Foundations & Frontiers of Service-Dominant Logic

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A Continuing Journey...

SERVICE-DOMINANT LOGIC
PREMISES, PERSPECTIVES, POSSIBILITIES

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What’s New?

The Complexity of Context: A Service Ecosystems Approach for International Marketing

Melissa Archpau Akaka, Stephen L. Vargo

ABSTRACT
To strengthen the theoretical foundation of the complexity of service ecosystems and apply a service ecosystems approach, a service is defined as a set of exchanges, process oriented features of service, and the service is the basis of all exchanges. The authors argue that within a service ecosystem influence is influenced by the consumer, company, and context of interaction. The complexity of service ecosystems is an important research for understanding the role of technology in service and how influenced by human actions.

Keywords: service-dominant logic, service ecosystems, complex system, co-creation

International marketing (IM) has been characterized by a complex set of interactions among the various elements of the discipline (i.e., companies, consumers, and technology). This complexity is further complicated by the increasing importance of context and cultural differences. In this paper, we explore the role of context in service ecosystems and how influenced by human actions, particularly consumers.

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Original Article

Technology as an opertant resource in service (eco)systems

Melissa Archpau Akaka · Stephen L. Vargo

Purpose—This chapter frames value creation collaboratively created method/approach research propositions context through the in-service-dominant (S-D) approach for value co-creation. The chapter presents the service-dominant logic approach to value co-creation and how it is influenced by human actions.

Keywords: service-dominant logic, service ecosystems, co-creation, B2B

THE CO-CREATION CULTURAL-CONTEXT

Melissa Archpau Akaka, Stephen L. Vargo

1. Introduction

A state arises, as it evolves, outside the needs of mankind: no one is self-sufficient, but all of us have many wants. Thus, as we have many needs, and many persons are needed to supply them, one takes a help for one purpose and another for another; and when these parties and helpers are gathered together in one habitation, the body of individuals is termed a state. And they exchange with one another; and one gives and another receives under the idea that exchange will be for their good.

As the global, networked economy becomes more pervasive and its supply more compelling, it is (should be) becoming increasingly clear that we rely on one another through the voluntary exchange of applied skills and competences (Vargo & Lusch, 2004, 2008). Consequently, one might think that the above quote is contemporary; it is, however, from The History of the Republic (280 BC) by Plato, published more than 2000 years ago. Despite a globally interdependent world, the simple truth behind Plato’s words holds true today: we are all socially human beings serving each other, through exchange, for mutual well-being. Perhaps his statement therefore punctuates our current co-creation era (Vargo & Lusch, 2006, 2008a; see also Vargo, 2007) that it is important to develop a log of the exchange and of the market (and society) and marketing that transcends time, space, and the sometimes myopic conceptualizations of academic silos. It was in the spirit of this co-creation that we previously used a "log" to frame our research and in this way, more transdisciplinary and cultural co-constructual and frameworks. A first step was to suggest transcending the "two" versus "service" divide with it is all about service. More specifically and more recently, we recognized a need to overcome (in)consequential problems associated with the notion of a "product," as a level of value, and to "manipulate," as a destroyer of value, and with this reflection is one of the reasons central tenets of S-D logic: all social and economic actors are resource integrators (Vargo & Lusch, 2006) — as captured in foundational premise (P9, 9). That is, all parties (e.g., businesses, individual customers, households, etc.) engaged in economic exchange are equally resource-integrating, service-providing, enterprises that have the common purpose of value (co-creation) — what we mean by "it’s all B2B."

We initially picked "because," given the most commonly used designations of "B" (business) and "C" (consumer), economic (and social) actors come closer generically to what is captured by "business," rather than "consumers." Stated alternatively, a business is thought of as being an enterprise, a characteristic that we feel more fully captures the activities of those with whom they exchange, than is implied by "businessmen" — which has rather questionable, financial considerations of a ‘target’ with a primary activity of using stuff up, rather than creating and contributing. Additionally, B2B scholars have been...
Premises

THE S-D LOGIC CORE
# Adjustments to the Foundational Premises of S-D Logic

<table>
<thead>
<tr>
<th>Premise</th>
<th>Likely Revision</th>
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<tbody>
<tr>
<td><strong>FP4</strong></td>
<td>Operant resources are the fundamental source of strategic benefit.</td>
</tr>
<tr>
<td><strong>FP7</strong></td>
<td>Actors cannot deliver value; rather, they can offer value propositions.</td>
</tr>
<tr>
<td><strong>FP8</strong></td>
<td>A service-centered view is inherently beneficiary oriented and relational.</td>
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- **FP4**: Operant Resources are the fundamental source of competitive advantage.
- **A2/F P6**: The customer is always a co-creator of value.
Science: Striving to Explain the Complex with a Simple Structure

‘The grand aim of all science is to cover the greatest number of empirical facts by logical deduction from the smallest number of hypotheses or axioms’.  

Einstein
<table>
<thead>
<tr>
<th>Premise</th>
<th>Explanation/Verification</th>
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| A1/F P1 | **Service** is the fundamental basis of exchange.  
The application of operant resources (knowledge and skills), “service,” is the basis for all exchange. Service is exchanged for service. |
| A2/F P6 | **Value** is always cocreated by multiple actors, including the beneficiary  
Implies value creation is interactional and combinatorial. |
| A3/F P9 | All economic and social actors are resource integrators  
Implies the context of value creation is networks of networks (resource-integrators). |
| A4/F P10 | **Value** is always uniquely and phenomenological determined by the beneficiary  
Value is idiosyncratic, experiential, contextual, and meaning laden. |
| A5/F P11 | Value cocreation is coordinated through actor-generated institutions |
Value Co-creation through Resource Integration & Service Exchange

Resource Integrator (individual, family, firm, etc.)

Market-facing Resource Integrators
Private Resource Integrators
Public Resource Integrators

Economic Currency
Social Currency
Public Currency
New Resources
Value

Service

S-D Logic
Micro Exchange Embedded in Complex (Eco)Systems of Exchange

Supply/Value Chain

Resource Integrating actors
Resource Integration & Service-for-service Exchange within Service-ecosystems

S-D Logic

Resource Integrators

Institutions & Institutional arrangements/logics

Resource Integrator/Beneficiary ("Firm")

Resource Integrator/Beneficiary ("Customer")

Resource Integrators
The Structure and Venue of Value Creation: Institutions & Service Ecosystems

**Institution**
- “any structure or mechanism of social order and cooperation governing the behavior of a set of individuals within a given human community.
- (Stanford Encyclopedia of Social Institutions)

**Service Ecosystem (S-D logic)**
- relatively self-contained, self-adjusting systems of resource-integrating actors connected by shared institutional logics and mutual value creation through service exchange.
Resource Integration & the Structuration of Service Ecosystems

S-D Logic

Institutions

Macro

Meso

Micro

Resource Integrators
The Core Narrative & Processes of Service-Dominant Logic

- **Generic actors**
- **Resource Integration**
- **Service ecosystems**
  - Nested and interlocking
- **Institutions**
  - Actor generated
- **Service Exchange**
  - Coordinated through

**Value Co-creation**
“Hip-Pocket” S-D Logic

Components & Structural Perspectives

Societal: National, Global, etc
(Sub)culture: Brand, Market, “industry, etc
Perspectives

BUILDING ON THE CORE
Approaches to Advancement

- Conceptual Inversion
- Transcendence
- Reframing and Reconciliation
The General and Special Case of Marketing: S-D Logic Inversions

**General Case**
- Managerial
- Predictive
- Manufacturing
- Invention
- Efficiency
- Rationality
- Competition

**Special Case**
- Entrepreneurial
- Effectual
- Market-ing
- Innovation
- Effectiveness
- Heuristics
- Collaboration

“It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so.”
-Mark Twain-
Transcendence

Defined: “Lying beyond the ordinary range of perception.” (Free Dictionary)

- Practically: Zooming out; creating higher-order constructs to resolve tensions/paradoxes from existing constructs
- Sometimes approached through inversion

Examples

- Services/goods => service
- Actor/environment => structuration
- Producers/consumers => generic, RI, Reciprocal-service-providing actors
Reframing, and Reconciling from an S-D Logic Perspective

- **Economic (and social) Actors**
  - From Bs and Cs to *generic* A(ctor)s

- **Markets**
  - From a priori to *imagined, created, institutionalized, and performed*

- **Market-ing**
  - From functional area to *essential function of the firm (actor)*
  - From marketing mix to value co-creation

- **Value**
  - From a property of output to a *co-created outcome*

- **Strategy**
  - From prediction and control to *effectuation*

- **Technology**
  - From exogenous variable to *service-provision mechanism*

- **Role of Information Technology**
  - From tool to a *transformation in value creation processes*

- **Innovation**
  - From invention to *designing systems for value co-creation*
Possibilities: Current Research Frontiers

- Ecosystems
- Institutions
- Innovation/Strategy
Possibilities/Frontiers

ECOSYSTEMS
(Eco)Systems Books

Highlighting the Open, Complex, and Adaptive Nature of (Eco)systems
Resource Integration & and the Structuration of Service Ecosystems

Macro

Meso

Micro

S-D Logic

Institutions

Resource Integrators
Service-for-service Exchange within Service-ecosystems

Resource Integrator/Beneficiary ("Firm")

Resource Integrator/Beneficiary ("Customer")

Institutions

Resource Integrators

S-D Logic
Some Ecosystem Implications

- Need for unit of analysis larger than a dyad
- Need to reconsider conceptualization of value
- Need for fuller understanding of formation and role of institutions
- Possibly need to rethink agency
System Implies Triad as Unit of Analysis?

From Dyad

To Triad

- A link (dyad) or node influencing another link (dyad) (Choi & Wu, 2009)
- A system of more than two actors
From Dyads to Triads (1)

- **Problems with Dyads**
  - Ignore the complexities of ecosystems
    - Closed
    - Deterministic
    - Unambiguous

- **Advantages of Triads**
  - Considered basic unit of networks/systems (Callon, 1998; Simmel, 1950; Wasserman & Faust, 1994)
  - Reveal
    - Indirect interaction
    - Emergent outcomes/Unintended consequences
    - Endogenous change (e.g., structuration)
From Dyads to Triads (2)

- **Implied in marketing by**
  - Indirect (e.g., monetized) exchange
  - Marketing intermediaries
  - Many brand concepts (e.g., brand community, component branding, etc)
  - Most forms of power (referent, normative, etc)
  - etc.

- **Implied in S-D logic by**
  - A2A (all actors are “producers” & “consumers”)
  - Institutional influence
  - Ecosystems
  - Resource integration
  - Value-co-creation
  - Value-in-use, value-in-context, value-in-cultural-context
  - Experience
Value as Viability and “Co-viability”

S-D logic definition of value:
- benefit = increased (decreased) viability (wellbeing) of the system
- Suggests “value-in-viability” (?)

Reconciled with ecosystems:
- Implies concept of “co-viability”
  - Probably is the general case
  - similar to “inclusive fitness” in evolutionary theory (Hamilton 1964)
    - Explains “social” evolution, cooperation
    - Similar to “complex exchange” (e.g., Bagozzi)
Possibilities/Frontiers

INSTITUTIONS
Institutions: The Missing Concept for Value Cocreation

- **Defined:** “any structure or mechanism of social order and cooperation governing the behavior of a set of individuals within a given human community.

- **Integral to ecosystems:** relatively self-contained, self-adjusting systems of resource-integrating actors connected by *shared institutional logics* and mutual value creation through service exchange.

- Might be the true **source of human innovation and advantage** (e.g., heuristics vs rationality)
The world we live in is much more a man-made, or artificial one, than it is a natural one.
- The significant part consists mostly of artifacts, called symbols (p. 2)

‘Judgment’ is a heuristic search.
- The real-world economic actor is a satisficer, who accepts good enough, because (optimization) is not a choice. (p. 29)

Markets and organizations are social schemes that facilitate coordinated behavior, conserving the critical scarce resource of human ability to handle complexity (p. 49)
Institutions as the Building Blocks of Social Science

- “The discovery of the inescapable evidence of the interdependence of market phenomena overthrew [the] opinion that there was in the course of social events no regularity and invariance of phenomena [as found in] “natural phenomena”…(von Mises, 1949 p. 2).

- “One must study the laws of human action and social cooperation as the physicist studies the laws of nature” (von Mises, 1949 p. 3).

- Can we dig below the immense diversity of regularized social interactions in markets, hierarchies, families, sports, legislatures, elections, and other situations to identify universal building blocks used in crafting all such structured situations? Yes. (Ostrom 2005)

- The diversity of regularized social behavior that we observe at multiple scales is constructed from universal component organized in many layers. (Ostrom 2005)

- Institutions are both the “recursive organizers” of practices and the “practices with the greatest time-space extension.” (Giddens 1984, p. 17)
"Greater divisions exist within than between disciplinary camps." (Scott 2000, p. 2)
Frontiers

INNOVATION/STRATEGY
The Separation of Innovation: Technological and Market Components

Abernathy and Clark 1985, Schumpeter 1934, Hauser et al. 2006
An S-D logic and Institutional View on Innovation and Market Formation

Bridging the technological-market divide with a service-ecosystem, institutional, and performative framework of socio-technical processes

Innovation as Combinatorial Evolutionary Processes

**Technologies:**

**Markets:**
Ongoing combinatorial evolution of solution-supporting institutions/practices for increased well being

The collaborative institutionalization of practices that provide novel solutions for new and existing problems.
Bridging Technological and Market Innovation with Business Models

- **Trends in Business Models** (Zott, Amit, and Masa 2011)
  - Emerging as a new unit of analysis;
  - Emphasize a system-level, holistic approach to explaining how firms “do business”;
  - Firm and partner activities play important role (i.e., cocreation);
  - Seek to explain how value is created, not just how it is captured.
A Market as an Institutionalized Solutions

Resource Application (service)

Inter-subjective Agreement

Human Problem

De-institutionalization
Re-institutionalization

Institutionalized Solution
= A Market

Market performativity

Quasi-predictability
Sustaining and Disruptive Innovation

(Different measures of) Performance

S-D Logic

Performance

The General Case

Modifying Markets

Recreating Markets

Creating Markets

Pace of Technological Progress

Pace of Performance that customers can utilize, absorb

Non-market participants

The General Case

Adapted from Christensen (various)
What practitioner gets from S-D Logic (the Spohrer challenge)

■ **Understanding**
  ■ Purpose is *not to beat the competition, but to serve*
  ■ Markets *not entered, but continually (re) created*
  ■ Market innovation *at least as important as technological innovation*
  ■ Firm output *is only input for value cocreation*

■ **Insight**
  ■ Possibilities *for innovation*
Expanded Venues for Innovation

S-D Logic

Actor Ecosystem

Actor Space

Resource Integrator/Beneficiary ("Firm")

Co-Production/Service Encounter Space

Resource Integrator/Beneficiary ("Customer")

Actor Ecosystem

Meso/Macro Ecosystem

Resource Integrators
<table>
<thead>
<tr>
<th>S-D Logic-compatible Innovation Approaches</th>
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<tbody>
<tr>
<td><strong>Market (re)creation</strong></td>
</tr>
<tr>
<td>Disruption</td>
</tr>
<tr>
<td>Effectuation</td>
</tr>
<tr>
<td>(Re)Institutionalization</td>
</tr>
<tr>
<td><strong>Ecosystem development/enhancement</strong></td>
</tr>
<tr>
<td>Provider</td>
</tr>
<tr>
<td>Beneficiary</td>
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<tr>
<td>Solution centered</td>
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<tr>
<td><strong>Reframing firm role/objective</strong></td>
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<tr>
<td>Service-flow provision (vs product selling)</td>
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<tr>
<td>Value-based/performance-based pricing (vs unit based)</td>
</tr>
<tr>
<td><strong>Reframing beneficiary desires/value</strong></td>
</tr>
<tr>
<td>“Jobs to be done” (vs. product need)</td>
</tr>
<tr>
<td>Experiences (vs. product evaluation)</td>
</tr>
<tr>
<td>Co-creator</td>
</tr>
<tr>
<td><strong>Value creation/realization (for firm)</strong></td>
</tr>
<tr>
<td>Co-production/Open-source innovation/crowdsourcing</td>
</tr>
<tr>
<td>Self service</td>
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From S-D Logic to Application

- Blue ocean strategy
- Disruptive innovation
- Find the right job
- Design thinking and designing for experience
- Lean consumption
- Open innovation
- "institutional work"
Evolving to a New Dominant Strategic Understanding

<table>
<thead>
<tr>
<th></th>
<th>Economics</th>
<th>Marketing Management</th>
<th>S-D Logic</th>
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<tr>
<td><strong>Situation</strong></td>
<td>Market as waiting demand</td>
<td>Market as segments of demand and competing suppliers</td>
<td>Market as potential in dynamic system of resource integration (creation) and application (service exchange)</td>
</tr>
<tr>
<td><strong>Strategic strategy</strong></td>
<td>Fill demand</td>
<td>Manipulate 4Ps better than competition (competitive advantage)</td>
<td>(Re)create and institutionalize markets through resource creation &amp; service provision</td>
</tr>
<tr>
<td><strong>Goal</strong></td>
<td>Supply/demand equilibrium</td>
<td>Monetary profit through market share</td>
<td>Increased (co)viability</td>
</tr>
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Thank You!

For More Information on S-D Logic visit:

sdlogic.net

We encourage your comments and input. Will also post:

- Working papers
- Teaching material
- Related Links

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