



What are the roles of intermediation in the design industry?

— The Chinese and European Case

A thesis presented to the
Erasmus University Rotterdam
in fulfillment of the requirements for the degree of
Master Cultural Economics and Cultural Entrepreneurship

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March, 2007

CHAPTER 1 INTRODUCTION	4
1.1 RESEARCH BACKGROUND.....	4
1.2 RESEARCH AIMS AND OBJECTIVES.....	4
1.3 RESEARCH QUESTION, HYPOTHESIS AND KEY ASSUMPTIONS.....	5
1.4 METHODOLOGY	6
1.5 THESIS IN OUTLINE	7
CHAPTER 2 THEORETICAL INSIGHTS	9
2.1 INTRODUCTION.....	9
2.2 REVIEW ON CAVES AND “CREATIVE INDUSTRIES: CONTRACTS BETWEEN ART AND COMMERCE”	9
2.2.1 <i>A review of the content</i>	10
2.2.2 <i>Discussion on intermediaries in Caves’ research</i>	11
2.3 A REVIEW OF LITERATURE REGARDING THE ROLE OF INTERMEDIARY IN THE DEVELOPMENT OF AN INDUSTRY.....	13
2.3.1 <i>Definition and classification of intermediaries</i>	13
2.3.2 <i>Why are there intermediary organizations?</i>	14
2.3.3 <i>How do intermediaries reduce transaction cost?</i>	16
2.4 A REVIEW OF CREATIVITY LITERATURES.....	18
2.4.1 <i>Creativity & intrinsic and extrinsic motivation</i>	18
2.4.2 <i>Intermediaries in artists labor market</i>	20
2.4.3 <i>Creativity study in evolutionary economics paradigm</i>	21
2.4.4 <i>Intermediaries as the men of action and the men who combine- an alternative Schumpeterian perspective</i>	22
2.5 A CONCLUSION	24
CHAPTER 3 INTERMEDIATION IN THE DESIGN INDUSTRY.....	26
3.1 DEFINITION OF DESIGN INDUSTRY	26
3.1.1 <i>What is design and design industry?</i>	26
3.1.2 <i>Design V.S. crafts</i>	29
3.2 DESIGN SERVICE IN THE CREATIVE ECONOMY	30
3.2.1 <i>Characteristics of design transactions</i>	30
3.2.2 <i>Different mode of design transactions</i>	32
3.3 APPLYING WILLIAMSON’S TRANSACTION COST ANALYSIS TO THE DESIGN INDUSTRY	34
3.3.1 <i>Asset specificity</i>	34
3.3.2 <i>Uncertainty</i>	36
3.3.3 <i>Transaction frequency</i>	37
3.4 ANALYSIS OF DESIGN INDUSTRY TRANSACTION MODE: INTERMEDIATION AND CREATIVITY	38
3.4.3 <i>Intermediation in the design industry</i>	43
3.4.4 <i>Intellectual property rights and intermediaries</i>	46
3.5 A CONCLUSION	49
CHAPTER 4 CASE STUDIES	51
4.1 GENERAL CONSIDERATIONS ABOUT THE SELECTION OF CASES	51
4.2 INTERMEDIATION FOR THE REDUCTION OF TRANSACTION COSTS.....	52

4.2.1 <i>Government agencies</i>	52
4.2.2 <i>Exhibitions and events</i>	59
4.3 INTERMEDIATION FOR THE NURTURE OF CREATIVITY	63
4.3.1 <i>Droog design consultancy</i>	63
4.3.2 <i>Intellectual property rights implementation organizations</i>	65
4.4 A CONCLUSION	69
CHAPTER 5 CONCLUSIONS AND FUTURE RESEARCH	71
5.1 INTRODUCTION	71
5.2 CONCLUSIONS	72
5.3 IMPLICATIONS FOR THEORY IN CULTURAL ECONOMICS	74
5.4 IMPLICATIONS FOR POLICY	75
5.5 FUTURE RESEARCH AGENDA	75
BIBLIOGRAPHY	76

Chapter 1 Introduction

1.1 Research background

China is anxious to respond to regional and global cultural industries initiatives, and to embrace the turn from culture as public good to private good. In all the government reports a shift is already evident from cultural institutions to cultural industries, and recently creative industries. The idea of creative content production has moved quickly to the forefront of policy making.

Among all sectors of creative industries, the design industry has become a warm fuzzy topic with different interpretations. For local government, design is being routinely written into strategies aimed at innovation and growth; in business media, design is referred to as a way of thinking and a source of products differentiation; however, the design industry per se has received little academic attention. While different disciplines, such as cultural studies, economics, sociology, and urban studies, are all providing theoretical frameworks for the investigation of the design economy, design is mainly promoted as an important element of local or regional economic regeneration, and many recent government initiatives have mainly concentrated their research on the assessment of economic impact of design activities. Up till now, there has not been a consensus on what constitutes a successful design economy and how it is constructed. For instance, the size and structures of different sub-sectors that constitute the design industry have not been fully discussed in economic literatures, not to mention the interconnections and interdependencies among different stakeholders. As a matter of fact, the whole academic research bodies on the design industry are still to be developed, and there is not yet widely agreed model of best practice, nor convincing stories of how the design industry is actually running.

1.2 Research aims and objectives

Not satisfied with the image of 'made in China', the Chinese government is determined to generate its domestic design creativity. But there are doubts whether the efforts have been put into the right place. In order to find out problems of existing design industry policy, and to enable a more sensitive but also strategic involvement of different stakeholders, it is necessary to develop an understanding of the complex dynamics involved. Therefore, it is not enough to analyze the design industry per se; instead the object of analysis should be situated in specific social and institutional contexts. This implies both a critique and advancement of existing theories

concerning creative industries and the development of a more specific design industry enquiry, thus moving beyond over-generalized perceptions of the developments concerned.

While the label ‘design’ and ‘design industry’ is still to be defined, research undertaken into the creative industries provides a useful conceptual and methodological template. In particular, creative industries occupy an organizational space between the domains of creativity and industry, that they articulate the contested interfaces between the practices of commercial and arts, and that they usually mobilize these complex operational interrelationships through intermediaries. In this thesis, therefore, the role of intermediaries in the design industry will be discussed under the Chinese and European contexts, and in particular, the intermediary organizations or institutions of Dutch Design and British Design are selected as the representatives of the European context. Comparative analysis centers on what enables and supports an ecological environment for the design industry, the production and consumption of design, and how the dynamics works in relation to key intermediary factors for creative enterprises, such as organization, networking, and expertise.

The reason why the European design industry is chosen as a contrast to the Chinese system is that Europe is well known for its reputation in facilitating its creative design talents in the global marketplace, and you can find British and Dutch designers in businesses all over the world. Such rise to prominence of the European design was by no means the product of chance. For instance, the Netherlands has been developing what might be called a third infrastructure, an infrastructure of design constructed in accordance with the country's cultural policies, comprising various types of foundations, funds, research and education organizations, and design associations. On the contrary, though Chinese contemporary arts and design have attracted worldwide attention for more than a decade, China is still known as a world factory. What happened to the great upstream visual arts talents, and why haven't they been well connected to the downstream design ideas? How did the British or the Dutch system manage the creativity generation? All these questions consist of interesting comparisons.

1.3 Research question, hypothesis and key assumptions

The central argument of this master thesis is that to stimulate a sustainable creative process, it will not be enough simply to empower the individual; individual creativity will thrive when it is part of a larger creative “system”, through which different ideas and talents can add to each

other's value. Engineering such a system is the role of the creativity intermediaries, enabling connections across boundaries and encouraging people to exchange ideas and to collaborate in their mutual development. And since the research is situated in two social and institutional contexts, the main questions for this thesis can thus be formulated as follows:

What are the roles of intermediation in the design industry?

Based on the above preliminary discussion, a distinctive difference between the European and Chinese design system can be identified as different level of intermediary bodies. Therefore, it is hypothesized here that:

Strong support of organizational intermediation offers more scope for both business development and artistic innovation in the design industry.

While creativity is a fuzzy word, which is extremely difficult to gauge, in the design world, there is a relative consensus that independent designers generally produce more innovative and artistically high quality designs than those in-house designers. More detailed discussion will be found in later parts. To make the analysis easier, here we assume that:

The creativity of the design industry is indicated by the vibrancy of independent designers or small design studios.

Therefore, to answer the research question, models will be needed to provide explanations on how intermediaries link design service users with independent designers or small design studios, and how the creativity brokers stimulate the development and livelihood of the independent designers group.

1.4 Methodology

-Research design and data collection

In this thesis, I adopt a combination of grounded theory and case study in my approach to methodology. And I would define my methodological position as an interpretivist.

Initially developed in the 1960's, grounded theory is a process of inductive generation of theory from data or facts by means of continually re-examining data in the light of developing arguments. During the research, data is mainly collected from archives, while observations with a view to finding things that might challenge the limitations of the existing theory and new phenomena is incorporated. Constant comparison is the method employed during the process. First, data are coded into categories, and then the properties of the categories and the interactions are clarified; third, new categories and properties are added until theoretical saturation when new theory is written (Seale, 2004).

The qualitative case study method, on the other hand, would provide rich data for theorizing and conducting a detailed analysis of the dynamics of the population under study. It allows investigation of research issues that cannot be appropriately studied using solely quantitative methods. Specifically, multiple cases are explored by means of in-depth data collection involving multiple sources of information from internal and external points of view. And the findings are examined using a holistic analysis by looking at the whole case (Creswell, 1998).

For this inquiry, I chose to use grounded theory and case study approaches for the following reasons: first, the study of design industry, especially the role of intermediaries in the design industry, has just begun and many questions are left unsolved, which allowed me the opportunity to develop my own theory as it emerges from the research. These findings were then tested against the existing creative industries theories and intermediary theories, completing the data-to-theory and theory-to-data cycle. Second, the case study method is particularly useful in seeking to undertake investigations that require an in-depth understanding of behaviors of small organizations or individuals that can not be quantified. And most creative firms or organizations are small or medium sized ones. Besides, this study is intended to focus on specific players in specific fields, so the case study approach will help me to frame my research.

1.5 Thesis in outline

The purpose of current study and the problem solutions are supposed to be met via following steps of analysis:

1. Studying academic literature and theoretical approaches: chapter 2

The theoretical part starts with review on Caves' book "Creative Industries: Contracts between

Art and Commerce”, which develops two lines: a comment of the content and the discussion on intermediaries in Caves’ research. Then literature regarding the role of the intermediary in the development of an industry is explored, which is followed by creativity literature review. The relationship between intrinsic and extrinsic motivation, artists’ labor market, intermediaries and creativity is discussed respectively. After situating creativity study in evolutionary economics paradigm, Schumpeter’s theory provides a perspective in considering intermediaries as the “men of action” and “the men who combine”.

2. Analyzing the intermediation in the design industry: Chapter 3

Before discussing intermediation per se in the design industry, the following topics are put into analysis: what is design and design industry, the difference between design and crafts, characteristics of design transactions and different mode of design transactions. Then the relationship between intermediation and transaction cost and creativity is explored.

3. Case studies of two ways of intermediation: Chapter 4

The case studies are conducted to illustrate how intermediation contributes to the reduction of transaction costs in the form of government agencies and exhibitions and events. From a success story of an internationally well-known Dutch design firm Droog Design Consultancy, as well as several intellectual property rights implementation agencies, the role of intermediation in facilitating the nurture of creativity is also studied.

4. Conclusion: Chapter 5

Chapter 2 Theoretical Insights

2.1 Introduction

To define the theoretical units, the research question and hypothesis will be restated here:

Research question:

What are the roles of intermediation in the design industry?

Hypothesis:

Strong support of organizational intermediation offers more scope for both business development and artistic innovation and creativity.

Following the research question and hypothesis, there are two streams of relationships to be discussed in the following sections:

- Intermediation-design business
- Intermediation-artistic innovation and creativity of designers

According to the above analysis, it is clear that the theoretical part will discuss mainly two lines of literature: the study of intermediary and the study of creativity. Besides, since Richard Caves provided the first insightful research in creative industries on the mechanism of intermediation, my review of his book will be taken as the starting point.

2.2 Review on Caves and “Creative Industries: Contracts between Art and Commerce”

When discussing the role of intermediaries in the creative industries, it is very difficult to ignore Richard Caves’ invaluable work “Creative Industries: Contracts between Art and Commerce”. Therefore, this research will use the review of Caves as the starting point of analysis.

2.2.1 A review of the content

As Caves stated in the first chapter of the book, his intention is to “ explain the organization of creative industries; why deals and contracts are structured the way they are; why some creative activities occur in ongoing organizations (“firms”), and the other in one-off deals (“the market”) (Caves, 2000, p1). And his approach is to show how the properties of creative activities lead to different organizational patterns in the creative industries, and why creative activities are organized the way they are. First of all, he laid out the distinctive properties of creative industries: demand is uncertain; creative workers care about their product (art for art’s sake); some creative products require diverse skills; differentiated products (infinite variety); vertically differentiated skills (A list/ B list); time is of the essence (time flies); durable products and durable rents (ars longa); then he developed his rhetorical framework from the supply of simple and complex creative goods to the demand of creative products (the focus in on how the consumption decision is made); then there is how non-profit organizations deal with the high fixed cost problem caused by the nobody-knows property of creative activities; in the end, it is the intellectual property problem, the means by which suppliers can earn rents over time is discussed. The structure of the creative industries, therefore, is explained as the outcome of contract incompleteness, and in the institutional tradition, the empirical evidence to support the analysis is drawn from real-world contracts.

The central idea of this book is to explain why the creative industries are organized the way they are, with such analytical tools such as the logic of contracts and their enforcement, industrial organization, and consumer behavior theories. Caves analyzes the different contractual relationships that bind the creative output supplied by artists with its delivery organized by firms - humdrum inputs. As can be seen from the structure of the book, Caves used the complexity of contractual relationship as a line to organize chapters on the part of creative supply. The simplest case of contracting is that between fine artists and gallery dealers; and likewise simple contractual relationships include those between writers and publishers, singers and record companies. These creative products belong to the category of one-artist output, which demands relatively little outlay on fixed cost and less diversified skills on the part of cultural producers. The other category is the more complex creative activities such as filmmaking and performance, which requires co-operation of creative workers with vertically differentiated skills. Within this framework, Caves illustrates in great detail the properties of creative industries, crossing all art forms, historical and contemporary, yet the book is well written from the structural standard, always drawing attention to the key

features of creative production listed above, and with frequent cross-referencing.

Nevertheless, the analytical framework brought forward by Caves is not yet convincing enough. He has this idea that the different characteristics of creative industries lead to different types of contractual relationship, and such relationships determine the organization of creative industries and explain why things are organized the way they are. In Caves' book, there is a very good deduction with a wealth of evidence from the contacting cases across different art fields. However, in strict sense of rhetoric, when B is derived from A, it only means that A is one of the conditions contributes to the formulation of B; but it is not to say A is the only factor that formulate B as it is. This also applies to the Caves' argument. Caves told a complete story explaining how different properties of creative activities lead to different contractual relationships, but he has not demonstrated how these contractual relationships drive the formulation of the structure of creative industries and changes in it. It is evident that Caves has studied various forms of art field in great efforts; however, he put too much effort on all the details, and in the end he forgot to pull them together into a more tightly knitted framework so as to form a predictive reference point. In other words, there is a lack of backbone in this book. Although there is a clear line leading his writing, which are the six characteristics of creative activities, the mechanism that links these characteristics, contractual relationships and organizational structures are rarely explained, or at least are under-developed. If we compare a convincing economic argument as a dish, and Caves as the cook; his economic instinct has helped him find out the right ingredients for cooking, but he just lay out the ingredients there and claim they could make a tasty dish without completing it himself. In a word, Caves has done a great illuminating job in identifying those key elements that could help the organization of creative industries, but there are more to be done to put these elements in motion in a more complete system.

2.2.2 Discussion on intermediaries in Caves' research

It is not Caves' primary objective to discuss intermediaries, but a lot of his study can be referred to for this research on intermediation in the design industry. As he pointed out himself, "much of this book is about the industries that mediate between the artist and the consumer of artistic production" (Caves, 2000, p37), and he also identified different intermediary organizations from various creative activities: dealer, writer's agent, publishing company, musician agent, record company, etc. At the very beginning, Caves has brought about the issue of intermediation, without a clear distinction, though, he put forward two types of intermediaries: agents and gatekeepers. The role of

agent is analyzed in bargaining for the artist and making the gate keeping work more efficient, while gate keepers are studied from yet two concerns: those specialized in selecting and developing artists' work and those primarily concerned with promoting it to the public.

The best part of Caves' analysis of intermediaries can be found in the supply of simple creative products, especially in visual arts. Not only having identified the filtering and promotion role of intermediaries, he also pointed out the close tie in the visual arts between artistic inspiration as the source of innovation and gatekeeper's selection process. As he stated "in the visual arts, innovation involves a broadly based process in which the creative inspiration of an artist or group is a necessary condition, yet its ultimate consequences depend on much else – the circumstances of the buyers who purchase it and the certifiers and dealers who serve as intermediaries." And the example of the development of abstract expressionism is drawn on to illustrate intermediaries' role in bringing forward new art genres. The entrepreneurial role of dealers, critics and other intermediaries is considered the key force that breakthrough established aesthetic standards to an enlarged realm of styles, and at the same time diffusing the modern art style to the general public. Peggy Guggenheim, of all the visual arts intermediaries, serves a good example.

Besides, Caves also identified different levels and types of intermediation in each field of creative activities, though such analysis is scattered here and there throughout the book. In the realm of visual arts, intermediaries include primary art dealers, auction houses and secondary dealers, which play different roles in mediating the art products to the consumers. In the primary art-dealing market, generally speaking small galleries or private art dealers pay more attention to the selection of new talents, while dealers with more financial resources focus more on promoting selected artists to a wide range of audience. Auction houses and secondary dealers, on the other hand, function as the market makers that price and reallocate the evolving stock of arts work. Moreover, there is natural division of labor between the two secondary intermediary market players: small galleries and private dealers can offer advice and present choices styled to the potential buyer's interests, and they hold an advantage for more idiosyncratic or less-well known works; while the auction house can only offer a strictly competitive price to those who know what they want, but enjoy a reputation and certification advantage. In the publishing industry, however, except for the gate-keeping role of publishers, there exist another layer of intermediaries, writer agents, who normally have close relationships with some publishers, and help them reduce the selection costs of potential best-seller writers. The existence of the agent intermediary is mainly due to the characteristics of the publishing industry. It requires a lot of human capital investment in selecting

a good book among thousands of others, especially for long novels or scholarly books. The organization of intermediaries in the music industry is yet another story. The popular music field is mainly dominated by large record companies who enjoy the advantage of economies of scale in conducting a marketing campaign for their new artists; while independent singers' agents complement the mediating process by doing talent searching. The classic music field, however, has collective production of orchestras as well as many free-lanced workers; and such feature resulted in another type of intermediary: a contractor, who organizes orchestras and chorus singers for freelance work. It can be seen that the types of intermediaries required and the role they play differ from each sub-field of creative industries, and the study on intermediation of creative activities must be based on the analysis of the industry characteristics; however, the presence of intermediaries is common to them all.

In one word, Caves has provided a large amount of information on the intermediation activities in creative industries. There are insightful analyses here and there on the mechanism of intermediation, but it was not his primary intention to study intermediaries per se. Another lesson for fellow researchers is that, though displaying certain similar characteristics in general, each of the sub-realms of creative industries cannot be treated the same way; because each displays still unique distinctions, which inevitably exert influence on the structure of the organizations playing in the field. Therefore, though the topic is also on intermediary organization, this research has chosen to focus on one particular field-the design industry, so as to conduct a thorough and consistent research analysis on the intermediation mechanism.

2.3 A review of literature regarding the role of intermediary in the development of an industry

2.3.1 Definition and classification of intermediaries

Perhaps the best place to start is with some terminology. Since it is difficult to provide a strict yet all-around definition for intermediary, here we only confine it to the part that is to be under study: broadly construed, an intermediary is a third party who facilitates a deal between two other parties. According to an online definition, an intermediary organization can be any "entity that 'plays an important role in encouraging, promoting, and facilitating business-to-business linkages', and such entity can 'include both non-profit and for-profit organizations: chambers of commerce; trade associations; local, civic, and community groups; state and local governments;

academic institutions; and private corporations.”¹ From the perspective of epistemology, Hayek thinks that “there is inevitable ignorance in human beings, which is determined by the divergence of knowledge or information; therefore, co-ordination or intermediation becomes important. Nevertheless, we consider a definition provided by Daniel F. Spulber the most pertinent one for our study: “an intermediary is an economic agent that purchases from suppliers for resale to buyers or that helps buyers and sellers meet and transact. Intermediaries seek out suppliers, find and encourage buyers, select buy and sell prices, define the terms of transactions, manage the payments and record keeping for transactions, and hold inventories to provide liquidity or availability of goods and services.” (Spulber, 1996, p136)

Intermediary organizations are mainly classified into two categories by previous theoretical research: market makers and matchmakers. Market makers refer to those organizations that buy from producers and sell to consumers; their profits come from the price difference, and such intermediaries include retailers, wholesalers, second-hand products dealers, etc. Matchmakers are also called brokers; they function as the bridge between two business parties to facilitate a deal, but they are not really involved in the trade process, and their profits come from the commission (Yavas, 1994). Examples of matchmaking intermediaries are travel agents, insurance agents and stock brokers. The intermediary organizations this article discussed belong to the second type, because this research concentrates on the design industry, whose products are mainly services.

2.3.2 Why are there intermediary organizations?

Though Caves drew many empirical evidences about the intermediaries in creative industries, he has not provided a sufficiently clear theoretical framework on the evolution of such an economic body. Therefore, in the following part, a review of literature regarding the role of intermediaries in the development of an industry is given following its historical path.

Throughout the history of economics, there have been different perspectives in understanding economic bodies. In classical economics, the focus was on the nature of national wealth and how to accumulate it, while in neoclassical economics, the study was centered on the allocation of resources, and economic bodies were considered as a production function of price and technology. It is not until Coase that mainstream economists become interested in the study of economic

¹ Available online at: http://www.teachmefinance.com/Financial_Terms/intermediary_organization.html

bodies per se. Coase was not satisfied that economic bodies were treated as a production function only, and asked such a question: since the price mechanism can allocate resources, why are there other forms of economic organizations (firms) (Coase, 1937)? He gave the answer himself in the ingenious paper “The Nature of the Firm” with the concept of transaction costs, which have become the fundamentals of economics study.

Following Coase, Williamson provided his understanding of economic bodies by raising the concept of governance structure (Williamson, 1985). In his opinion, market and firms are two different types of governance structure, each with its own advantages and disadvantages, while such factors as bounded rationality, opportunism, uncertainty, asset specificity, and transaction frequency may cause very high transaction costs when market is the organizer of resources, therefore, under certain conditions firms are needed to lower transaction costs depending on the nature of transactions.

After discussing why there are economic bodies, we can proceed to ask why there is the special type of economic body - intermediaries. As pointed out by Adam Smith (1910), the development of productivity and the requirements of efficiency improvement lead to the division of labor, essentially the breaking down of large jobs into many small components depending upon the size of the market. There are two overlapping concepts in *The Wealth of Nations*: division of labor and specialization. Division of labor is a way of organizing work so that it is done as a set of separate processes by different groups of people to increase efficiency of output; and specialization is the separation of tasks within one single production system because of the advancement of social productivity. Although they are two different terms, they actually represent the two sides of the same coin. In a word, division of labor is a result of specialization. Adam Smith also researched into the relationship between specialization and the market scope. He found out that specialization would appear when the demand for one product or service increases with the expansion of market size; and such specialization would in turn further help the market to grow.

However, a notable cost of increasing specialization is the increase of transaction costs: it makes the exchange among firms become more and more frequent and complicated, leading to an ever-growing transaction cost. To lower the transaction cost, certain new form of organizational institution is needed, and intermediary organization is such kind of new institution that serves the reduction of transaction costs among enterprises in this world featured by asymmetry of information and deepening of specialization. The major function of intermediary organization is

to help two parties of one transaction lower all kinds of information costs, sorting, routing, filtering, comparing prices and vouching for worthiness of products and firms. Just as is pointed out by Stigler (1961), the searching inefficiency of buyers and sellers must result in the need for specialization, and by Williamson (1985), any form of organization is the result of cost saving, which also applies to intermediary organizations.

2.3.3 How do intermediaries reduce transaction cost?

According to the above analysis, it can be seen that the main economic factor relating to intermediary organizations is the transaction cost. Therefore, in this section, a more detailed analysis will be conducted to better understand how matchmaking intermediaries function in reducing transaction cost.

When Coase (1937) first proposed his transaction cost theory, he omitted to give transaction cost a clear definition. Arrow (1969) redefined it as the cost of running a market system, which is different from the production cost, while North (1990) stressed the importance of information costs, considering them the major component of transaction cost. Williamson, on the other hand, situated transaction cost in his model of transaction dimensions, where asset specificity, uncertainty and transaction frequency explain the choice of transaction mode (Williamson, 1991).

Asset specificity refers to the input that has idiosyncratic attributes and is difficult to be used otherwise. There are six classifications: site specificity, physical specificity, human asset specificity, dedicated specificity (the input is especially for one customer and cannot meet the needs of other customers), brand name capital, and temporal specificity. The higher the asset specificity is in one transaction, the greater loss there will be when the transaction is interrupted or stopped by accident. Therefore, to avoid or lower such risks, the trader who offers the specified input usually sets up measures of safeguards in contract, leading to various governance structures. Uncertainty refers to the possible disturbance during transaction process. In Williamson's opinion, the impact of uncertainty on transaction costs is closely related to asset specificity. In case of low asset specificity, the degree of uncertainty has a limited impact on transaction, therefore, there is no need to input extra governance costs, while in case of high asset specificity, different uncertainty would influence a transaction in a varying way. Transaction frequency refers to the frequency that transactions happen. Williamson stressed that a special governance structure is needed when there is high asset specificity during a transaction. However, transaction costs

would rise when extra efforts are put in to set up safeguards measures. Therefore, the decision of whether to set up such special governance structure can be made according to transaction frequency.

Williamson's theories provided a good foundation in explaining how intermediaries reduce transaction costs. The advantage of transacting with an intermediary can be considered as reducing uncertainty associated with making a satisfactory match, adding to the transaction frequency of potential trading partners, and lowering the governance costs in case a transaction is featured with high asset specificity. However, there is still one question to be answered: of different governance structures, when is trading via intermediaries preferred? Consider a situation in which A needs a type of service and B provides such service. A is faced with three choices: buy in the decentralized market; use intermediaries to find a quality service provider; or hire someone to perform the service for him. Likewise, B is also faced with three choices: sell in the decentralized market; use intermediaries to find a potential service consumer; or find an employer that requires his service expertise. In the real world, all the possibilities co-exist in the market. In deciding whether to use an intermediary, the characteristics of the transaction need to be analyzed; therefore, to answer the question of when design intermediaries are chosen for a transaction, the features of design industry and design transaction need to be discussed first, and this shall be analyzed in Chapter 3.

The transaction cost theories explains a lot why intermediaries are needed and how they function; however, in the cultural sector, it has been widely agreed that creative industries business not only go for economic efficiency but also values many other factors like personal satisfaction of creative environment, therefore the transaction cost explanation is incompetent here. If we just consider cost elements, it would be contradictory for artists working as a freelancer instead of contracting as an employee of a company, since the latter form is a more cost-saving substitution of the various contracts in market. As a matter of fact, sheer economic reasoning does not work when it comes to cultural organizations, and there are more important elements to be considered in organizing cultural productions. Motivation, for instance, plays an irreplaceable role. Therefore, with culture and creativity to be considered, we need to dig deeper and view from more perspectives by referring to creativity literatures.

2.4 A review of creativity literatures

Creativity is a fancy but elusive word. It is about giving rise to new, original ideas, seeing or thinking different. It has to do with new ideas: innovation and inventions. In for-profit organizations creativity can be usually found in the department of Research and Development, which has the hard job to come up with new things all the time. Another reason why creativity can be needed is when it comes to management problems. In the world of art, however, creativity is mainly seen as artistic quality. To make the theoretical part of this research complete, it is necessary to review the creativity literature, because in creative industries the fundamental characteristic that is different from other economic behaviors is creativity, and it must be taken into consideration while modeling the design transaction structure.

2.4.1 Creativity & intrinsic and extrinsic motivation

The first question to be asked in cultural economics is why are we particularly interested in the study of creativity in arts organizations? If we want to study creativity, there has been overwhelming literature in business magazines or academic papers elaborating how a company should keep abreast with market development and innovation. The answer is that the problem of creativity in arts organizations is somewhat different from the ordinary discussion about creativity. For non-arts organizations, to be creative means innovation on the production process or product produced and vibrancy on the organization level, which means they need to keep an eye on the market trend and constantly bring about new products in order to compete and grow, and when the size of the organization reaches a certain level, it needs to be aware of the commonly found disease of low efficiency, bureaucracy and slow-reaction. For arts organizations, however, creativity on the production level is more related to the personal creativity of individual artists. The creativity source of a commercial company is considered to lie in the R&D department and the management board, with the former responsible for the innovation of products and the latter responsible for the whole vibrancy of the organization; while for an art company, the determinants of creativity is usually considered to be the artistic director, as well as its staff.

In the world of art, creativity can be divided into two streams: personal artistic creativity, which is characterized by intrinsic motivation of artists, and institutional creativity of arts organization, which are mainly driven by extrinsic motivation. How is artistic creativity fostered? How can institutional creativity be best supported? The best discussion concerning these questions in

cultural economics can be found in Bruno Frey's article 'State Support and Creativity in the Arts: Some New Considerations' (Frey, 1999). He developed a conceptual framework called crowding out theory to study the effect of incentives on creativity. It analyses the effect of external interventions on intrinsic motivation. The extrinsic intervention may consist of monetary or non-material rewards as well as regulations. He compared the effect of market and fixed government subsidies on creativity by analyzing the relationship between government intervention and intrinsic motivation. It holds that guaranteed public financing of the budget deficits of arts organization discourages creativity and promotes conservatism, and that "institutional creativity" is best supported by attributing a large role to the market and market-like institutions, because prices produce the incentive to innovate and reward those who are successful in this endeavor. A voucher system, for example, is considered an efficient system, which gives more choices to the consumers than direct government supports have been suggested. Besides, the many government regulations and restrictions imposed on public art institutions is another way of inhibiting creativity as they hamper or forbid change. On the individual level, it is considered that there is a crowding-out effect of creativity, and artists' intrinsic motivation and personal creativity is undermined if government support is perceived to be controlling. Depending on the degree of crowding-out and the relative price effects government support might well lead to an unintended, perverse effect on artistic creativity.

The conclusion reached by Frey is that government policy is on the whole not well-equipped to support and enhance personal creativity; under many conditions, government support tends to undermine artistic innovation, and much would be gained if government support were at least neutral in the form of indirect public support through tax exempt donations to the arts and tax exempt foundations active in the arts. However, this theory does not deny the importance or the existence of government support to the arts. Rather, it argues that the government should concentrate on setting the right conditions for institutional creativity, laying the rules to allow a flourishing art market by setting adequate property rights for artists' output and promoting international trade in art; and promote personal creativity by a hands-off policy, giving private actors incentives to take over the role of enhancing artists' intrinsic motivation to produce innovative art.

Frey's analysis provided a perspective for drawing correlations between intermediaries and creativity. Government subsidy exerts negative effects on individual creativity, as it hinders the intrinsic motivation of artists. A natural question following this reasoning would be: what are the

factors that could exert positive effects on creativity? Our answer is a sound intermediary system. Because it encourages the development of small art studios or free-lanced independent artists who are considered the most creative parts in all art-business practitioners. Therefore, intermediaries can be considered an indirect driver in nurturing creativity.

2.4.2 Intermediaries in artists labor market

Towse (2001) also gave a very insightful analysis on the economic dimension of creativity and the effect of economic organization of artistic production on incentives of artists. Her starting point is Frey's proposition that artistic creativity requires a balance of incentive-compatible rewards from a system that exists in the market and state-provided institutions, the law, subsidies and taxes and even the stance of the government with respect to culture. And then she drew evidence from the cultural sector to "test" this theory, and found out that both intrinsic and extrinsic rewards exist in the market are provided by the government in the form of copyright law, state subsidized artist training, grants and honors to artists. Besides identifying such sources for intrinsic or extrinsic motivation, she also pointed out the flaws of all these rewarding mechanisms: copyright laws cannot fully reward creativity because property rights are not complete and markets for creative goods and services are imperfect; subsidies to individual artists elicit a considerable supply measured in terms of time devoted to arts work by these grant-receivers, while subsidies to artists training do not have the desired efficiency outcomes and can only be justified on the equity ground of equality of opportunity. She also provided an alternative view on the problem of excess supply of artists, considering lower incomes and higher unemployment for 'excess' artists the price of maximizing creativity as a social goal.

However, the most interesting statement for our research is her explanation on the role of intermediaries in turning short-term excess supply of artists into an efficient long-term quality-raising strategy. She said, "As long as markets are well organized with sufficient informed intermediaries who search out high quality artists and promote their work, society achieves maximum creativity. These intermediaries certainly exist in all parts of artists' labor markets and in the cultural industries as gate-keepers, screening out the wheat from the chaff." (Towse, 2001) Especially, she pointed out that empirical evidence from surveys show only established artists have agents and most have to promote their work themselves; and such a shortage of intermediaries resulted in a low extrinsic reward to art, because many artists often feel that fees, prices and royalties are too low but the market is highly competitive but they cannot bargain for

more, thus they feel under-valued and frustrated at having to do other work to support themselves.

2.4.3 Creativity study in evolutionary economics paradigm

Among mainstream economists, Schumpeter is the earliest one studying the driving force of creativity, though his focus is knowledge innovation instead of the improvement of artistic quality, and his conclusion is technology. Schmookler (1966) objected this idea through his empirical research. He found out that knowledge innovation is the same with other economic behaviors, which root in the pursuit of profits, directed and restricted by market demand. In other words, demand is more important than technology in stimulating knowledge innovation. Some other economists combined these two theories, creating a dual-factor theory of knowledge innovation, in which both technology and demand are considered important (Mowery & Rosenberg, 1979). On the process of knowledge innovation, Freeman (1988), Lundvall (1992) and Nelson (1993) developed the national innovation system theory. This theory argues that knowledge innovation is an interactive learning process, resulting from the interaction among different organizations; and that knowledge innovation is a system, synthesized by different bodies in the value chain of an industry.

However, this theory does not research into the formulation of a knowledge innovation system, and this is studied, among other ways, by cluster theories, which claims that knowledge innovation is an ecological system, whose development needs a series of environmental conditions. This line of argument highlighted the spatial clustering that characterizes new industrial districts. This claim originates from the question of how to maximize creativity in any individual, organization, or economy. Obviously, individuals are a primary source of creativity, but new ideas require an environment in which they may be developed. Creativity requires an environmental and institutional support, but environment can't guarantee the nurture of creativity. It is a process that comes from the interactions of individuals and the context the individual is situated in (Jeffcutt and Pratt, 2002). And this is where intermediaries play its role: provide creative talents a flexible environment, in which they can get more freedom to develop their inspirations and ideas.

2.4.4 Intermediaries as the men of action and the men who combine- an alternative Schumpeterian perspective

In the 2006 conference of the Association for Cultural Economics International in Vienna, Richard Swedberg (2006) gave a keynote address on creative industries and cultural entrepreneurship. Though his purpose was to use sociological classics, such works of Max Weber, Emile Durkheim, and Georg Simmel, to explain the arts industry, he also discussed Schumpeter's ideas on art and entrepreneurship, ideas which grew out of Viennese culture, and such discussion was found very useful in understanding the role of intermediaries in creative industries.

Swedberg identified several points from Schumpeter's *Theory of Economic Development* (first edition), which could be linked with the study of intermediaries in creative industries. First comes Schumpeter's definition of entrepreneurship as a combination of already existing elements, with the entrepreneur driven primarily by non-monetary forces such as the desire to form a personal empire, the pleasure of getting things done, and so on; then it's the idea that Schumpeter repeatedly refers entrepreneur as a man of action (Mann der Tat) to underscore the fact that what characterizes the entrepreneur is action, not ideas; third, it's "the frame of a painting" metaphor that Schumpeter uses to describe the difference between static economic theory and dynamic economic theory. Swedberg found the link between art and entrepreneurship is that the entrepreneur is like a painter; the act of combining things, the essence of entrepreneurship, is a form of art.

However, the link between Schumpeter's theory and creative industries, as we see it, lies more on the part of intermediaries than the arts practitioners per se. As is pointed out by Swedberg, "compared to Caves' analysis of the middle-range social mechanisms that mediate between art and society and the economy, Schumpeter's vision appears vague and much too broad, and he paid little attention to organizational matters in his work, save for his argument that big corporations stifle entrepreneurial creativity. But there also exists another way of looking at Schumpeter and his theory of cultural entrepreneurship. This is to see his ideas as an invitation to a discussion of cultural entrepreneurship, a discussion that can go in many different directions" (Swedberg, 2006). Here the idea of combination, which is one of central contribution in Schumpeter's theory of entrepreneurship, could be applied to explain the role of intermediaries. This "combination" idea suggests that the economic entrepreneur who works in the creative industries can, for example, be conceptualized as someone who makes combinations, drawing sources from different aspects to facilitate the flow of art business, and such functions are exactly

what intermediaries are playing in each field of creative industries.

The central point of Schumpeter's entrepreneurship theory is that, there are two approaches to study the economic system: static and dynamic, and he argues that it is the entrepreneur, who takes actions and combine sources, that break through the static frame of existing economic development, putting dynamics in the economy and bringing innovation in to the system (Schumpeter, 1991). In creative industries, artists can be considered as the elements that are more situated in the existing static framework. Though there are artists who are interested in economic success and try to link up their work with other elements in some combination, most of artists are not really good at entrepreneurial tasks, which not only require expertise which is accumulated from certain knowledge but also a devotion of time. Therefore, in the arts world, intermediaries do play an entrepreneurial role that help to push the boundaries of existing rules and systems.

This broad vision of Schumpeter on entrepreneur is best tested in Neil De Marchi's study on the role of intermediaries in the formulation of the Dutch arts market (De Marchi, 1995). In a business circle, it is the producers that bring products into being, but it is the promoters that bring the products to the hand of consumers. Creative industries, which are featured with infinite variety, especially need intermediaries' role as market makers. Neil De Marchi gives a historical perspective in explaining such a role. His main purpose is to argue that market should be constantly re-defined and market demands can be generated creatively.

Neil De Marchi (1995) chose two cases from the 17th century Holland to prove his point of view: one is the Dutch auctions for art goods in Amsterdam, and the other is the role of lottery in helping promoting art consumptions. He first shows the readers a historical background of the Amsterdam arts market, under which interlopers brought in "lemon" art works, which undermined the average price and quality and the lemon products in turn resulted in a straight price-reduction technique in auctions. He depicted in detail the long disputes between guild and interlopers, and argued that, in some sense, this kind of interaction contributed to an unintended consequence, which was the reshaping and redefining of the art market. Further, he traced back the origin of lottery and found out its demand-generating implications for the art market. As is stated, some artists organized lotteries of painting as a direct challenge to the guild's opposition to public sales. And this particular form of investment in the art market turned out to be a success, which implied that demand need not to be taken as given. Based on the examination of how the institution were formed in the nascent art market of 17th century Amsterdam and Haarlem in

response to internal and external pressures on artists' guilds, Neil De Marchi stressed that promotion by intermediaries was to become a key feature of later art market.

2.5 A conclusion

The theoretical part of this research started with a review on Caves and "Creative Industries: Contract between Art and Commerce" (Caves, 2000). After providing a general perspective on its content, the pros and cons of Caves' study on intermediaries were put into detailed discussion. It was concluded that Caves has provided very insightful analyses here and there throughout his book on the mechanism of intermediation, but he did not pull these information together and form a complete system.

To get a more general picture of intermediaries as an economic body, a review of literature regarding its role in the development of an industry is given. First, the definition and classification of intermediary is clarified, and it is pointed out that matchmaking intermediaries are the primary concern of this study. Secondly, it is the discussion of why there are intermediary organizations, and the cause is attributed to specialization and the transaction costs incurred in the process of specialization. Then Williamson's theories are drawn to explain how intermediaries reduce transaction costs. (Williamson, 1975, 1991) The advantages of transacting with an intermediary are considered as reducing uncertainty, adding to likelihood of finding potential trading partners, and lowering the governance costs in case of a high asset specificity transaction.

While reviewing literature concerning creativity, Bruno Frey's study on how government exerts negative influence on artistic creativity is taken as the starting point to draw correlation between intermediaries and creativity, and intermediaries are considered having indirect positive effects on artistic creativity, because they help the growth of independent creative workers (Frey, 1999). Then comes Towse' empirical test, in which she drew evidence from the cultural sector to prove that both intrinsic and extrinsic rewards exist in the market are provided by the government in the form of copyright law, state subsidized artist training, grants and honors to artists (Towse, 1994, 2001, 2006). And Towse (1992) also provided an alternative view on the problem of excess artists supply, considering lower incomes and higher unemployment for 'excess' artists the price of maximizing creativity as a social goal, while intermediaries help solve this problem by sorting out high-quality artists and turning short-term excess supply of artists into an efficient long-term

quality-raising strategy. Review on the study of creativity in the evolutionary economics paradigm offered a perspective in understanding intermediaries as the provider of a flexible environment for creative workers. Then Schumpeter's entrepreneurship theory is put into detailed analysis, his proposition that entrepreneur is the Men of Action and the Men who combine open a new window for studying the role of intermediaries in creative industries (Schumpeter, 1991). Finally, this broad vision of Schumpeter on entrepreneur is illustrated by Neil De Marchi's study on the role of intermediaries in the formulation of the Dutch arts market (De Marchi, 1995).

To this point, we can give a provisional answer to our research question: what are the roles of intermediaries in the design industry? First, intermediaries reduces transaction costs, and it does so by influencing the three transaction dimensions-asset specificity, uncertainty and transaction frequency; second, intermediaries help enhance creativity: they encourage the small and independent artists or groups to grow, help solve the problem of excessive artists supply, provide a flexible environment for creative workers, and act as the catalyst in pushing the boundary of existing rules and systems to form new market. In chapter 3, study on intermediaries shall be situated in the specific design industry context, and our research question shall be answered in more detail.

Chapter 3 Intermediation in the Design Industry

3.1 Definition of design industry

3.1.1 What is design and design industry?

It is generally agreed that a design refers to the appearance of the whole or a part of a product resulting from the features of, in particular, the lines, contours, colors, shape, texture or materials of the product or its ornamentation. However, there are varied definition of design industry and yet even more varied classification within the design industry.

In UK, the Department of Culture, Media and Sports (DCMS) defined the creative industries as those industries that are based on individual creativity, skill and talent, or those that have the potential to create wealth and jobs through developing intellectual property. And *The Creative Industries Mapping Document* (DCMS 1998; 2001) views the creative industries as the following categorization, in which design, crafts and designer fashion are distinguished from each other: advertising, architecture, art and antiques markets, computer and video games, crafts design, designer fashion, film and video, music, performing arts, publishing, software, television and radio.

The British Design Council provides a more detailed division on types of design within the design industry:

Category	Definition
Product Design	It is an integral part of the wider process of developing new products, of every type; in most cases, for volume production
Retail Design (<i>Also known as environmental design, interior architecture and spatial design</i>)	It encompasses all aspects of the design of a store: ranging from store frontage, fascia and signage, through to the internal elements of furniture, merchandising, display, lighting, graphics, point of sale and decoration.
Packaging Design	A sales canvas on which to promote the product's attributes and benefits; it's also a part of the product experience itself.

Ergonomics (Also known as human engineering, human factors engineering, user-centred design, inclusive design)	Ergonomics is about ensuring a good fit between people, the things they do, the objects they use and the environments in which they work, travel and play.
Interaction Design (Also known as graphical user interface design, human-computer interaction design and user experience design)	It is the key skill used in creating an interface through which information technology can be manipulated.
Information Design (Also known as communication design)	It is a rapidly growing discipline that draws on typography, graphic design, applied linguistics, applied psychology, applied ergonomics, computing, and other fields. It emerged as a response to people's need to understand and use such things as forms, legal documents, signs, computer interfaces, and technical information and operating/assembly instructions.
Automotive Design	Automotive design is the consideration of aesthetics during the product development of an automobile.
Building Design	Architectural design
Temporary Exhibition Design	It refers to the creation of a non-permanent environment with the purpose of displaying, conveying or promoting a product, brand, service, idea, view, message or information to an audience.
Workplace Design	The creation of more-innovative workplaces in which fresh thinking can develop and teamwork can flourish has become a central preoccupation for senior managers in many different types of organization.
Experience Design	It is driven by consideration of the 'moments' of engagement between people and brands, and the memories these moments create, and it requires a truly cross-discipline perspective that considers all aspects of the brand/business - from product, packaging and retail environment to the clothing and attitude of employees
Service Design	Service design can be both tangible and intangible. It can involve artifacts and other things including communication, environment and behaviors. Whichever form it takes it must be consistent, easy to use and be strategically applied.

Dada source: The British Design Council²

² Available online at <http://www.design-council.org.uk/en/About-Design/Design-Disciplines/>

While in the Netherlands, design is often regarded as something artistic and aesthetic. Premsele Design Foundation, a non-profit organization founded by OCW (the Dutch Ministry of Education, Culture and Science) aiming to promote the Dutch design internationally, adopted a practical structure to define design industry according to the discipline of design training:

- Visual communication: including graphic design, information design and typography.
- Spatial design: including interior design, scenography and design in public spaces.
- Product design: including industrial design, costume, fashion, and jewelry design.

In the terminology of the OCW, there is a distinction between the design sector as a whole and the design industries. The latter are considered as the businesses offering design services or services in which design plays a central role: advertising, fashion and interior design. In its design sector mapping document, an estimated 16,900 designers work in the design industries, which is equivalent to 36.7% of all designers employed in the design sector in the Netherlands. It also found that the majority of design activities in the Netherlands take place 'in-house', as part of a company's non-design- related activities. The business sectors that employ the most designers are: 'retail and consumer goods', which employs some 6,100 designers; and 'publishing, printing and the reproduction of recorded media', which accounts for a further 4,000. And because such a relatively large proportion of designers in these 'regular' business sectors, most of their design needs are met in-house, and that they do not make much use of outside design services; however, in the remaining business sectors that are not mentioned above, the average percentage of designers in this category is less than 0.2%, one in every 644 employees work as a designer. Most of the design needs of these companies are met by purchasing design services elsewhere, in particular from the design industries. Occasionally they hire or work together with in-house design enterprises to fulfill their own design needs.

3.1.2 Design V.S. crafts

Despite all the official classifications, for ordinary people, however, design is often tied to crafts as a field of consumption with a rapid turnover of styles and innovation. And it is true that inside the world of design there exists a much more practical business of material processes which is very closely related to craftsmanship. To avoid confusion, consideration needs to be given to design's roots in the crafts skill base. And the differences between craft and design are evident on a number of dimensions:

-Skill versus creativity: producing an object requires both skill and creativity. While encouraging creativity, craft tends to emphasize the skill of the practitioner. The field of craft contains a collective bank of skills accrued over millennia. In design, however, it is creativity that tends to be most valued. Caves also addressed the difference between creativity and craft in this context. He considered crafts persons value more technical skills, accept the constraint of practical usefulness of the object, and place less weight on uniqueness and formal innovation, while fine-arts orientation points to the opposite values and attitudes (Caves, 2000. P25).

-One-off versus multiple: design tends to be associated with multiples. Apart from architecture, it is rare to find design associated with one-off works. And craft practitioners' work is most of the time unique.

-Expressive versus consumer: one critical difference between craft and design is the gallery context. Craft tends to be closer to the visual arts as an expressive medium, through which the maker attempts to make a personal statement. Design is more likely to be approached as a consumable item—something to be purchased rather than admired in its own right.

-The craft and design partnership: as a result of these differences, it is feasible for individual practitioners to move between craft and design - craft provides opportunities for individual expression while design offers economies of scale. There is a natural partnership between the two fields, and each supplements a lack in the other.

3.2 Design service in the creative economy

No matter how the range of design is classified, the design service refers to a business transaction process that designers/ design companies perform for their customers.

3.2.1 Characteristics of design transactions

Design products are different from normal goods in the market, and the main difference comes from its service and artistic characteristics, which has influenced every aspect of the design business. In the following sections, some major qualities of design business will be discussed:

1. Clients' specific production

Because the target group of design industry is quite broad, the clients can come from any industry. As a result, there is great difference among each design service deals, depending on the type of client.

2. Difficult to standardize production process

The core value of the design service comes from the creative idea, which is something cannot be quantified. Unlike production processes of other industries, the incubation process of the creative thought is especially difficult to gauge, thus granting the productivity of design service a qualitative characteristic.

3. Big variance of design products and difficult to assess the quality

Design service is a very specialized business. For one design task, different designers can have a variety of design ideas. And the quality of products is difficult to assess in well-defined standards.

4. Knowledge intensive

Design is the process of realizing a creative idea, whose outcome is a synthesis of aesthetics,

technical knowledge and innovative imagination. Being service industry practitioners, designers have to conduct systematic analysis, research and make trial samples to meet the requirements of clients. Therefore, high-level designers are all highly skilled labors with artistic, practical and market knowledge.

5. Dual quality of B-B and B-C

Although the direct served group of design industry are the clients who need the design service, the ultimate user of the designed products are consumers. Therefore, different from normal industry, design industry has to take more factors into considerations other than the direct clients' requirements. In fact, design business is not only a business-to-business process, but also a business to consumer process.

6. Labor intensive

Labor-intensive industry requires a great deal of labor relative to capital, in other words, there is limited possibility of deploying capital goods to increase the efficiency of the production process. Service industry is a typical example of labor-intensive industries that cannot make use of machinery. Being in the service industry, design companies rely heavily on the creativity of its employees.

Besides the above characteristics, there are also other special qualities in the design industry that worth notice. From a broad sense, art, media and design all belong to the category of creative industries. However, design industry is different the others from many perspectives. A comparison of the differences is as follows:

Industry characteristics	Art	Media and entertainment companies	Design industry
Dominant source of finance	Government subsidies	Market	Market

Market type	Government	Consumer market	Business market
Characteristics of production and distribution	<ul style="list-style-type: none"> ✓ Small-scale ✓ Labor-intensive ✓ Individual and collective ✓ Frequently face-to-face 	<ul style="list-style-type: none"> ✓ Complex ✓ Large scale ✓ Labor-intensive ✓ Capital-intensive ✓ Collective 	<ul style="list-style-type: none"> ✓ Small-scale to large scale ✓ Labor-intensive, sometimes capital-intensive ✓ Individual and collective ✓ Frequently face-to-face
Dominant ideology	<ul style="list-style-type: none"> ✓ Artistry ✓ Authenticity ✓ Independence ✓ Authorship 	<ul style="list-style-type: none"> ✓ Popular culture ✓ Authenticity and market orientation ✓ Collective production and authorship 	<ul style="list-style-type: none"> ✓ Artistry and customer orientation ✓ Authenticity ✓ Functionality ✓ Collective production and market-oriented-driven authorship
Typical Examples	<ul style="list-style-type: none"> ✓ Fine arts ✓ Literature 	<ul style="list-style-type: none"> ✓ Broadcasting ✓ Music industry ✓ Film industry 	<ul style="list-style-type: none"> ✓ Graphic design ✓ Fashion design ✓ Furniture design ✓ Interior design

Because of the above-mentioned characteristics of design business, the performance of design service can not be standardized, thus there exists larger variables while making a design deal. The inter-relations of these characteristics are the major source of the difficulty of establishing a design service transaction model. But on the other hand, it's also the reason that this topic worth researching.

3.2.2 Different mode of design transactions

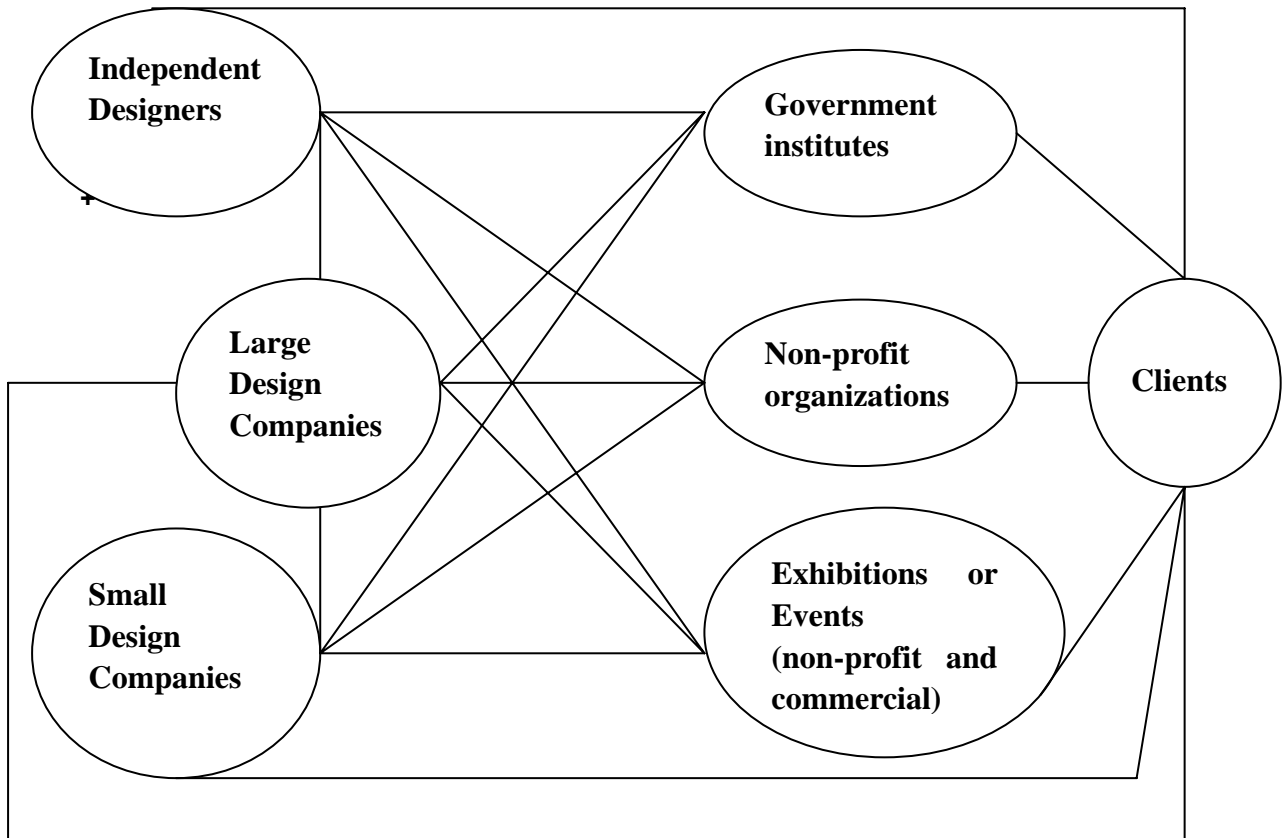
In chapter 2, we raised such a question: of different governance structures, when is trading via intermediaries preferred? And we have analyzed that when A needs a type of service and B

provides such service, both A and B are faced with three choices: buy/sell in the decentralized market; use intermediaries to find a quality service provider/buyer; or hire someone to perform the service for him/ find an employer that requires his service expertise. As a matter of fact, this is a matter of choice of transaction mode.

In the real world, the mode of design transactions can also be categorized into the following three types:

1. Direct transaction: individual designers get deals directly from customers
2. Intermediated transaction:
 - Type one: big design companies get deals from customers and an individual designer or a team in the company performs the service, which means here design companies are considered intermediaries between design services buyers and designers.
 - Type two: individual designers or small design studios get deals via the information provided or events launched by government or non-profit agencies.
3. In-house transaction: companies have permanent design staff

In the second intermediated transaction mode, however, there are several layers of seller-buyer information matching flows. If the design company is a big one, customers usually come to it and there is less worry about finding customers. But to those small design studios or independent designers, the intermediated information concerning customers becomes most important, and that is where government supported agencies or non-profit organizations play an important role. On the other hand, though big design companies have established reputation through history, customers would like to see some different styles, thus the need to explore new blood from small design studios or independent designers. But considering the big numbers of the latter, buyers are in great need of platform which can help reduce the search costs effectively. Under such circumstances, intermediation is therefore an integral part of a buyer-seller matching process. The inter-relationship of different parties in the design transaction mode can be illustrated by the following graph.



3.3 Applying Williamson's transaction cost analysis to the design industry

In this section, characteristics concerning the design industry transaction mode and the factors deciding intermediation will be analyzed, and the analysis will be conducted according to the three factors identified in chapter 2: asset specificity, uncertainty and transaction frequency.

3.3.1 Asset specificity

The design industry is service-oriented industry, and most deals are characterized with asset specificity. Williamson categorized asset specificity into six different sub-categories:

- 1) Site specificity: it means that the upper-stream company in one industry needs to be close with its down-stream companies to save costs like transportation costs or storage costs, or companies whose services have to be performed in a particular site. Such examples are construction companies, etc. In the design industry, however, no matter it is interior design, fashion design, industrial design or graphic design, the products are always a design idea in the form of a drawing, a model or a poster, and such creative processes do not have to be performed in certain geographical place. Therefore, site specificity is not distinct in the design industry.
- 2) Physical specificity: it means, for example that, the equipment of one company can only be used to produce certain products and cannot be used otherwise. Such examples can be found in the textile industry, in which each type of clothes needs to be made with particular machines. Nowadays, most designers use computers as the primary working tools, and to certain extent, the equipments in each design company are mainly computers. Therefore, there is also no physical specificity in the design industry.
- 3) Human asset specificity: it means the people working in one industry are highly specialized, whose skills have to be accumulated through long-term education or experience. Designers are a group of highly specialized professionals, and there are clearly cut divisions among different design fields. The knowledge and skill of fashion designers is way different from that of graphic designers or interior designers. Therefore, the design industry has very high human asset specificity.
- 4) Dedicated specificity: it refers to the asset that is invested to especially cater for the need of certain customers. Such an asset is very much customer-oriented and cannot be used for other customers. Being a service business, a design transaction is quite dedicated to each individual customer, and therefore there is a high dedicated specificity.

- 5) Brand name capital: it refers to the capital that is invested to establish brand reputation or loyalty. Design companies rarely had large advertising campaigns; but they accumulate reputations through the works they have done for former customers and the informal channels of industry relations. Therefore, there is high hidden brand name capital specificity in the design industry.
- 6) Temporal specificity: it refers to the asset that is invested timely for certain transaction. Design companies usually features a steady investment in terms of personnel or fixed asset, therefore, there is little temporal specificity in the design industry.

In a word, the design industry is featured with high human asset specificity, dedicated specificity, and hidden brand name capital specificity. Therefore, it can be concluded that there is relatively high asset specificity in the design industry.

3.3.2 Uncertainty

After Knight³ (Runde, 1998), there has been increasing attention on the effect of uncertainty on economic behaviors. Here we understand uncertainty as the chance of contingent event; such chance may not be measured by probability. Williamson understands uncertainty as unanticipated disturbance. He pointed that the notion of uncertainty broke the assumption of perfect institutional environment, and no matter where uncertainty comes from; its result is that people's economic decisions can never be precise but can only be based on estimation.

There are two types of uncertainty: state contingent event, and behavioral uncertainty, which comes from a lack of communication between two parties of one transaction. In the design industry, the main certainty results from the behavioral uncertainty. Such uncertainty features

³ Knight made his famous distinction between "risk" (randomness with knowable probabilities) and "uncertainty" (randomness with unknowable probabilities), set forth the role of the entrepreneur in a distinctive theory of profit.

imperfect information and opportunism under the assumption of self-interest seeking. Unlike the state contingent event, behavioral uncertainty can be reduced by the design of institutions.

The loss caused by behavioral uncertainty in the design business is usually reflected in the quality and price of a transaction. In the manufacturing industry, products can be standardized by using standardized machines; however, the products of design service rely on the creative ideas of individual designers or a design team. And there is hardly any agreed indicator measuring the quality of one design product. Besides, the clients of design companies are usually design outsiders, who have little professional experience with the design process; therefore, it is difficult for them to judge the value of the final product provided by the commissioned design company, As a result, the pricing of design service is usually a source of disputes between design companies and their clients. Especially when there are many design companies of different levels competing in the market, it is especially difficult for companies to find the right one and get the expected quality design service.

We can conclude here that the design industry is featured with high uncertainty.

3.3.3 Transaction frequency

Transaction frequency refers to the times that transactions happen during a certain period. Because of the service feature of the design industry, the transaction happens on a ‘one customer, one service’ basis, and usually the price for one service is quite high. Therefore, such a high value service industry is usually featured with a low transaction frequency.

According to the above analysis, we can conclude that, theoretically, though with low transaction frequency, the design industry is with high asset specificity and high uncertainty, therefore, compared to intermediated transaction mode, a more cost-saving governance structure should be the hierarchical type. In other words, firms in the design industry tend to integrate vertically. However, as I have observed, it is both a service purchased by companies

and organizations in the marketplace, and, at the same time, a large-scale activity carried out in-house by companies and organizations as part of their own production and marketing processes to meet their own demand. In other words, the transaction cost model only explains half of the situation, and explanations for the other part need to be referred to the creativity factor.

3.4 Analysis of design industry transaction mode: intermediation and creativity

3.4.1 Empirical evidence on the design industry structure

-The Dutch Case

According to a research commissioned by Premisela Dutch design foundation, and the Ministry of Education, Culture and Science⁴, of the design companies and independent designers' studios, advertising is by far the largest activity in the design sector in the Netherlands, employing some 14,000 people; fashion and interior design employ a total work force of 2,900. Together, the design companies and independent designers' studios account for an economic value added of €635 million – almost a quarter of the total value added of € 2.6 billion generated by the design sector as a whole. Around 16,900 designers work in the design industries, equivalent to 36.7% of all designers employed in the Netherlands. Nevertheless, also a large part of design activities in the Netherlands take place in-house, alongside company's non design-related activities. The proportion of designers in the total work force of these business sectors varies between 4% and 0.2%; the average is 0.6%, or one in 154 workers is a designer. That makes the proportion of employees who work as designers substantially smaller in these business sectors than in the design companies. However, since the work force of the business sectors involved is large, the total number of designers in these business sectors actually exceeds that of the design companies.

⁴ Design in the Creative Economy: A summary, 2005, Premisela Dutch Design Foundation, available at www.Premisela.org.nl

According to the figures, it can be seen that there are a relatively large proportion of designers in both the independent design companies and ‘regular’ business sectors; it confirms the above analysis on the choice of transaction mode in the design industry: design transactions inside firms and in the market go in parallel.

- The Chinese Case

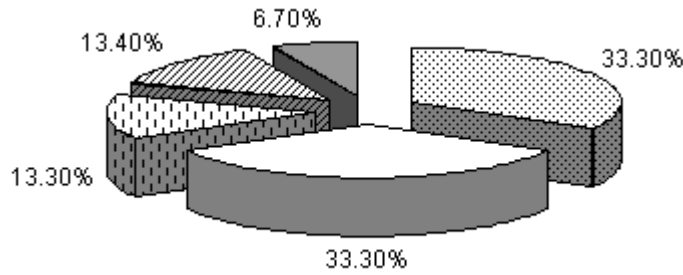
Given limited information about China’s design sector, here only one area— industrial design in Beijing is selected to provide perspectives on industry structure and approach by the government in China. The reason of choosing this area is that there is an increasing policy engagement in industrial design for its role in growing China’s share of international markets.

Currently there are more than 20,000 design companies of all kinds in Beijing, more than 30 design education institutions, and there are about 100,000 design industry practitioners in the Beijing area.⁵ According to the Chinese Statistics Bureau, the output of the industry design in the Beijing area had a value of 1 billion euro, and approximately 40% of the revenues of design companies came from the commissions of other industrial companies in Beijing. Therefore, it can be inferred that investments of design of Beijing’s companies is about 400 million euro. In 2004, the added value of Beijing’s industrial design is about 12.9 billion euro. The NEC indicator in Japan pointed out that about 51% of the added value from sales comes from the added value generated from design. Assuming the proportion is the same in China, in the year 2004 design contributed about 6.58 billion euro to the development of Beijing’s industries. And the proportion of input-output is 40: 658, namely 1: 16.45. In other words, one euro input in design can generate 16.45 euro added values in the final industrial goods. However, this proportion is rather small compared to that in UK or the States. In UK, the input-output proportion of design investment is 1: 2,100 (pounds), and the figure in the States

⁵ Data source: ChinaVisual.com, available online at http://static.chinavisual.com/storage/contents/2006/10/16/14554T20061016014428_1.shtml

is 1: 2,500 (US Dollar). These figures suggest that Beijing's industrial design is still at its infancy and there is a lot of room for development.

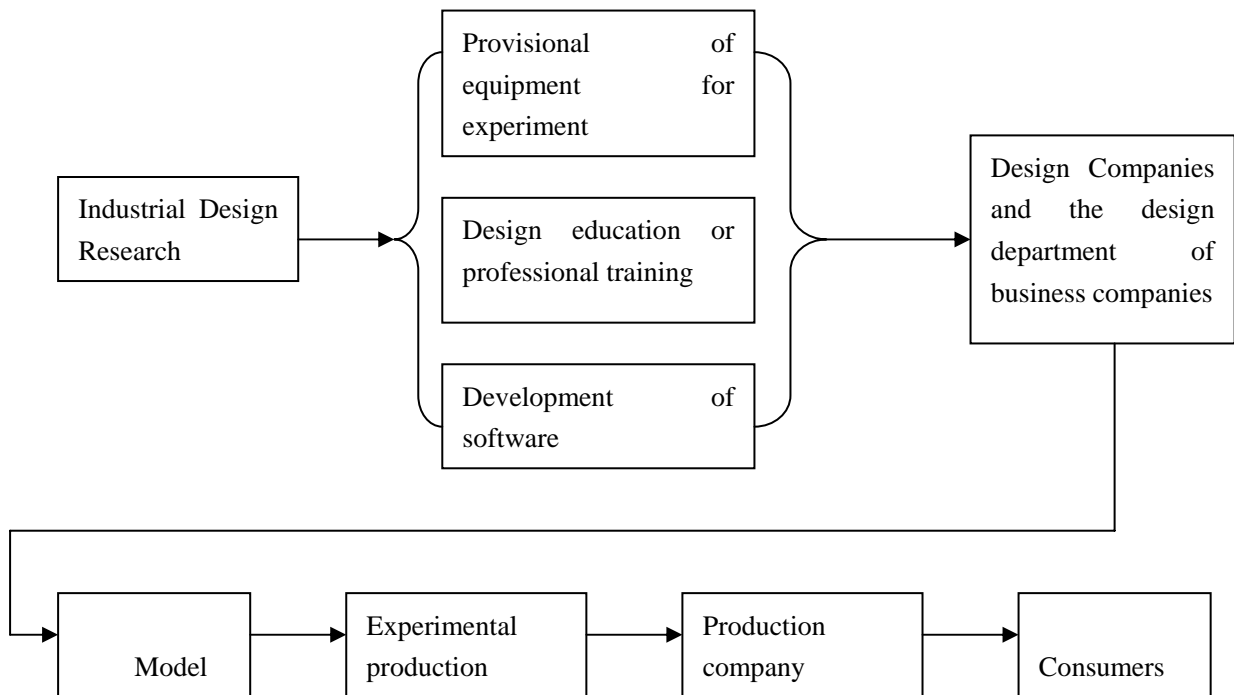
Size of the industrial design companies in Beijing by number of designers employed



- ▣ less than 10 people
- ▣ 10-20 people
- ▣ 21-50 people
- ▣ 51-100
- ▣ over 100 people

Data Source: Beijing Center for Industrial Design

The Value Chain of Industrial Design Industry in Beijing



According to the above chart, design companies and the design department of business companies are the main body of the design industry; the production company and consumers are the users of design products; and all the other parts are the supporting system of the design industry. In a word, the governance structure of China's design companies is also a hybrid type.

3.4.2 Independent designers: the backbone of creativity in design industry

Each industry requires a core competence. In the popular music industry, for instance, the key factor is the ability of identifying, winning over and developing a talented musical artist or group of artists. The reason for this is that the popular music industry is one in which increasing return conditions and the “superstar phenomenon” leads to huge differentials in sales between those artists who are successful and those who are not (Gander and Rieple, 2004). In the design industry, however, the critical role in the generation of value for firms is impressive design styles and ever-innovative ideas, and such styles or ideas are mostly found in independent designers.

In the year 2005, an exhibition named “A Retrospection of the Graphic Design in UK since the Sixties” was toured around China. Rick Poynor, the curator, mentioned “independence” eighteen times in the introduction of exhibition catalogue. He considered “the independent spirit” foundation of the British graphic design industry. And in his opinion, independence means that a design idea is developed through the reflection and personal judgment of the designer without any ideological or social influence. Independent design is a way of working for a group of designers, who stick to the artistic quality of their works. They refuse to work in-house for commercial companies; instead, they set up their own studios or small design agencies. These people value the freedom of independent thinking, and most important of all, they want to add personality in the works they produce. In order to achieve this goal, they need an environment to maintain their independent spirit.

Following above evidence, it could be seen that the structure of design industry is a blend of independent design studios, small design companies, and in-house designers; such a structure is to a great extent influenced by the creativity requirement of this particular industry. However, though small-scale business mode can provide designers a relatively good environment for the nurture of creativity, it cannot solve problems deriving from the asset specificity characteristic of the design industry, namely high human asset specificity, high dedicated specificity, high hidden brand name capital specificity and high uncertainty. Such workshop style also has its disadvantages: individual designers have to do more things other than designing, for example, they have to search for customers and negotiate; as business grows, they will also face the problem of limited productivity. According to an online survey⁶ of the most famous independent designers in China, they have two concerns about the development of the design industry: on one hand, in-house designers in commercial companies cannot get a proper environment to add their personality to their design; on the other hand, the productivity growth of small design studio or companies cannot be in proportion with the growth of their business.

Faced with such a dilemma, the solution this research provides is more intermediation in the design industry. As has been discussed in chapter 2, intrinsic motivation of independent designers or small design groups is the source of creativity in the design industry, but such motivation needs an environment to grow; when a good design idea has been developed, it requires a channel to be recognized, accepted and finally applied, and during the matching process, this good design idea has to compete with many other ideas and distinguish itself, which might take a very long time. However, if there is a sound intermediary system, much transaction costs associated with the matching process could be saved without being at the cost of creativity. On the other hand, entrepreneurial intermediaries tend to take initiatives to explore new markets or design new transaction modes to increase the likelihood of bringing the right trade partners together.

⁶ Available online at: <http://forum.chinavisual.com/thread-142305-1-1.html>

3.4.3 Intermediation in the design industry

According to the above analysis, two characteristics of the design industry decide that the market-firm dualism cannot provide a solution to sustainable industry development. First of all, design product cannot be quantified and customers can only be served one at a time. Such business mode is similar to that of a barber's shop, in which each client has specific requirements and is served individually. But there is a difference between design service and hair-doing service: a design product can be priced as high as millions, but hairdressing can never charge customers such high price, unless the service is performed by a designer hairdresser. The reason is that high quality design product is featured with impressive creativity, which is usually represented by its brand value. The second characteristic of the design service is that it is not one of the necessities of life. This quality makes design companies analogical with antique shops. Similar to antiques, design products are unique and the value is difficult to measure. An antique shop never advertises, and its customers are those who can appreciate the value of the goods on sale. Also, whether a design company runs well depends on how many customers it can get and how much these customers appreciate the value of the design service. Therefore, there must be another mechanism that can make the value of one designer's work better understood by the public and at the same time lower transaction costs, and here we consider such mechanism as intermediation.

Intermediary organizations in the design industry are those that function as a catalyst for initiatives in the whole industry value chain. According to the document *Cultural Policy in the Netherlands*, most Dutch intermediary organizations that either serve local interests or national significance are government-subsidized, such as the Gate Foundation, which focuses on presentation, research, archiving and education involving a range of cultures and from a variety of cultural perspectives; Stichting Public Art Squad (MAMA) is an organization bureau that initiates joint ventures and exchanges between artists and designers. Initially, it offers exhibition space for young artists, but by offering an interdisciplinary network, MAMA has become a catalyst for the development of new forms and ideas and a label for an independent visual culture. Besides the artists initiatives there are agencies that provide solely

advice and support to artists and designers: Trans Artists is one such organization in receipt of multi-annual subsidy which provides advice and agency services to artists, organizations and government bodies on developing activities abroad. It informs artists about international artist-in-residence programs and other opportunities for artists to stay and work elsewhere 'for art's sake'.

Recommended by the Temporary Advisory Commission on Design in 2002, Premsele Foundation was set up to facilitate the Dutch design industry. It is a small and flexible organization that activates the network of sectors. The Foundation provides coordination, profiling and network control in consultation with those concerned, such as independent designers, small design studios, organizations or companies that need design service, or design education institutions. It has an activities budget to support promising projects, though it does not act as a funding body providing grant aid; the idea for it is to establish links with other sectors, acting first and foremost as a go-between between the sector, private enterprise and the government. It also intends to specialize in providing information, improving expertise, and promoting and looking after the design heritage.

In China, with the increasing importance of industrial design for its role in growing China's share of international markets, as well as the role architectural design played for its contribution to the renewal of Chinese civic pride, government attention on the design value has been reflected by the establishment of a range of professional and other civil society organizations for design. To date, however, no co-coordinated mapping has been undertaken and data gathering is not harmonized across organizational boundaries. As a result, there is a lack of publications or reports, which address individual selected industries; detailed data on companies (small companies and independent) is especially poor. Here only a brief review of the functions of the intermediary organizations in industrial design and architectural design in China can be provided.

Non-Government Design Industry Entities: Industrial Design

Non-government Entities	Responsibilities
Beijing Industrial Design Center	Assists enterprises to improve value-add products and balance market competition
Beijing Industrial Design Promotion Organization	<ul style="list-style-type: none"> • Organization of all industrial design-related bodies, organizations, professionals and those interested in industrial design • Promotional activities for industrial product design, space environment design and visual design
China Industrial Design Association	<ul style="list-style-type: none"> • Development of China's industrial design industry • Assists enterprises to compete by advising on the value of design
Guangzhou Industrial Design Promotion Organization	<ul style="list-style-type: none"> • Promotion of Guangzhou's design innovation • Provide more added value services for the innovative design, and promotes economic development
Shanghai Industrial Design Promotion Organization	<ul style="list-style-type: none"> • Promotion of Shanghai's design innovation • Provide more added value services for the innovative design, and promotes economic development
Shenzhen Industrial Design Association	<p>One of the earliest industrial design associations in China</p> <ul style="list-style-type: none"> • Establishing professional committees for different aspects of industrial design, such as product design, graphic design, packaging design, layout design and logo design etc

Non-Government Design Industry Entities: Architecture Design

Non-government Entities	Responsibilities
Architecture Society Of China	<ul style="list-style-type: none"> • Carrying out national architecture policy and popularization via activities • Editing and publishing of periodicals in academic and technological fields • Consultant for important scientific and technological issues and projects • Organization of international academic changes
China Building Decoration Association	<ul style="list-style-type: none"> • Carrying out policies relating to the building and decoration industry, assisting State Council administrative departments to manage the building decoration industry • Research and policy input • Legislation for related government departments taking part in the drafting of relevant legislation for related

	<p>government departments</p> <ul style="list-style-type: none"> • Development of new technologies for the industry • Training of professional staff
China Interior Decoration Association	<ul style="list-style-type: none"> • Provide services to government macro decision-making entities and enterprise businesses • Development of the national interior decoration industry
China Reconnaissance Design Association, Architecture Design Sub-committee	<ul style="list-style-type: none"> • Promotion of the reform of design management systems • Publicity and carrying out of the GB/T – 19000 –ISO – 9000 standards • Training of professional staff • International communication and collaboration • International research and forums

Source: Changing China - The Creative Industry Perspective: A Market Analysis of China's Digital and Design Industries; a report provided by Claydon Gescher Associates 2004 under exclusive license to UK Trade & Investment.

A brief look at the intermediary organizations of the design industry in the Netherlands and China has provided a general understanding of such type of economic body in the real world. They function as catalysts in different ways for initiatives in the whole industry value chain. And a rough comparison between the intermediary system of the design industry in EU and China has shown that there have been quite a lot of intermediation organizations in both areas. In the following parts, evidences shall be exemplified from selected cases to show how intermediation in the design industry reduce transaction costs and contribute to the development of creativity.

3.4.4 Intellectual property rights and intermediaries

When talking about creative industries business, it is difficult not to mention intellectual property rights. There have been wide disputes about its effect on creativity, for instance, how to divide the share of the surplus between artists and the public who consume the art in an optimal IP regime design; however, it is not our intention to join this discussion. Instead, the value of IP to intermediaries for this study is its connection with transaction efficiency, and IP

enforcement agencies are included as an important type of intermediaries in the design industry, although they do not assume the match making function.

But first of all, certain terms need to be clarified. Intellectual property (IP) can allow people to own things they create in a similar way to owning physical property. People can control the use of their own IP, and use it to gain reward. This encourages further innovation and creativity. The four main types of IP are: 1) Copyright, which protects material, such as literature, art, music, sound recordings, films and broadcasts. 2) Design right, which protect the visual appearance or eye appeal of products. 3) Patents, which protect the technical and functional aspects of products and processes. 4) Trade Marks, which protect signs that can distinguish the goods and services of one trader from those of another.

Often, more than one type of IP may apply to the same creation, and a typical example is a cell phone. Take Nokia for instance, copyright protects the ring tone and instruction manual, as well as the content of any website viewed on it; a registered design could protect its unique shape; patent protects its working parts, or the process used to make it; trademark could protect its name and logo used on all the Nokia phones, as well as the jingles used to advertise it.

In the United Kingdom designs are protected by three legal rights: registered designs, unregistered design right, artistic copyright.

Registered designs aim to protect the look of a product, protecting both the shape and the pattern or decoration. To be registered, a design must be new, which means it should not remind an informed person of any existing design. Registration provides protection for up to 25 years (renewable every five years). The holder of the registration has the right to prevent anyone else from making, using or selling any goods that are related to the registered design, and he may gain royalties by granting licenses to make, use or sell goods applying the registered design. The public will also benefit from registered designs, as they will be published. Others can gain useful information and see the latest developments in design

technology, which can be used freely once the design registration ceases.

Unregistered design rights are rights similar to copyrights in that they arise automatically without any requirement for registration and are similar to (but not the same as) registered designs, in that they protect the design of an article. It gives free automatic protection for the internal or external shape or configuration of an original design, and allows the designer to stop anyone from copying the shape or configuration of the product, but does not give protection for any of the 2-dimensional aspects, for example patterns (2-dimensional designs can be protected by using copyright or registered designs). Unlike the registered design right, the unregistered design right is not a monopoly right but a right to prevent copying. The protection lasts for 15 years from the end of the year in which the design was first recorded or if articles made to the design are sold or hired out within five years of the end of the year, then at the end of 10 years from the end of the year in which the first sale or hire took place.

Copyright protects creative or artistic works. If the design is artistic and you do not intend to mass-produce it, the designer will receive automatic copyright protection against illegal copying. Copyright also protects any drawings or plans of the design. Copyright applies to any medium. This means that it is forbidden to reproduce copyright protected work in another medium without permission. But it does not protect ideas for a work. However, when an idea is fixed, for example in the form of a sketch, copyright automatically protects it. A copyright protected work can have more than one copyright, or another intellectual property right, connected to it. Also copyright protects the artwork of one's logo, but the logo could also be protected by being registered as a trademark.

Just because of such complicacy of intellectual property rights in the design industry, hybrid types of intermediary organizations are much required on this concern, such as collection societies, IP rights consulting agencies, etc. They facilitate search and administer control, and they also take part in negotiations. The copying activity of a design idea is not carried out by one industrial licensee or buyer of the copyright, but by many of thousands of small commercial and private copiers, therefore it proves efficient to establish an organization that

functions as a collector of royalties from those using the copy and as a protector of author's rights (Towse, 1994). Transaction costs are considered greatly reduced by the natural monopoly of collecting societies, which often specialize in administering one or a closely related bundle of rights. But in her most recent research Towse also pointed out that copyright is asymmetric in its effects and favors the industry side of the creative industries rather than the creators and performers whose work they exploit (Towse, 2006).

3.5 A conclusion

In this chapter, the role of intermediaries is situated under the specific design industry context. First the definition and classification of design under different institutional backgrounds are provided as a basis for further discussion, and a distinction is also made between design and crafts to avoid possible confusion. After clarifying major concepts, characteristics of design transactions are analyzed from different aspects. To exemplify the special features of the design industry, art and media industry are also drawn for comparison, and that was followed by the discussion of transaction modes of design business and Williamson's transaction cost analysis under the design industry context.

In the Williamson's framework, design industry is found out to have high human asset specificity, dedicated specificity, and hidden brand name capital specificity, as well as a high uncertainty. If echoing our previous analysis of the choice of transaction mode, the governance structure would tend to be more integrated in case of high asset specificity and high uncertainty, but empirical evidence on the design industry structure shows that there are a relatively large proportion of designers in both the independent design companies and 'regular' business sectors. And the reason is that, independent designers, being the backbone of creativity in design industry, need an environment for their inspirations to grow. On the other hand, however, design products cannot be quantified and customers can only be served one at a time; also the design service is not one of the necessities of life. These two features of design business make the life of independent designers especially difficult. Under such circumstance, we consider a sound intermediary system would provide a solution, as it

reduces transaction costs associated with the matching process without being at the cost of creativity, and it also helps to make the value of designers' work better understood by the public.

A brief look at the intermediary organizations of the design industry in the Netherlands and China provided a general understanding of design intermediation in the real world. They function as catalysts for different initiatives in the whole industry value chain. Intellectual property rights are also considered relevant in this study, because hybrid types of IP related intermediary organizations, which often specialize in administering one or a closely related bundle of rights, greatly reduce the transaction costs in helping designers claim their own rights. In the following parts, evidences shall be exemplified from selected cases to show how intermediation in the design industry reduce transaction costs and contribute to the development of creativity.

Chapter 4 Case Studies

4.1 General considerations about the selection of cases

As was already mentioned, the objective of this research is to find out the role of intermediation in the design industry, and it was hypothesized that strong support of organizational intermediation offers more scope for both business development and artistic innovation in the design industry. Chapter 2 and 3 have explored the functions of intermediaries from theoretical and empirical perspectives, and in the following section, several cases of different types of intermediation in China and Europe will be selected for comparison. And we shall also discuss what kind of forms intermediary organizations can assume to perform their varied intermediation functions.

Without a clear vision on the operation of design industry in China, though official statistics shows that millions of investments have been spent to boost the design industry, many independent designers and small design studios are still suffering from the lack of necessary support, or rather a sound system, in which there exists catalyst for creative invention and its successful translation into the processes that lead to innovative outputs. Europe, on the other hand, which is featured by active government support on the arts sector, has demonstrated that its money has been spent more productively with its internationally well-known design styles, such as British and Dutch design. Though the reasons behind it could be various, a brief review of the European design sector demonstrates one distinctive feature: there exist rafts of organizations, platforms and infrastructures that are relevant to the design sector, and professional design consultancies, associations and academic research centers are playing an important role in the operation of the design industry; Besides, various funds and countless public and corporate design awards and competitions are also boosting the design sector in full gear. In one word, compared to China, the design sector in Europe is featured with sound intermediary systems.

Following the reasoning of Chapter 2 and Chapter 3, the selected cases will be discussed from two lines: the reduction of transaction cost and the nurture of creativity. We consider government agencies and all kinds of design-related exhibitions or activities the intermediary platform that lower the transaction costs between designers and their customers, while a loosely intermediated company structure and intellectual property implementation agencies the key to creativity development. The selected cases are as follows:

1) Transaction cost reduction

-Government agencies: The British Design Council; Premsela Design Foundation; and Beijing Industrial Design Center

-Exhibitions and activities

2) Nurture of creativity

-Droog Design Consultancy

-IP implementation agencies in EU (OHIM- The Office for Harmonization in the Internal Market (Trade Marks and Designs)), UK(Anti Copying in Design & DACS-the Design and Artists Copyright Society) and The Netherlands (Creative Commons Netherlands)

4.2 Intermediation for the reduction of transaction costs

4.2.1 Government agencies

-UK: The British Design Council

The originality of the British design has been recognized worldwide. A detailed description of the conditions of the design industry in UK can be found in John Sorell's book *Creative Island: Inspired Design from Great Britain*, first of all, UK has a huge and mature design

industry, whose scale and system has been formulated by the practitioners in the government, education and business in the last 50 years. Here is some data: the whole system consists of 75,000 practitioners. The whole design industry creates an annual value of 6.5 billion pounds. The business operation of the design industry is also quite advanced. British designers are both artists and businessmen, who understand the need of market and the rules of business operation. During the growth of British design industry, multi-cultural environment and international market focus played an important role. London is not a big city, but inhabited by immigrants from around the world. Such interaction among different cultures and fields has bred particular British innovative ideas. Besides, UK is a small country with limited domestic market, therefore at the very beginning the design industry was positioned to compete in the international market. However, in an interview with the reporter from Oriental Satellite Channel in Shanghai⁷, Christine Losecaat, the creative industry consultant of the UK Trade & Investment Committee, pointed out that of all the success factors the most important one is all kinds of design promotion organizations that have contributed to the integration of different parts of the design industry value chain and the formulation of an effective network, therefore resulting in an well circulated design industry.

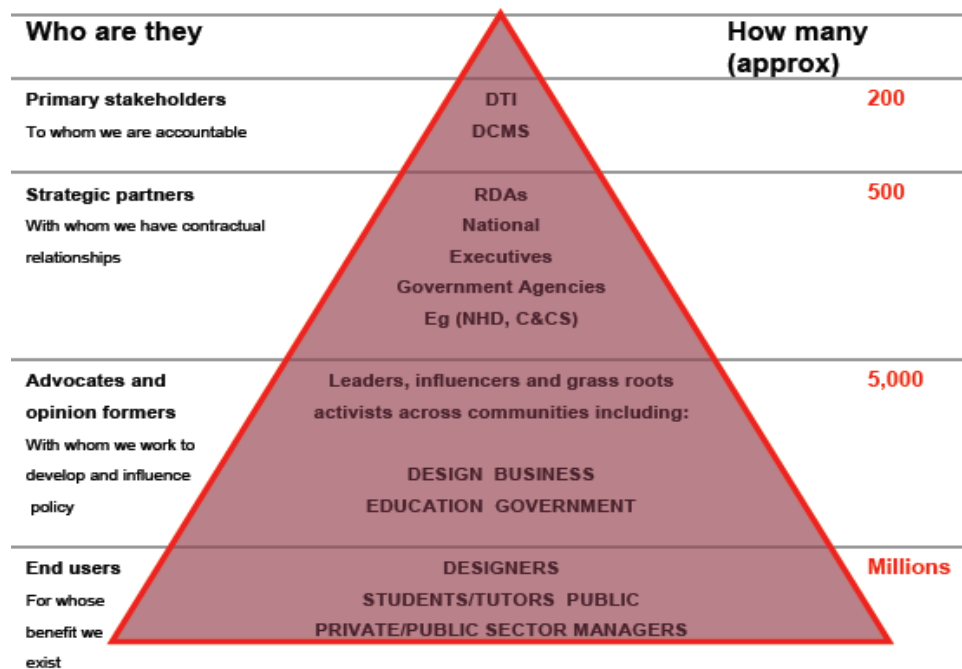
The British Design Council is the most important facilitating organization in the design industry in UK funded by grant-in-aid from the Department of Trade & Industry. It was established in 1944 by the government, and according to their mission statement, their goal is to strengthen and support the British economy and society by demonstrating and promoting the vital role of design, as well as inspiring and enabling the best use of design. The total number of the staff working for it is only 50, but its good network has enabled it to carry out many influential projects and increase its reputation, and there are a number of influential figures from the worlds of business, finance and public policy that help to develop ideas on design industries into specific programs in the broad of design council. It often plays the role of a hatchery, and cooperates with other design companies to carry out its plans. One of its important missions is to convince the public that the application of design into production can

⁷ http://www.iccie.cn/cms/showDoc_ff8080810f045e22010f2c370ad510f7.html

effectively increase profits and efficiency. But the works British Design Council has done not only included lecturing the importance of design, but also helping designers to cooperate with commercial firms. The result is new products or working experiences coming into being. Also, such design-business cooperation information will be collected and circulated in the design industry.

Their job lies mainly in five domains: design policy-maintain and develop national design strategy; design innovation- initiate new thinking on the application of design; design for business- develop a program of direct support for UK firms; design for the public- coordinate a biennial national design promotion. Within these five, a range projects are grouped so that they can make both individual and collective contributions to their aims. But major delivery programs are frequently delivered through satellite or joint-venture vehicles. Here is a graphic illustration of the audience model of Design Council drawn from their official website.

Audience model



Source: Design Council Annual Report 2005

Studying its history, we can find that the British Design Council has exerted great influence

on the UK design industry. In 1951, it initiated a large-scale design festival, during which a design exhibition was held at south bank of Thames to stimulate national confidence and inspire those who were hurt during the Second World War. After this exhibition, the British public first noticed design. Between the 60s and 70s, the council's major function was to exhibit best design works to the public. A series of exhibitions in large museums or art centers made British people gradually realized the hidden value of good design products. When it comes to the 80s and 90s, changes in the design circle were enlarged by the huge social and economic changes. The size of design firms also grew very quickly. In 1994, a report named 'The Future of Design Council Objectives, Structure and Strategy' was produced by John Sorrell, the chairman of British Design Council at that time. His major philosophy is to tell people the importance of design by all the possible means, such as online design exhibition, networking and exchange programs, toured exhibitions. The central idea of the report is that different target groups need to be influenced. First of all, it demonstrated the significance of making business people to understand the benefits of design on the development and profits of firms; second, it pointed out the importance of bring design consciousness in the education by offering design courses from elementary school, middle school until college; third, it called for a mechanism of communication, through which people can be illuminated by extraordinary designs.

The Design Council's role in promoting design as a driver of innovation can also be seen from its highlighted success within the last two years, which include: 1) A comprehensive change program for UK firms has been developed, piloted and brought to market. By integrating design into strategy the program is shaping the fortunes of hundreds of businesses. 2) A ten-year biennial national design promotion has been developed with the first region announced for 2007 in the North East. *Designs of the Time 2007*, based in Newcastle, is organizing public design commissions, showcases and education projects in schools. 3) It has also contributed successfully to an independent Treasury Review on the role of creativity in the competitiveness and productivity of business. The recommendations of the Cox Report have been agreed with government and implementation is underway. 4) It has laid new

foundations for developing and strengthening the British design sector. A new partnership with Creative & Cultural Skills is co-coordinating the work of industry leaders and organizations around a joined-up national design skills plan. 5) New approaches to public service innovation have been successfully in trial. Major agencies and providers are integrating this work into their operations.

-The Netherlands: Premsele Design Foundation

As a quite young intermediary body set up for the Dutch design in 2002, it very consciously positioned itself as the activator of the network of sectors by providing coordination, profiling and network control in consultation with those concerned. Its go-between role can be fully illustrated by the following table, which is an excerpt of entries of its budget in 2005.

Budget 2005-Expenditure

Activity expenses

1 Personnel

1.1 Analysis of design sector	10.530
1.2 Collaborating sectors	10.530
1.3 Organization local design	21.060
1.4 Contribution to cultural heritage organization	17.820
1.5 Annual traveling exhibition	42.930
1.6 Local program presentation/lectures	52.650
1.7 International festival	52.650
1.8 Export prize	52.650
1.9 TV prize contribution	21.060
1.10 Young designers prize	17.820
1.11 Year program for embassies	20.250
1.12 International consultants	21.060
1.13 International reputation research	10.530
1.14 Majorick periodical	10.530
1.15 Premsele lectures	20.250
1.16 Supervisor incentive scheme ⁸	32.400
1.17 Formation of knowledge networks	46.980
1.19 CKV education	17.820

⁸ Acting as a supervisor, a manager from Premsele will form relationships and identify projects to benefit the design incentive scheme.

1.20 International visitors program	13.770
1.21 Post-academic institution	7.290
1.22 Newsletter, Premsula premier, premsela.org	21.060

-Source: Premsula Policy Plan: 2005-2008⁹

According to this budget, it can be seen that, the main activities of Premsula foundation is the identification and development of demand for design. Though it is not clearly stated in policy plans that their work can help the demand side gain better information about the supply side, the effect of these activities can be interpreted as the reduction of uncertainty and transaction cost. Premsula is still in the formulation stage of the organization, and its working model is constantly been adjusted to changes. However, with its positioning as a network organization, we can predict that Premsula's influence on the Dutch design industry will be at a continual growth.

-China: Beijing Industrial Design Center (BIDC)

In China, government-supported intermediary organizations that promote the development of design industries have just come to play a more central role in the design industry. Take BIDC for instance, though it was established in 1995 under Beijing municipal government, its importance has just been realized by the design industry. In its mission statement, the following functions are included: research and plan design industry policies, provide consultancy to design companies, distribute information on design industry, organize international design exchange and cooperation program, undertake annual design-related activities, such as forums, exhibitions and conferences, initiate design competitions and conduct design education research. From the mission description, it can be seen that this BIDC situated itself as a facilitator of design companies, aiming at the establishment of a network of design resources.

A big project initiated by the BIDC is the establishment and running of a Design Resource

⁹ Available online at: www.premsula.org

Center (DRC). According to an interview of the BIDC director, such an idea was based on rigid research on the characteristics of the design industry. Just take industrial design as an example; it includes not only appearance design, but also structure and production design, which requires very expensive equipment such as 3-D scanner and printer, instant mould, etc; while the majority of the design companies are small or medium size who can't afford such equipments. The platform provided by this design resource center reduced the costs per deal for small design companies.

Besides the hardware function, the other role this DRC played is the development of new design companies. A major work of a developer is to establish a network of information and to provide such network to those who needs it; and the other one is the promotion of design recognition. In China, independent designers or design companies are at an inferior position to their clients. The major reason is the poor design knowledge and taste of commercial companies. To illustrate such an embarrassed status of designers in China, the BIDC director provided an example: the art director of BIDC used to be invited by a company in Guangdong Province to do a design project, and he quoted 800,000 RMB (equal to around 80,000 euro) as his service charge; the company thought his price too high and went to another local small company, and finally signed a deal at the price of 30,000 RMB (equal to around 3,000 euro); however, the service provided by the small company was merely several design drafts, without any consideration of the development of prototype, application of new materials, control on production costs, and environmental protection. In the end, it turned out that the extra costs required to apply the design products of the small company into production far exceeded 800,000 RMB. Therefore, there is a great need in the Chinese design industry to promote design recognition and nurture a mature demand side.

From the comparison of the British, Dutch and Chinese contexts in which intermediary design bodies are set up; it can be found that despite of the different cultural and social backgrounds, there is something in common about the functions of the governmental design promotion agencies: reducing transaction costs by reducing uncertainty between the suppliers and

consumers in the design industry. As is discussed in previous chapters, the suppliers, namely designers, have a better knowledge about the value of their works than the consumers, namely commercial companies that are in need of design service. And the problem is that to develop the appreciation of design products in the public, a systematic work is required ranging from education to public propagation. The British Design Council and the Premisela Design Foundation are quite successful from this point of view. Looking at their activities, no matter what kind of projects they initiated, their ultimate objectives remain the same: to influence and educate different target groups the importance of design.

On the other hand, although BIDC, the Chinese design promotion agency, has identified the immature demand side as a big problem in the Chinese design industry, its major activities are not directed towards solving this problem. DRC is an ambitious project and may help some designers become more entrepreneurial, but in essence it is just the reinforcement of the supply side without substantial effect on the demand side. Therefore, the big uncertainty remains the same, which leads to high transaction costs in the Chinese design industry.

In a word, the more the public is interested in design and the more distinguishing capability it has about design knowledge, the more user-oriented design will be stimulated. A successful intermediary organization should improve insight into the significance of design by offering a series of specific projects such as publications, presentations and discussions about design and the relationships through which it is produced.

4.2.2 Exhibitions and events

Traditionally, the value of cultural exhibitions and events are considered as educational to the public, but very few economic features have been analyzed. In fact, exhibitions and events are important tools to reduce industry transaction costs from a broad sense. The establishment and growth of an incidental or annual exhibition project can be looked at as a reaction to market incentives induced by reducing uncertainty. In order to be consistent with the

empirical observation of a strongly rising number of exhibitions and events in the design industry, it is necessary to identify those factors. Real growth has been accompanied by significant increases in design firms; an ever-increasing proportion of the added value derived from design in business has driven the growth of design industry practitioners. However, the changes in the supply side hardly affect the demand side, whose taste formation needs to be established from a multiple sources of information on design knowledge. Such a gap is well met by exhibitions and events: most of them take place in a large scale and have on purpose been created to attract public attention and media publications and to influence their understanding of the design industry.

UK- The Best British Design Exhibition in 2000

In the year 2000, a big exhibition called the 1000 Best British Design was held in London. The British Prime Minister Blair was invited for the opening and closure ceremony. Also, the designers of the 1000 exhibited pieces were also invited at the closure ceremony. This exhibition has exerted quite a lot of influence on the nurture of British public's awareness about design. According to the interview to the initiator of this exhibition, Mr. Sorrell, the idea of discovering, celebrating and promoting one thousand best design products in UK came from the condition of the design industry at that time. During the period of 1995 to 2000, the British design industry has experienced fast growth, and there have been thousands of good design products brought into the market by various kinds of firms. Therefore, there came the idea of such an exhibition, making the people in UK aware of the fact that many excellent designs has been produced by the British people and making the people around the world realize the excellence of the British design.

The Netherlands- international oriented events

Because of solid arts education, the Dutch public is considered to have a good taste about

design and is aware of its importance in business and life.¹⁰ However, the domestic market of the Netherlands is so small that it can meet the requirement of the booming Dutch design firms. As a result, the series of events initiated to promote design are mostly targeted at the international market. In partnership with the SICA, another Dutch intermediary institute for international cultural events, Premsela Design Foundation is planning to organize an annual conference with embassies and consulates to figure out the international demand for Dutch design. This conference is intended to be preceded by an informative discussion between Dutch design organizations about their international plans. Also, an international festival for design is being planned with the aims of improving the climate for design, strengthening the Dutch design field's international relations, and giving the Netherlands a recognizable international position.

China- a chaotic situation

The Chinese government is famous for its favor on the organization of all kinds of conferences and events; however, despite the big number and variety, the organizers do not seem to have targeted groups and specific guidelines. Here is a list of big design exhibitions or events all over China:

Exhibition	Organizer	Location
Annual CIDE	Design Committee of China Packaging Technology Association	Beijing
Beijing International Design Exhibition	Ministry of Science and Technology, Ministry of Commerce, Ministry of Education and Ministry of Beijing Information Industrial, Beijing Government, State Intellectual Property Office	Beijing
Beijing International City Landscape and Architecture	Beijing Municipal Construction Commission, Ministry of Technology	Beijing

¹⁰ See Premsela paper "Shaping New Attitudes, policy plan 2005-2008", available online at http://www.premsula.org/_images/2007/00263.pdf

Design Exhibition	Beijing Sino-Foreign Beijing Technology Communication Center	
International Industrial Design Forum & the Annual National Industry Design Academic Meeting	China Mechanical Engineering Society, Industrial Design Branch, Ningbo Government, Ningbo Science & Technology Association, Ningbo Industrial Design Society	Ningbo
Shanghai Annual International Design Innovation Forum and Exhibition	Shanghai Foreign Science & Technology Exchanging Centre, Shanghai Industry Design Promotion Organization	Shanghai
China Design Industry Week.	China Industry Design Association, Jiangsu Science & Technology Department, Wuxi Government, Wuxi Science and Technology Bureau	Wuxi
Annual National Environment Art Design Exhibition “Design For China”	China Artists Association, Central Academy of Fine Arts	Beijing
Shanghai Annual International City Gardens, Landscape and Architecture Design Exhibition	China Landscape and Garden Society, China Sculpture Society, Shanghai Garden Industry Association and Shanghai Landscape Society	Shanghai

From the above tables, we can find such a problem: though the Chinese government has realized the importance of developing intermediary organizations, there is confusion over what kind of intermediation is needed, thus the current overlap of responsibilities of different industry organizations, which results in a waste of efficiency and the increase of information searching cost. Therefore, from the analytic point of this paper, such a question needs to be clarified: the target group of intermediation in the design industry should be decided under specific circumstances. After finding the right direction, government can develop more focus policies to help the formation of intermediary organizations for the design business.

4.3 Intermediation for the nurture of creativity

4.3.1 Droog design consultancy

While government agencies and all kinds of design-related exhibitions or events provide an intermediary platform that lowers the transaction costs between designers and their customers, and this platform has also created an environment for collective creativity due to the knowledge exchange among industry practitioners, this kind of intermediation is incapable of the nurturing of individual creativity. Here we consider another kind of intermediation, namely a loosely intermediated company structure as the key to creativity development. And this statement is based on the study of the operation of an internationally well-known design company in the Netherlands- Droog Design Consultancy.

The following introduction is a description of Droog Design from its website:

“Droog is a brand and a mentality: design of products that do what they should and think about why they're doing it in the first place: function? fun? wit? criticism? All of the above? Droog is a curatorial collection of exclusive products, a congenial pool of designers, a distributed statement about design as cultural commentary, a medium, working with cutting edge designers and enlightened clients, taking the production and distribution of its collection into its own hands, being unique in its conceptual and contextual approach towards design.”

Droog design consultancy is not a conventional commercial company. First of all, there is no fixed designer staff, the key asset of a design company. It is more of an outsourcing way of working. The designers who contribute to the Droog collection and projects are all independent creative individuals or bureaus that choose to work with Droog in building an exceptional brand. Renny Ramakers and Gijs Bakker, the founders of the company, laid out the curatorial criteria for the products ready to be commissioned: they need to combine functionality and conceptual clarity with a keen expression of awareness of cultural and technological references and contexts; then they set out to looking for designers who share

their outlook on design. If the first co-operation turns out to be a happy one, Droog will demonstrate a commitment to selected designers. Meanwhile, Droog is constantly observing the scene to spot new talent and new interpretations of the challenges with which their existing contracted designers are confronted.

Besides helping corporation clients find the right talented designers, Droog also mediates the other way around: it also helps designers find the right companies to realize their designs. Such a function is achieved by Droog factory, which is a new Droog branch that mediates between designers and industry to bring relatively small series of products to the market. To ensure manufacture to the Droog standards, Droog has taken oversight of production and distribution of its collection into its own hands. They work with manufacturers, clients and partners who agree with Droog design philosophy on projects and series of products demanding a specific approach to production; something using cutting-edge technology and the newest materials, something relying on age-old craft methods of manufacture. Each design commands its own production parameters, and quite often Droog designers are reversing the process, allowing the design to grow out of the specifics and peculiarities of a certain material or technology. By ensuring close connection between idea, material and manufacture, the design creativity of Droog has not only been kept intact, but also been developed.

Another interesting story about Droog is its way of success. At the beginning of the company establishment, such organization structure and philosophy appeared very strange to the public, and no one could understand it. However, Droog established its reputation in the design field by organizing various exhibitions for its products or attending big international theme exhibitions. The first manifestation of Droog Design was in 1994, and ever since Droog has continued to use this medium as a prime theater for disseminating its ideas and products. Droog products have been wandering all over the world through exhibitions, international design fairs such as Milan, specially made interior designs-such as cafe in the New York MoMa and the Petersburg City theatre-and a growing network of authorized Droog dealers.

More than an instrument for display purpose, Droog sees exhibition as a medium in its own right; a staging environment in which they can animate the interactions between concepts, products and their physical environment in real time, real life.

From the legendary success story of this Dutch Design company, three factors can be identified: a positioning of an intermediary platform for creativity; an intermediation with both the supply side and the demand side; a creative application of exhibitions as a medium of publicity. And all these three factors can be boiled down to one conclusion: in the design industry, successful intermediation can not only lower asymmetry of information among the parties of transaction, but can also nurture creativity.

4.3.2 Intellectual property rights implementation organizations

On the issue of intellectual property rights enforcement, there can be seen a fragmented body of EU legislation, i.e. disparate measures on copyrights, trade marks, authors' rights, designs, counterfeiting and piracy, computer programs, etc. At the same time, the protection of intellectual property is governed by various international conventions to which the EU has signed up, such as

- The Charter of Fundamental Rights, Article 17(2) of which states that 'Intellectual property shall be protected'.
- The Berne Convention for the Protection of Literary and Artistic Works
- The Paris Convention for the Protection of Industrial Property
- The World Intellectual Property Organization (WIPO) Copyright Treaty
- The World Trade Organization (WTO) with the agreement on trade-related aspects of intellectual property rights (TRIPS).

In the design industry in particular, there are some enforcement organizations that play the key implementation role:

EU: OHIM - The Office for Harmonization in the Internal Market (Trade Marks and Designs)

The office for Harmonization in the Internal Market (OHIM) is an organization created to help register *Community Trade Marks* and *Community Designs* under the EU's new Community system for the protection of designs. The Community Trade Mark and the Community Design both grant their proprietors a uniform right valid in all member states of the EU by means of one procedural system. The Community Design, in particular, gives the exclusive unitary and uniform protection throughout the EU market to use the design in commerce and take legal action against infringes and to claim damages.

The historical background to the introduction of the Community Design system can be traced back to the year 1993, when OHIM brought forward its first proposal on the EU-wide protection of designs. The Commission has viewed this as a high priority. The first step was achieved in 1998, with the adoption of the *Directive on Design Protection* harmonizing the main rules governing designs registered in the Member States. However, designs have always had to be registered separately in every individual Member State where protection was sought. This means there has continued to be a potential obstacle to the free movement of those products that incorporate designs, which are the subject of national rights, held in different countries by different entities. In order to remove this barrier to the efficient working of the internal market, the Commission gives the OHIM the administrative tools it needed to operate the system, such as the registration and cancellation of designs and the procedure for appeals. By early December 2004, 12 812 applications were received comprising 48 465 designs. After less than two years of activity, the OHIM is now ranked second in the world in terms of filing and registration of designs.

UK: Anti copying in design & DACS-the design and artists' copyright society

ACID (Anti Copying In Design) is a membership trade organization, set up as a round table action group in 1996, by *designers for designers* – a non-profit trade organization created to combat the growing threats of plagiarism in the design and creative industries. By helping its

members to understand and protect their rights, ACID is intent on stamping out intellectual property rights abuse. ACID provides an accessible, practical framework for those who believe that their IP rights have been infringed. By maintaining a high profile at exhibitions and trade shows, reinforced by the powerful ACID brand of protection, the organization also functions as a strong deterrent, on-the-spot advice center and mediation service. And its main objectives are:

- To change the current culture that it is OK to steal ideas and free ride on another person's design equity.
- To create a safer trading environment in order for creative industries to flourish.

ACID has a broad, influential membership base drawn from many diverse industry sectors - textile designers & manufacturers, jewelers, furniture manufacturers, giftware designers, fashion designers, interior accessory producers, graphic designers, etc. Its expanding range of benefits aim to provide its members with a practical legal framework in order to maximize commercial and trading relationships by fully protecting and exploiting intellectual property rights.

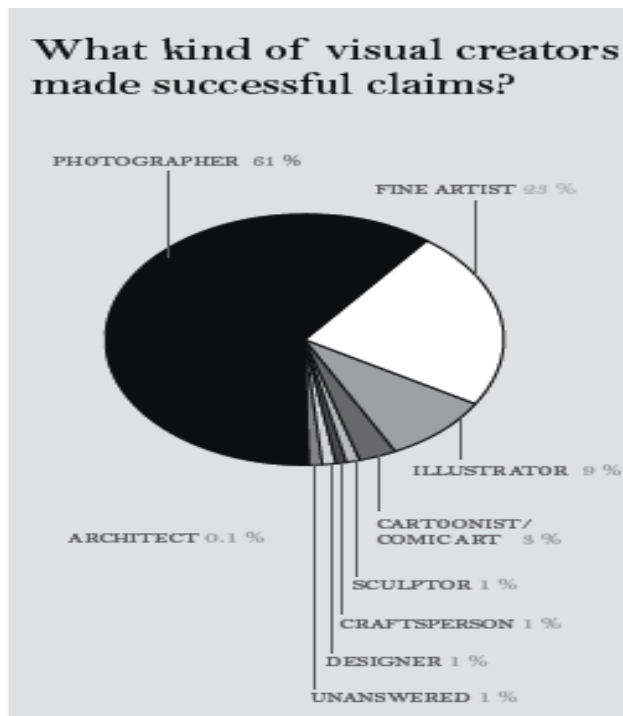
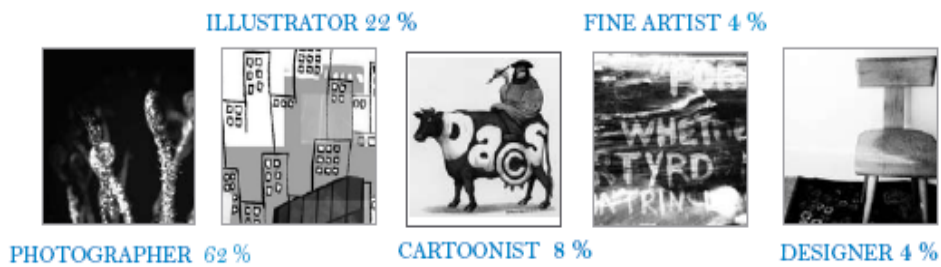
To date there have been over 200 settlements with over £2 million pounds recovered in costs and damages and ACID's lobbying voice is heard in all legislative quarters. However, ACID's focus is on education; knowledge of IP rights is considered a key strength and essential as the basis for a sound preventative and deterrent strategy against design theft.

DACS - the Design and Artists Copyright Society is UK's copyright and collecting society. Established in 1984 as a non-profit organization, DACS exists to promote and protect the copyright and related rights of artists and visual creators. It designed a reward system called *Payback*, which pays artists, photographers, illustrators and all other visual creators (and their heirs and beneficiaries) a share of collective licensing revenue from publications and television licensing schemes for secondary uses of existing reproductions of their artistic works. According to the DACS's annual report, in the year 2005 more artists and visual creators claimed a share of Payback than ever before and over £2.7 million in copyright

licensing revenue was paid out.

However, from the range of claimant profile it can be seen that design rights claimants still constitute a quite small proportion in the creative industries:

TOP 50 PAYBACK CLAIMANTS BY ARTIST TYPE



Source: DACS Royalties Report 2005-06¹¹

¹¹ Available online at: http://www.dacs.org.uk/pdfs/royalties_report_lowres.pdf

-Creative Commons Nederland

Creative Commons is a copyright licensing system developed in the United States. In imitation of this American initiative *DISC*¹² has developed models for licenses specifically for the Netherlands that can be obtained free of charge. A Creative Commons license offers a substantial license for using a protected work without the need to first apply for permission from the person entitled, but always subject to certain conditions. For instance, the person entitled only allows non-commercial use, or stipulates that the original author's name must be quoted. A so-called Public Domain Declaration has also been developed, by which the copyright owner cedes his entitlement to copyright. The main goals of *Creative Commons Nederland*, the successor to *DISC*, are (1) to provide information and support when using Creative Commons licenses, (2) to study the applications and obstacles standing in the way of using licenses in specific sectors and (3) to boost international collaboration and association with the iCommons network.

4.4 A Conclusion

This chapter investigates into different forms of intermediaries organizations, and discusses how they assume their varied intermediation functions. By comparing three government intermediaries under the British, Dutch and Chinese contexts, it is found that more successful intermediation reduces transaction costs by eliminating uncertainty between both the suppliers and consumers. The British Design Council and the Premsela Design Foundation belong to this category, as most projects they initiated are to influence and educate different target groups the importance of design, and at the same time to help with the matchmaking process. On the other hand, BIDC, the Chinese design promotion agency, tends to focus on the reinforcement of the supply side without substantial effect on the demand side, thus remains the big uncertainty and high transaction costs in the Chinese design industry.

¹² DISC stands for Domein voor Innovatieve Software en Content, a project of Stichting Nederland Kennisland and Waag Society. These organizations have devoted attention to the dissemination of innovative open source software for small-scale societal organizations with subsidy from the Ministry of Education, Culture and Science.

Taste formation plays an important role in reducing the knowledge gap between design suppliers and consumers, and such a role can be found in exhibitions and events: most of them take place in a large scale and have on purpose been created to attract public attention and media publications and to influence their understanding of the design industry. However, the case study shows that the target group of intermediation in the design industry should be decided under specific circumstances; otherwise it is only a waste of resources and causes more confusion.

While government agencies and exhibitions or events help to reduce transaction costs and create an environment for collective creativity due to the knowledge exchange among industry practitioners, this kind of intermediation is incapable of the nurturing of individual creativity. Another kind of intermediation, namely a loosely intermediated company structure, is considered as a genius design for creativity development. The legendary success of the Dutch Design company, Droog, is attributed to its insightful intermediation between both the supply side and the demand side via the creative application of exhibitions as a medium of publicity and transaction. In addition, design rights collecting societies are drawn as a special type of intermediaries that help educating design and design rights knowledge, which indirectly reduce uncertainty-related transaction costs and enhance creativity by improving the social environment for designers.

Chapter 5 Conclusions and Future Research

This section attempts to draw together the findings of this study: it analyses them and subjects them to closer scrutiny so that policy implications, future research agendas and conclusions can be reached.

5.1 Introduction

Every time I discover a clever design product, no matter it is a mug, a vase, a piece of furniture, or a building, I can not help admiring the smart creativity of the designer. However, very few good designs come from Chinese designers. Is it because of the lack of capable creative individuals in China? Or is it because of the poor design education? I used to think so, but my idea changed after my encounter with a group of extraordinary young Chinese designers when I was working as assistant curator for a Chinese Contemporary Art Exhibition in Rotterdam. During the talk with them, I found that what the Chinese design industry in great need of is not talented designers-there are already a lot- but a mechanism that could bring the design talents into practice. These young designers told me that the Chinese design industry could have grown faster if there were effective policy support. Then I started wondering what the key factor in developing the Chinese design industry is and what direction government should go when planning design industry policies. And that leads to the formulation of the research question to this thesis. After a preliminary study, intermediary organizations in the design industry are decided to be the research object. And the research question is formulated as follows: what are the roles of intermediation in the operation of design industry? And how the different level and form of intermediation in the European and Chinese design system affect the design creativity? It is also hypothesized that stronger support of organizational intermediation offers more space for both business development and artistic innovation and creativity in the design industry.

5.2 Conclusions

To this point, we can find that this research supports the initial assumption that strong organizational intermediation offers more scope for both business development and artistic innovation in the design industry. It does so by reduce or eliminate transaction costs associated with a design transaction process, and on the other hand, it offers an environment in which independent designers get the freedom to nurture creative ideas and gain better surplus from their work.

Here is the reasoning I followed in answering the research question:

The theoretical framework is based on the combination of transaction costs theories and theories on creativity, with a start from commenting on Richard Caves' work on the intermediation in creative industries (Caves, 2000). Literature review regarding the role of intermediaries in the development of an industry is also given to provide a clear theoretical framework on the evolution of intermediaries as an economic body, in which, transaction cost theory is referred to in detail as the theoretical backbone of intermediaries. Review on Bruno Frey's (1999) study of the intrinsic and extrinsic motivation and artistic creativity is followed by comment on Towse' empirical test on Frey's proposition, in which she drew evidence from the cultural sector to prove that both intrinsic and extrinsic rewards exist in the market are provided by the government in the form of copyright law, state subsidized artist training, grants and honors to artists (Towse, 2001, 2006). And Towse (1992) also provided an alternative view how intermediaries help solve the problem of excessive artists supply problem. Then a historical review on the study of creativity in the Evolutionary Economics paradigm, and especially Schumpeter's (1991) entrepreneurship theory is put into detailed analysis. His proposition that entrepreneur is the Men of Action and the Men who combine opens a new perspective for studying the role of intermediaries in creative industries. Finally, this broad vision of Schumpeter on entrepreneur is illustrated by Neil De Marchi's (1995) study on the role of intermediaries in the formulation of the Dutch arts market.

By analyzing three transaction dimensions of the design industry, namely asset specificity, uncertainty and transaction frequency, it is inferred that the ideal structure of the design industry should be hierarchical; however, such a deduction is in conflict with the reality in which the design industry is featured with a network of small companies. Therefore, the other variable creativity is brought into consideration. It is found that the specific qualities of the design industry require a creative atmosphere that only independent designer studios or small companies can provide. But that brings a dilemma between reducing transaction costs and nurturing creativity. Faced with such a contradiction, the role of intermediation is brought forward as a solution.

Two ways of intermediation are laid out for discussion. First of all, government agencies and exhibitions and events are considered as the intermediary bodies that contribute to the reduction of transaction costs. Due to the characteristics of the design industry, the market is usually featured with high level of uncertainty, with the supply side better informed and the demand side poorly informed. Intermediation in reducing the informational uncertainty on both parties of a transaction is the key to reducing transaction costs. To support such an argument, several cases, ranging from the British Council, Premisela Dutch Design Foundation to Beijing Industrial Center were selected for comparison. On the other hand, successful intermediation is also considered as the solution to nurturing creativity in the design industry. This statement is mainly based on the study on a successful Dutch design company Droog Design Consultancy, as well as the study of several IP implementation agencies. It is found that a loosely intermediary company structure can help to both reduce transaction costs and facilitate creativity, because such a platform acts as mediation between the supply side and the demand side and at the same time it also creates a flexible atmosphere which is essential for creative individuals, while the development of IP implementation agencies is the key to the protection of design related rights, which indirectly reduce uncertainty-related transaction costs and enhance creativity by improving the social environment for designers.

5.3 Implications for theory in cultural economics

This study has established that intermediaries play a very important role in the development of the design industry. In addition, it confirms that the creativity problem of creative industries can be partially solved by an efficient mechanism arrangement. The thesis's findings build on alternative meanings of the word intermediary as found in Caves and theory associated with transaction cost and creativity, which have been found to be central and indispensable for the design industry. In this light, this study extends the existing discussion of the intermediation mechanism in creative industries, while going further into a specific industry context-design, which has rarely been discussed in the literature of cultural economics.

The qualitative findings of the study confirm that intermediaries are especially needed in the design industry which is featured with a high asset specificity and high uncertainty. It appears that the intermediation in reducing transaction cost is achieved mainly by effective matchmaking, and the transference of design knowledge. The thesis underlines also the central innovative role of independent designers or small design studios in the design industry, and correspondingly, their need for a sound intermediation system, which links and directs flow of resources.

In his omnibus piece "Where Are We Now on Cultural Economics", Mark Blaug (2001) provided us with a comprehensive review of the development in the subject of cultural economics over the last 30 years. Of the nine main topics addressed, namely taste and taste formation, demand and supply studies, the media industries, the art market, the economic history of the arts, labor markets for artists, Baumol's disease, non-profit arts organizations and public subsidy to the arts, it can be found that neither of the two subjects in this thesis-design industry and intermediaries-has been fully stressed by cultural economists. Therefore, this study contributes to the existing cultural economics literature by applying transaction costs and creativity theories on an important sub-category of creative industries: the design industry.

5.4 Implications for Policy

It is shown that there are varied forms of intermediary organizations, such as government agencies, exhibitions, events, commercial enterprises and non-profit consultancy organizations, etc. But in general they assume similar functions of reducing transaction cost and enhancing creativity. The study has argued that successful intermediation reduces informational uncertainty from both the supply and consumption sides, and intermediary organizations with projects catering the needs of both designers and design service buyers demonstrate the best performance, such as the British Design Council and Premisela Design Foundation. The independents and small studios are considered the target group that most needs intermediation, and on the other hand, intermediation resources directed to this group can help enhance the most creativity. Also, study also shows that there is need for the growth of intermediary organizations dealing with intellectual property rights, because they could provide design practitioners more surpluses from their work and indirectly contribute to the development of creativity in the design industry.

5.5 Future Research Agenda

With limited time and access to data, this research chooses a qualitative approach, but it is hoped that in the future more academic attention can be directed to the field of design industry and more quantitative researches are conducted to better understand the industry structure, as well as the flow of resources in its value chain. And the topic of efficiency of intermediaries' performance is also a field worth further investigation, for instance, performance indicators could be established.

In a word, the discipline of cultural economics is a young and growing field. The subtle word "creativity" always makes it difficult to model an industry in which business and art goes in parallel, but under the general term "creative industries", there are many interesting sub-fields that could be analyzed by applying theories from standard economics, such as industrial economics or neo-institutional economics.

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