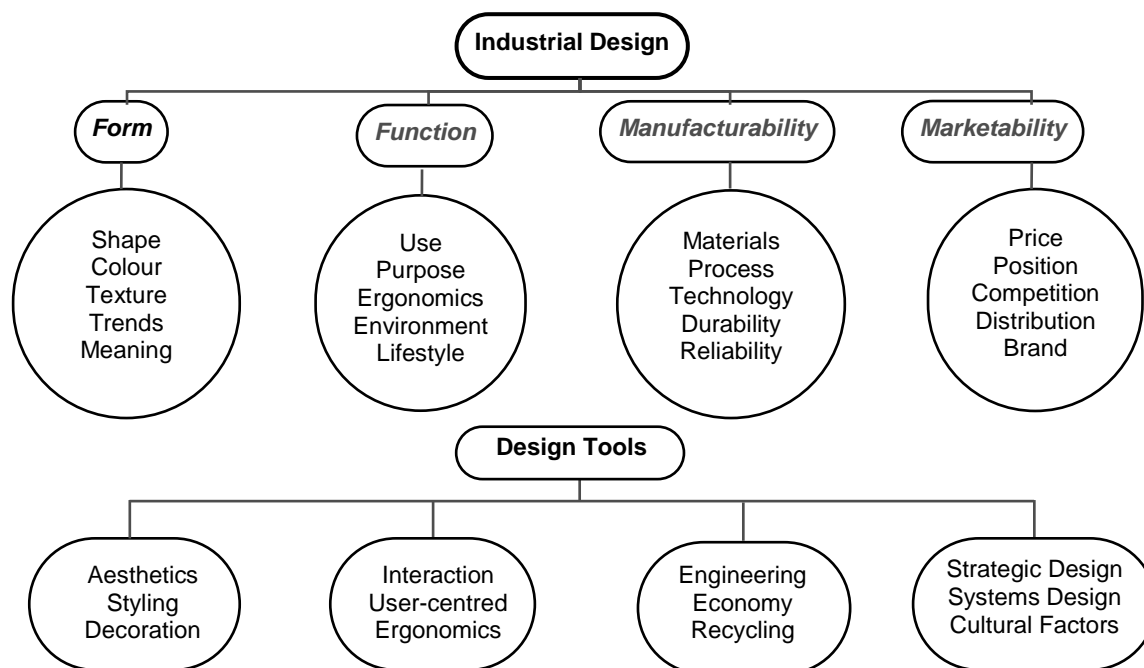
### Economic background for design studies

Since the early 1990s John Heskett was very clear about which traditions in economics were useful and which were not. As the extracts or versions from the seminar manuscript "Design and the Creation of Value" published in this volume begin to show he never saw neoclassical theory as very useful. The theory mainly applied an aggregate market view based on the assumptions of rational choice. Neoclassical economist may speak of "the consumer", but they mean an average of prototypical personae rather than the individual in flesh and blood. To deal with design as Heskett does means to focus on design *'as the human capacity to shape and make our environment in ways without precedent in nature, to serve our needs and give meaning to our lives* (Heskett 2005, p. 5) Although an assumption is that our environments may be rational, neoclassical theory seems unable to grasp the concepts of design. Neoclassical theory assumes rational action because the number of consumers and firms are high and the typical consumer is assumed to behave rationally. Problem solving and meaning must be highly individual although there may be a common need for nutrition, heat, sustainable surroundings etc., but the way they are materialized is highly individual. People use individual expressions to create and express their identity. Neoclassical economics seem unable to support this. An attempt would probably rely on comparative statics of *Cobb Douglas* growth theory modeling design as an investment that is assumed to reduce the costs or increase consumer utilities (e.g. Kaldor 1961). To identify design in such a framework is impossible and so far no serious attempts have been made. Heskett would have found such attempts highly improbable.



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**Design as a Complex Business Activity**



As the figure shows, design in business is a very complex issue because, while design in a creative context is restricted to shape, color, context, texture, trends and meaning and with aesthetics, styling etc as the main tools, design in business means much more. Issues of Form and Function have been well documented before Heskett add *Manufacturability* and *Marketability* into the picture. The understanding of manufacturing and marketing is far beyond what even today (2014) is taught in many design schools. While the tools of aesthetics etc were established, user-centered interaction, drawing on cognitive psychology and ergonomics, engineering economy, cultural factors and economics and business factors are still considerable challenges to designers and their education, Vice versa, many of the design tools and dealing with form and function as well as the finer details of manufacturing, marketing and branding is alien to business schools.

Maybe it was the tradition of the London School of Economics, which hosted the Austrian economist Friedrich August von Hayek over several periods that gave John an impetus to look elsewhere. He found in the Austrian school the beginnings of an economics that might be more capable of encompassing design as an economic factor. In contrast to the neoclassical approach, which assumed comparative analyses between various equilibrium states of the economy, the Austrian school was process oriented. The economic system and its role in dealing with resource allocation were seen as a fundamental knowledge base distributed in small bits among a large population. Integrated in this view was a fundamental aspect called *method individualism*. It meant that in principle all kinds of behaviour should in principle be explainable as the action of a single person with her/his values, options and opportunities (Elster 2007). Having such an explanation one could aggregate into social

networks, as we would call it today, or simply markets and social structures. The knowledge needed includes consumer valuations, embedded as problem solving and meanings in products, environments, artefacts and systems (Hayek 1945).

As seen in von Hayek's articles on the emergence of markets from 1937 and 1945, this meant that the focus could be on the individual user or customer and that markets were the aggregate emergence of the efforts of many actors acting in a kind of uncoordinated, but still concerted action-each pursuing their own targets. This would give a rationale for the importance of design as a necessity for each person to be involved with. Meaning implies that design also connects people.

## **Economics of design**

A concern is that design is not well accounted in neoclassical economics. He met this point of view by U.S. Department of Commerce officials and Council of Competitiveness and listened to important people who did not recognize the value of design in economic terms. The reason is the static – comparative nature of the neoclassical models and their failing ability to deal with problem solving and in particular the non-existent, imaginable.

The value statement that flowed from this approach was expressed in profound clarity by the Austrian management guru and immigrant Peter Drucker:

“Quality in a product or service is not what the supplier puts in. It is what the customer gets out and is willing to pay for. A product is not quality because it is hard to make and costs a lot of money, as manufacturers typically believe. This is incompetence. Customers pay only for what is of use to them and gives them value. Nothing else constitutes quality”. (Drucker 198)

This was a quotation that Heskett repeatedly presented in his speeches: it grasps the point, essential to any economics of design, that quality and value were very closely associated.

Heskett's first reference to the term economic value comes from Adam Smith (1776) who distinguishes between value(s) in use vs. value as exchange. In practice, economists tend to disregard this since it does not make much sense in economic reasoning. Also the Marxian concept of work as a foundation of values is disregarded, but covered by the Drucker quote above. In the 2008 article however his aim is to assess the contributions of economic theories to explore the value of design. The exchange value is usually identical to the market price, the amount a customer (not user) is willing to sacrifice.

In this article Heskett quotes the Austrian economist Carl Menger (1871) for stating that value is not a quality of the object per se, but an element of consciousness of men. This qualification, which is later affirmed by another Austrian economist, Von Wieser, Von Mises and even adopted by a more neoclassical economist Kelvin Lancaster (1966) in his theory of consumer choice. This means that value itself is of a subjective nature and no unique scale can determine its quantity according to a fixed scale. The Drucker quote indicates that it is the customer or user who decides what is quality.

Heskett starts by attributing the theories of growth to Joseph Schumpeter (1950). This makes sense as Schumpeter is the founder of much modern theory of growth in an evolutionary perspective. His direct followers were among others Romer and Nelson. Heskett (1993) quoted Schumpeter when explaining how the term “creative destruction” could denote radical change in habits, patterns of consumptions, satisfying needs etc.

## Strategic design

A basic concept for strategic thinking in design was Heskett's categorization of strategic decisions as regular (or incremental) vs. innovative and product focussed vs. corporate focus. While the model was not published, he often presented it and it is available in several presentations.

The innovation vs. regular business distinction is concerned with resources in general. No company can be fully occupied by innovation all the time. Companies need to explore their opportunities and threats in order to commit resources to adapt to the coming challenges. In a stable environment this may happen less frequent and there is more available time and resources to build exploitation and accumulation. Design competencies may play a very important role in both exploitation and explorations. Innovation is investment, which means holding back financial resources in the hope they may yield better payback. To make the best investment strategic explorations are essential, and investment may indeed include new designs. The regular business is harvesting earlier investments.

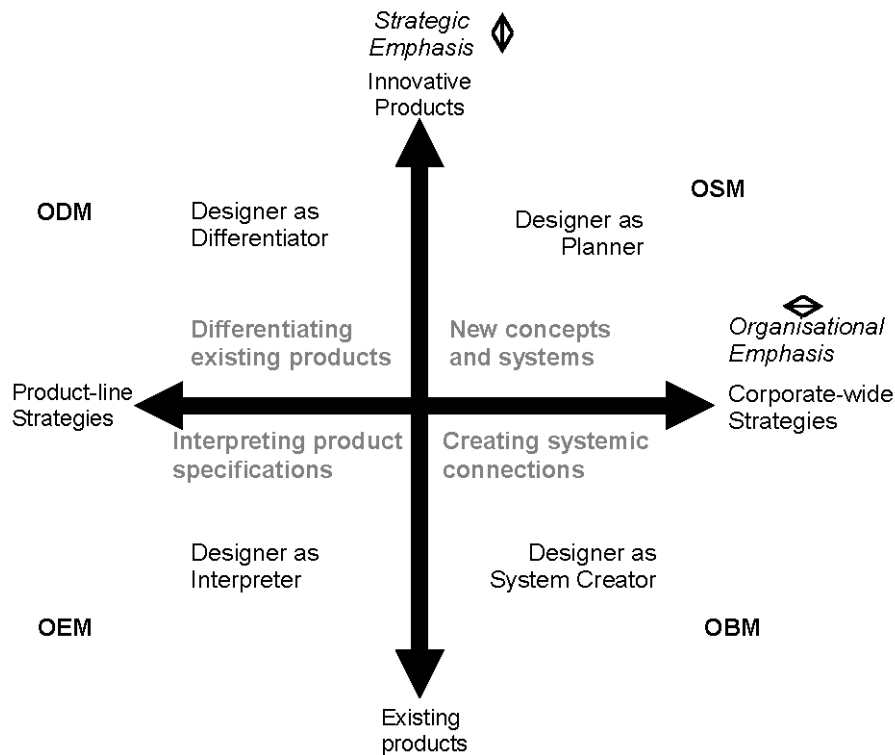
In exploitation design perform its traditional assignments of sketching, modelling and building products, artefacts, services, and experiences. In exploration periods, design skills may provide the ability of “seeing” threats and opportunities, weak and strong signal, using sketching techniques for scenario building and exploring various sets of consequences. Design skills and methods may support the managerial approaches by delivering clear and nuances, taking care of some uncertainties and ambiguities that traditional managerial methods become short.

The horizontal distinction concerns perhaps an important historical reading; the 2000 borderline. This means a sort of change between the age of mass production and the age of digitalized production.

Jay Doblin and the Doblin group who was associated with IIT Institute of Design extended their focus to become corporate. In the 1990s considerable analyses, examples and success stories were built around this new focus. The brief logic is that in order to organize and manage the complexity of increasingly *organic* (as contrasted to the traditional hierarchic and mechanical firms), communication, motivation, problem finding and solving has to build on *concerted action* involving the whole organization. Evidently a concerted action was mostly needed when innovation was required. Companies in a pure regular or incremental act would still be able to keep its stable systems.

The syntheses of this Heskett built into a two by two matrix. The full model is shown here.

Different levels of design practice



The four fields have been labelled OEM (originally thought of as *Original Equipment Manufacturer*), because the prototype was a company taking orders for sub-supply of parts for larger companies who would assemble the complete product based on modular designs. The design challenge for these firms was to interpret product specifications and adapt them for the production system in order to secure effective production or at least to reduce the cost to make a profit. Many such companies like the one's Heskett often referred to like in the reference to the large number of companies in the Pearl River Delta who work as sub-suppliers, producing for other companies. Their hope for the future was the get their own product, to move from the left lower corner to the upper corner, ODM (labelled *Original Design manufacturer*), developing whole new concepts and systems including customer education, services, integrating the whole company. This means developing their own products, to employ design for products. It also means developing marketing research, distribution networks and marketing management. This would require investments and explorations and most likely the acquisitions of new skills and managerial competences. Perhaps the pursuit for these companies would stop here, or it could, if successful lead to aspirations for a corporate focus where cross-disciplinary teams and branding would issues would work for the new concerted action.

Innovations were seen in the context of OSM (or *Original Systems manufacturing*). It was here the inspiration of the IDEO and Doblin Group was strong and often realized in prosperous companies such as Google, Apple, and other. The big trick of this trade was to exploit the innovation into branding (OBM or *Own Brand Manufacturing*) where markets were *domesticated* to create loyal long term customers with little wish to try the

competitors offers. The solution was rarely to change the whole company from an innovative- into a stable brand mode, but to keep a steady pace in innovative departments, while branding would work elsewhere to deal with customers.

What remains today of John Heskett research for Economics of design?

How important, and how well do John Heskett explain the value of design in business. We know that John often spoke to business people and that his messages got well through. We still see that many business people are not on par with the understanding of design. The founder of SONY, Akira Morita, himself educated an engineer, claimed that he thought a designer could easily become a marketing practitioner, but never the other way around. There could be several good reasons. The selection and education of the two is very different. A design is supposed to command a visual understanding and expression. Marketing students may be educated in research, but rather based on reason based approaches like hedonic scales, where the prospective customer is asked to suggest a numeric valuation. The calculation of numeric values may not itself be a challenge, and Heskett was very much aware of the possibility of using statistics in so-called qualitative studies (personal communication). However, much use of statistics drops the essential focus on the individual and many marketing people are asking "how many" (people will demand own new product), rather than "how much" it means for the individual and taking the extra round to understand whether those with a strong favour is a minority or majority.