Toward a transcending conceptualization of relationship: A service-dominant logic perspective

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Abstract
Purpose – The purpose of this paper is to propose and elaborate on a service-dominant-logic-based conceptualization of relationship that transcends traditional conceptualizations.
Design/methodology/approach – The paper consists of a review of traditional conceptualizations of relationship, a review of service-dominant logic foundational premises that are useful in reframing the concept, and supporting views from the institutional economics and business ecosystems literature.
Findings – A transcending, service-dominant-logic-based conceptualization of relationship as a general term representing the network-with-and-within-network nature of value creation, with transactions as "temporal isolates" of relationships is suggested.
Originality/value – This higher-order conceptualization of relationship provides a foundation for better understanding the role of relationship in value creation, as well as its correspondence to transactions and products.

Keywords Relationship marketing, Buyer-seller relationships, Ecology, Networking

Paper type General review

It is generally acknowledged that the foundations of relationship marketing as an academic concept are grounded in service marketing and business-to-business (B2B) marketing (Ballantyne *et al.*, 2003; Grönroos, 2000; Mattsson, 1997). Vargo and Lusch (e.g. 2004a, 2008a) have also cited relationship marketing and, more generally, service marketing and B2B marketing as foundational to service-dominant (S-D) logic and its focus on the process of collaborative and reciprocal value creation. Furthermore, Vargo and Lusch (2008a) have noted that both service and B2B marketing are motivated, if not necessitated, by the inadequacies of the underlying goods-dominant (G-D) logic – the focus on the exchange of units of output – which academic marketing inherited from economics.

Since its introduction in B2B and service marketing, "relationship," and the more managerial and normative "relationship marketing," have transitioned to central concepts in mainstream marketing, in which they are most often conceptualized in terms of maximizing customer lifetime value (CLV) through repeat patronage – ongoing exchange of units of output (see Christopher *et al.*, 2004). As such, the concepts are arguably at least partially G-D logic anchored. If, as Vargo and Lusch (2004a; 2008b) suggest, marketing is evolving to a new dominant logic (S-D logic) that transcends G-D logic, it begs the question of whether there is a higher-order, S-D-logic-compatible, relationship conceptualization that transcends its traditional understanding. This commentary addresses that question by first briefly reviewing the development of relationship and relationship marketing, then by looking at relationship in terms of the broader, contextual, networked and co-creative nature of value creation as captured in S-D logic, and finally by linking this conceptualization to emerging thinking about the institutional and ecosystems nature of the market and the firm as well as earlier, foundational concepts of relationship.

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Background

As noted, as academic constructs, relationship and relationship marketing (RM)[1], have roots in both service marketing and B2B marketing (Ballantyne *et al.*, 2003; Grönroos, 2000; Mattsson, 1997), which developed, perhaps not coincidentally, concomitantly. At least initially, the two approaches to relationship had related but somewhat different notions behind them. In service marketing, which originally contrasted itself with more mainstream goods marketing, the focus was on (1) interactivity, based partly on the "inseperability" characteristic (e.g. Zeithaml *et al.*, 1985) of services (Grönroos, 2004; Gummesson, 1995) and the related need to foster firm/customer relationships (e.g. Berry, 1983). In B2B marketing, the focus was more on (1) the embeddedness of value creation in networks, stemming at least in part from the work by the Industrial Marketing and Purchasing (IMP) Group (e.g. Håkansson and Snehota, 1995), (2) the related notion that value is not produced by one party and consumed by another in a B2B world, and (3) the observation that exchange takes place in associations or "domesticated markets" (e.g. Arndt, 1979). This embedded-nature-of-value-creation orientation also implies interactivity of course, albeit somewhat differently from the service marketing focus. These orientations and foundations are reflected in some of the representative definitions of RM:

- Relationship marketing is a strategy to attract, maintain, and enhance customer relationships (Berry, 1983, p. 25).

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- Relationship marketing refers all activities directed towards establishing developing, and maintaining successful relational exchange (Morgan and Hunt, 1994, p. 22).
- Relationship marketing is marketing seen as relationships, networks, and interactions (Gummesson, 1994, p. 32).
- Relationship marketing is the process of co-operating with customers to improve marketing productivity through efficiency and effectiveness (Parvatiyar, 1996, cited in Mattsson, 1997, p. 449).
- Relationship marketing is marketing based on interaction within networks of relationships (Gummesson, 2004, p. 3).
- Relationship marketing is the process of identifying, developing, maintaining, and terminating relational exchanges with the purpose of enhancing performance (Palmatier, 2008, p. 5).

Also evident in these definitions is a distinction between RM as a positive and as a more strategic, normative concept. Indeed, as RM has developed, it has increasingly gravitated toward a prescriptive imperative – to foster long term associations resulting in repetitive transactions – especially as a mainstream marketing concept.

Relationship marketing has also been gravitating toward a meaning of the polar opposite of transaction. Jackson (1985) was instrumental in crystallizing the idea of relationship being contrasted with transactions. Dwyer *et al.* (1987), relying on MacNeil (1980) and Arndt (1979), further developed this discrete (transactional) versus relational theme (see also Pels, 1999; Webster, 1992), though they treated relationship with considerably more richness and depth than has often been acknowledged, as will be discussed. Over time, the concept of relationship marketing has also transitioned from the sub-disciplines to "mainstream" academic marketing (see Vargo and Lusch, 2008a), in which the normative, repeat patronage orientation is particularly pronounced.

As a central tenet of mainstream marketing, and thus in the context of its G-D logic heritage, RM has become something of a temporal (i.e. long-term) extension of the customer orientation, generally conceptualized as developing and maintaining firm-customer bonds in order to profit from CLV (i.e. through multiple transactions) (see Christopher *et al.*, 2004), driven by relational norms (Heide and John, 1992) and "trust" and "commitment" (Morgan and Hunt, 1994). This conceptualization of RM of course has some positive implications but is largely a unidirectional, firm-centric prescription for increasing profits (see Palmatier, 2008, pp. 4-5). In practice, RM is often manifested through customer relationship management (CRM), the ongoing management of relationship through the collection and use of customer-relevant information.

RM has also been suggested as a possible alternative to the exchange paradigm (e.g. Sheth and Parvatiyar, 2000), with relationship replacing the transaction as representative of marketing activity. Arguably, the more general interactivity-in-value-creation and embeddedness-in-networks theses have remained more of a sub-disciplinary focus, particularly evident in B2B marketing but also evident in some service-marketing schools of thought, perhaps most notably in the Nordic School (Grönroos, 2004; Gummesson, 1995). Some exceptions will be discussed in following sections.

Vargo and Lusch (2008c) have suggested that the development of both service marketing and B2B marketing (and other sub-disciplines and research initiatives) was not so much a response to differences in their respective phenomena of interest as compared to that of mainstream marketing – the production, distribution, and consumption of goods, as often assumed. Rather, they were motivated by the inadequacies of the underlying G-D logic, on which mainstream marketing is based (see also Vargo and Lusch 2004a, b, 2008b), to deal with the full range of marketing related phenomena. Vargo and Lusch also argue that marketing is evolving to a new logic that is service based, necessarily interactional and co-creative of value, network centered and, thus, inherently relational. Similarly, Vargo and Lusch (2006) argue that the problem with the exchange paradigm is not the notion of exchange – in fact, it is difficult to imagine an adequate conceptualization of markets and marketing without exchange as a central construct – but with the inadequacy of an exchange logic built on goods being exchanged for goods (or money). Thus, in contrast with G-D logic, Vargo and Lusch have suggested an emerging logic, in which service is seen as exchanged for service.

Service-dominant logic

S-D logic is captured in ten foundational premises (FPs), as introduced in Vargo and Lusch (2004a) and revised in Vargo and Lusch (2008b). These are shown with brief explanation in Table I and the key FPs as they relate to RM, are referenced in the following overview of S-D logic.

The central tenet of S-D logic is that service is the fundamental basis of exchange (FP1). That is, service is exchanged for service. The essential elements of S-D logic thus begin with the definition of service: the process of using one's competences (knowledge and skills) for the benefit of another party. This meaning of "service" (singular) should not be confused with the more commonly used "services" (plural), which reflects a particular type of (intangible) good (output), which is often used in service(s) marketing and which Vargo and Lusch (2004b) have associated with G-D logic. Goods (tangible products) have an important role in S-D logic, but are seen as vehicles for service provision, rather than primary to exchange and value creation (FP3).

Perhaps the second most important tenet of S-D logic is found in its conceptualizations of value and value creation. In G-D logic, value is a property of goods, which is created by the firm and distributed to "consumers," who destroy (consume) it. In S-D logic, the firm cannot create value but can only offer value propositions (FP7) and then collaboratively create value with the beneficiary (FP6). Thus, the service provided (directly or through a good) is only input into the value-creating activities of the customer. Before value can be realized, that input must be integrated with other resources, some of which are also obtained through the market and some of which are privately (e.g. personal, friends, family) or publically (e.g. government) provided (FP9). Thus, value creation is always a collaborative and interactive process that takes place in the context of a unique set of multiple exchange relationships (FP10), though often somewhat tacitly and indirectly so, especially when service is provided through goods.

Furthermore, in economic markets, if not in social exchange generally, value creation is mutual and reciprocal (i.e. service is exchanged for service), almost by definition. That is, not only does the firm provide inputs for the customer's value-creating activities but the customer does the same for the firm, though usually at least partly indirectly, through money. Stated somewhat differently, the customer is integrating resources (FP9) from various sources to create its own resources (e.g. knowledge and skills), the application of

Table I Revised foundational premises of service-dominant logic

Premise		Explanation/justification
FP1	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
FP2	Indirect exchange masks the fundamental basis of exchange	Goods, money, and institutions mask the service-for-service nature of exchange
FP3	Goods are distribution mechanisms for service provision	Goods (both durable and non-durable) derive their value through use – the service they provide
FP4	Operant resources are the fundamental source of competitive advantage	The comparative ability to cause desired change drives competition
FP5	All economies are service economies	Service (singular) is only now becoming more apparent with increased specialization and outsourcing
FP6	The customer is always a co-creator of value	Implies that value creation is interactional
FP7	The enterprise cannot deliver value, but only offer value propositions	The firm can offer its applied resources and collaboratively (interactively) create value following acceptance, but cannot create/deliver value alone
FP8	A service-centered view is inherently customer-oriented and relational	Service is customer-determined and co-created; thus, it is inherently customer-oriented and relational
FP9	All economic and social actors are resource integrators	Implies that the context of value creation is networks of networks (resource-integrators)
FP10	Value is always uniquely and phenomenologically determined by the beneficiary	Value is idiosyncratic, experiential, contextual, and meaning-laden

Source: Adapted from Vargo and Lusch (2008b)

which can be exchanged in the market for the services it desires (FP1). Because the firm likely does not need the specific service of the customer, the customer exchanges those applied skills elsewhere and is given money (rights to future service), which can then be used to obtain the service of the firm (and others). The firm, in turn, uses the money to access resources from its own network of service providers (i.e. suppliers, employees, and various other stakeholders). This can lead to the creation of resources that can be used in further service provision, including to the customer. For example, an assembly line worker can exchange his/her specialized skills for money, which can in turn be used to obtain medical service from a doctor, who then uses the money to pay employs, pay rent, and buy medical supplies, which can be integrated with personal (and other) resources to provide health care service.

But customers co-create value with firms in additional ways, such as by enhancing brand and relationship equity for the firm. For example, customer communities often add brand meanings and create exogenous (or at least exogenously initiated) loyalty programs for firms in ways never intended or envisioned by the firms (McAlexander *et al.*, 2002). Examples can be found in the Harley Davidson's user community activities and social-networking fan communities that develop around sports teams. More direct examples can be found in more intentional firm-community collaborative business models such as Threadless T-Shirts, a company in which the offerings are designed by the customers (Ogawa and Piller, 2006).

S-D logic and relationship

Whether considered in terms of interactivity or reciprocity, when viewed from a value-creating orientation (S-D logic), as compared to an output-producing orientation (G-D logic), value emerges and unfolds over time, rather than being a discrete, production-consumption event. Consider obtaining an education or the purchase of a car. In both examples, exchanges and transactions might take place in relatively discrete instances (e.g. sitting in a lecture or taking delivery from a dealer, respectively) but the value unfolds over extended periods of time as the new knowledge is combined with other knowledge in the context of the student's life or the car is combined with gas, driving knowledge, roads, laws, and social networks to provide transportation and social identity, among other value-creating activities. This unfolding, co-creational (direct or through goods) nature of value is relational in the sense that the (extended) activities of both parties (as well as those of other parties) interactively and interdependently combine, over time, to create value.

It is through these joint, interactive, collaborative, unfolding and reciprocal roles in value co-creation that S-D logic conceptualizes relationship. Co-creation and service exchange imply a value-creating relationship or, more precisely, a complex web of value-creating relationships, rather than making relationship an option. This meaning of relationship is punctuated in FP8: "A service-centered view is inherently customer oriented and relational." In particular contexts, optimal (for the firm), normative relationships might include repeat patronage (i.e. multiple, relatively discreet transactions) but they do not have to for relationships to exist.

To fully see this S-D Logic concept of relationship requires zooming out to get a broader, value-creation perspective, as seen in Figure 1 (see Vargo, 2008). The salient differences between a G-D logic and an S-D logic conceptualization of relationship are highlighted in Table II and discussed further below. This is not intended to suggest that service logic is correct and goods logic is wrong, but rather that the latter might actually make more (though somewhat restricted) sense in the context of the former.

Insights from the intersection of S-D logic and institutional economics

Further insight into a transcending conceptualization of relationship can be found in the (new) institutional economics related literature, which considers value creation in terms of

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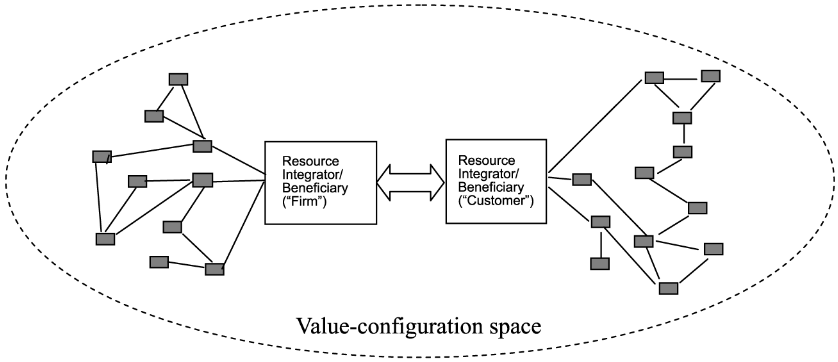
Figure 1 The contextual nature of value creation



Source: Adapted from Vargo (2008)

Table II The meanings and implications of relationship

	G-D Logic	S-D Logic
Meaning(s) of relationship	Dyadic bonds represented by trust and commitment Long-term patronage – repetitive transactions	Reciprocal, service-for-service nature of exchange Co-creation of value Complex, networked structure of the market Temporal, emergent nature of value creation Contextual nature of value determination
Normative implications	Manage customers (through communications, satisfaction, etc.) to maximize CLV	Collaborate with customers to develop mutually beneficial value propositions Co-create value through service-for-service exchange

Source: Adapted from Vargo (2008)

the embeddedness of related actors within structures or networks. For example – setting aside their stance that is partially counter to S-D logic's debunking of the "goods" versus "services" distinction (Vargo and Lusch, 2004b) – Araujo and Spring (2006) draw on Baldwin and Clark's (2003) work to make a case that transactional units can be characterized in terms of objectified, bounded, tradable entities ("goods" and "services") that represent parts of a larger network of relationships among specialized actors. In short, market offerings represent only a small part of the relationships that are involved in value creation. Baldwin (2007, p. 159) similarly characterizes transactions as "mutually agreed-on transfers with compensation located *within* the task network, [which] serve to divide one set of tasks from another" (emphasis in the original).

As Araujo and Spring (2006, pp. 801, 803) further explain, based on their paraphrase of Callon *et al.*'s (2002) comparable take of a good corresponding "to a state at a point in time,":

> Our suggestion, following Callon (1991), is that products constitute programs of action inscribed in tangible, materials. But it would be wrong to see products as simple embodiments of knowledge and vehicles for disembedding services from the vagaries of producer-user interactions. The production, circulation, and use of products define particular networks and allocate roles to participants in those networks (Callon *et al.*, 2002).

In S-D logic, these network links would be characterized as mutual service-provision relationships. Thus, all of this begins to point toward a notion of transactions as bounded relationships within larger institutional structures set up for mutual value creation. Sometimes these transactions are defined in terms of products, which can be seen as tangibleized bounded relationships. That is, products (goods) represent modular (discreet, standardized pieces of complex systems) structures, characterized by relatively "thin crossing points" (e.g. low transaction costs) in more complex networks of mutual value creation (Baldwin, 2007; Langlois, 2002). But, as Araujo and Spring (2006) imply, the distinction between thin and thick crossing points does not distinguish between "goods" and "services", since what they call "services" can be objectified and transacted and thus characterized by thin crossing points also, depending at least partly on technology, especially information technology.

Rather than distinguishing between goods and services (see Vargo and Lusch, 2004b), S-D logic distinguishes between direct (see "services") and indirect (i.e. through goods) service provision (Vargo and Lusch, 2008b). To some extent, it might be argued that indirect service (e.g. tax-preparation software) provision is characterized by thin crossing points (i.e easy to identify the bounds of what changes hands) and lends itself to efficiency (for the provider and the beneficiary) through lowered transaction costs (e.g., ease of acquisition and ability to arrive at a market price), but with lowered effectiveness compared to direct service (e.g. tax-preparation service). Conversely, it might be argued that direct service (e.g. tax preparation) offers more effectiveness than indirect service (e.g. through tax-preparation software), albeit less efficiently, because of higher transaction costs. However, there are exceptions, especially as technology reduces transaction costs in dynamic interactions (e.g. tax-preparation software that can dynamically query and inform the taxpayer during use).

Service-exchange relationships and temporal traps

It is in this sense that transactions and products (goods) perceptually and temporally trap relationships, among actors involved in service-for-service exchange, at points in value-creation time and space, that the S-D logic concept of relationship transcends more limited conceptualizations. Service relationships characterize the market; transactions and products are structural and temporal isolates in the value creation process.

Normann (2001, p. 27) calls these modular, transactional entities "densities"[2], the optimal "combination of resources mobilized for a particular situation –, e.g. for a customer at a given time in a given place." That is, density is a measure of the degree to which the necessary "specialized knowledge" and "specialized assets" are available to solve a particular problem. The advantage of the density conceptualization is that it frees the mind from the confines of seeing a "product" (e.g. good or "service") as the end of value-creation by recasting it in terms of an intermediate snapshot of the value-creation processes. As noted, the full density-creation process represents a series of service-for-service relationships and interrelationships.

In some cases, these densities might be increased by repeated encounters (transactions), such as in the case of psychotherapy or equipment-maintenance contracts but, in others, the temporal dimension has more to do with opportunities to create value through the combination of resources from one service provider with other resources, over time, such as in the case of education or automobile use. It is about relationship understood from the perspective of the co-creation of value over time, rather than from the perspective of opportunities to extract additional resources from customers over time.

Of course, in market exchanges, this perspective on relationship works the other way also. Firms might develop more value through additional economic exchanges with a given customer but they might also reap long-term benefits from making additional transactions unnecessary, such as building brand equity and thus acquiring additional customers by providing easy to maintain, high-quality, durable goods. Value-creation in markets is always relational but only in some instances is repeat patronage essential to the value creation process from the perspective of both parties.

Transactions as platforms in ecosystem relationships

This S-D-logic-compatible, interactive, institutional, value-creation-based conceptualization of relationship also fits well an emerging view of thinking about firms in terms of their relatively limited and specific role in business ecosystems (e.g. Iansiti and Levien, 2004; Prahalad and Krishnan, 2008). The ecosystems view is, in turn, compatible with the "resource integrator" conceptualization suggested by FP9 – "all economic and social actors are resource integrators" (Vargo and Lusch, 2008b). In the ecosystem framework, engaging in a transaction in the market means buying in to a complex series of mutual service-providing, value-creating relationships. In the past, marketing has attempted to capture this in a supply chain model. More recently, Normann and Ramirez (1993) improved on this with a "value constellation" – cooperating provider firms – conceptualization, but arguably, even this improved conceptualization likely does not fully capture the dynamic, self-adapting, and relational nature of value creation. The ecosystem model is one of the firm as part of a loosely coupled network of "keystone" and niche firms (Iansiti and Levien, 2004) that sense and respond (Haeckel, 1999) to the dynamic systems of which they are a part.

Even some business-ecosystem conceptualizations remain noticeably provider centric. As suggested above, not only do firms operate as part of larger networked structures but so do customers. In fact, Vargo and Lusch (2008c) have suggested that fully understanding value creation requires getting rid of the producer-consumer (or firm-customer) distinction, except for a limited, tactical perspective on the part of some focal actor. Consistent with Gummesson's (2008) call for balanced centricity and a "many-to-many" orientation, I have suggested (Vargo, 2008) that understanding value creation requires the zooming out implied by Figure 1. Business ecosystems must be seen in terms of service-based, network-with-network relationships, including the network of the "customer." In this service-ecosystems view, all actors are both providers and beneficiaries ("producers" and "consumers") and the B2B versus B2C distinction vanishes; it is all B2B. That is, the customer is just another node in the larger ecosystem and the actor-to-actor transaction serves as a platform for further value creation in that larger context.

In an S-D logic perspective, relationship is a characterization that captures the networked, interdependent, co-creative, nature of value creation through reciprocal service provision. Products and transactions are isolates, special and temporal instances, in this service ecosystem. In some cases, this characterization implies that from the perspective of one or more actors, multiple, relatively discreet transactions are sometimes beneficial to the firm in terms of CLV, as well as to the customer in terms of what might be called "firm lifetime value" through market "domestication" (Arndt, 1979), but not always.

Back to the future and forward

This broader, more encompassing meaning of relationship might seem overly abstract and general. But in a real sense, it recaptures much of the earlier, foundational thinking about relationship. Consider for example Dwyer *et al.*'s (1987, p. 14) observation about relationship:

> [T]he notion of an instantaneous exchange between anonymous parties who will never interact in the future is an abstracted model that does not exist in the real world. Even the simplest model of discrete exchange must postulate what Macneil (1980) calls a "social matrix": an effective means of communication, a system of order to preclude killing and stealing, a currency, and a mechanism for enforcement of promises. Hence, some elements of "relationship" in a contract law sense underlie all transactions.

The S-D logic meaning of relationship just extends the "social matrix" to a "value-creation matrix" that takes into account the broader, relational context of mutual value creation through service exchange. This view is also consistent with Gummesson's (2002, p. 3) definition of relationship marketing: "marketing based on interaction within networks of relationships" and, as noted, his model of "many-to-many marketing" (e.g. Gummesson, 2006). It is also consistent with IMP Group insights that "Relationships are organized patterns of interaction and interdependence with their own structures" that are "elements of a wider economic organization that takes a network form" (Håkansson and Snehota (2000, pp. 75, 79). In short, the foundations of a transcending concept of relationship can be found in service marketing and B2B marketing conceptualizations.

So, what does S-D logic bring to the table? By transcending "goods and services" with "service provision," it brings into focus the purpose and activities that motivate relationships and provides the glue that creates network structure. That is, the purpose of interaction, and thus of relationship, is value co-creation through mutual service provision. But value co-creation is a complex process involving the integration of resources from numerous sources in unique ways, which in turn provide the possibility of new types of service provision. Thus, value creation through service provision and service exchange relationships at the micro level must be understood in the context of value creation through service provision and service exchange relationships at the macro level. The elements are value, relationships, and networks; the driving force, and thus the nature of value, relationships, and networks, is mutual service provision for mutual wellbeing.

Concluding comments

Relationships, by any definition, are not limited to dyads but rather are nested within networks of relationships and occur between networks of relationships. These networks are not static entities but rather dynamic systems, which work together to achieve mutual benefit (value) through service provision. To fully grasp value creation, this broader, relational context must be understood. This implies that relationship management requires more than managing dyads for the purpose of maximizing CLV. Seeing relationships only dyadically is just as myopic as seeing markets as defined by products (see Levitt, 1960). The one-time buyer, the occasional supplier, the interested, non-purchaser, the aspiration purchaser, incidental customers, etc., as well as the social context (MacNeil's (1980) "social matrix") are all part of the value-creation milieu and are collectively often as (if not more) important as long-term providers and long-term customers. This whole value-creation configuration must be understood and dealt with for effective customer-relationship management to be possible.

For academic marketing, with a normative purpose of informing the parties in the market about how to benefit through exchange, this points toward the need for a higher-level understanding of the process and the relational nature and relational context of value creation. That is, marketing requires a better understanding of the market (see Araujo *et al.*, 2008; Venkatesh *et al.*, 2006; Vargo, 2007).

Fortunately, many of the insights necessary for this understanding can be found in the sub-diciplines and alternative lenses for understanding various aspects of marketing (Vargo and Lusch, 2008c). As Gummesson (2004, p. 139) noted, "when relationship marketing, CRM, and services marketing are combined with a network view they become drivers of a paradigm shift in marketing." I suggest that S-D logic provides a macro lens for development of this market view, though a transcending meaning of relationship in terms of mutual value-creation through mutual service provision.

Notes

1 While some scholars (e.g. El-Ansary, 1997) make a distinction between "marketing relationships" and "relationship marketing," with the latter sometimes considered a specific approach to the former (see Parvatiyar and Sheth, 2000), the terms are often used relatively interchangeable, usually with a focus on RM.

2 Normann's concept of density should not be confused with the use of the term in network theory to mean the proportion of actual network links in relation to all possible links.

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