



Why Service-Dominant Logic?

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The central implication of a service-centered dominant logic is the general change in perspective. Vargo and Lusch (2004a: 12)

INTRODUCTION

In the 2004 *Journal of Marketing* article 'Evolving to a new Dominant Logic for Marketing', Vargo and Lusch suggested that traditional marketing theory was preoccupied with an underlying mindset they called goods-dominant (G-D) logic and proposed an alternative logic, in which service provision rather than goods is seen as the fundamental basis of economic exchange. To date, this initial service-dominant (S-D) logic article has almost 13,000 citations (Google Scholar, July 2018), indicating that this alternative, service-based logic of exchange and value creation has resonated well with the ideas of a wide range of scholars around the world and is attracting attention from an ever-growing array of disciplines (for a more

thorough review of the S-D logic vectors of diffusion, see Vargo and Lusch, 2017).

The purpose of this chapter is to discuss how and why academics and practitioners have benefited and might continue to benefit from shifting from a G-D logic to an S-D logic perspective. We do so by discussing four characteristics of S-D logic as a mindset. More specifically, we argue that, as a mindset, S-D logic can be seen as *transcending*, *unifying*, *accommodating*, and *transformative*. All of these characteristics relate to the basic purpose of science (cf. Simon, 1996) and other social institutional processes: the art of simplifying a complex world. As such, these characteristics can be thought of as tools that have both theoretical and practical implications. The theoretical implications take the form of conceptual inversions that can then be further applied to issues facing practitioners to build more midrange-level theories and inform counterintuitive strategic insights.

As stated, S-D logic emerged as an alternative mindset to the prevailing G-D logic

mindset, which frames exchange in terms of tangible units of output (e.g., goods) and views the production and exchange of goods as the core of business and economics (Vargo and Lusch, 2004a; Vargo et al., 2008). As such, G-D logic is closely aligned with neo-classical economics, which views actors as rational, profit- and utility-maximizing economic actors among which information and resources flow easily within equilibrium-seeking markets. Others have referred to G-D logic as ‘manufacturing logic’ (Normann, 2001) and as a ‘company-centric, efficiency-driven view of value creation’ (Prahalad and Ramaswamy, 2004).

There are several problems with G-D logic, but some of the most important ones relate to where it focuses attention. First, G-D logic fosters a goods-centric understanding, in which tangible output is the ideal form of exchange (Vargo and Lusch, 2004a, 2004b). Second, G-D logic places the firm as not only the central, but typically the only actor responsible for value creation (Vargo and Lusch, 2004a, 2011). In other words, it posits that value is produced and embedded in goods during the firm-controlled, manufacturing processes and then distributed through the market to the (value-destroying) ‘consumers’. Third, due to this linear, and firm-centric, view of value creation, G-D logic is also pre-occupied with emphasizing the importance of what something is worth, usually in monetary terms, when discussing value (Vargo et al., 2008). G-D logic’s overemphasis on goods, firms, and monetary value has led to several deeply ingrained dichotomies that constrain the development of a broader, more general view on economic and social exchange (Vargo and Lusch, 2014).

S-D logic’s main purpose was to develop an alternative logic of value creation that might break free from some of the restrictive conceptualizations of G-D logic. In the 2004a article, Vargo and Lusch highlighted several developments, mainly in subdisciplines of marketing, that were challenging and reframing the assumptions of G-D logic. These

emerging perspectives shared an implicit logic that placed more emphasis on (1) intangible resources in relation to tangible resources in value creation, (2) collaboration over competition, and (3) relationships over transactions. As a consequence, S-D logic was grounded on an alternative logic of value creation which argued that economic activity is best understood in terms of *service-for-service exchange*, rather than exchange in terms of goods-for-goods or goods-for-money. In other words, the purpose of exchange is service, the activities emanating from the application of specialized resources that people do for themselves and others, not the goods, which are only occasionally used in the transmission of this service.

The overall narrative of S-D logic (see Chapter 1, this Handbook) has, in the past two decades, developed into one of resource-integrating actors cocreating value through the exchange of service in nested and overlapping ecosystems that are coordinated by actor-generated institutions (Vargo and Lusch, 2016). As is explained more thoroughly in Chapter 41, the S-D logic narrative captures more complexity (i.e., emergent structures from interacting elements following simple rules), but is simultaneously much less complicated than the G-D logic narrative as it transcends many of the dichotomies characterizing the understanding of phenomena such as exchange, value, markets, and societies. In other words, S-D logic can be less difficult to understand, because it contains fewer, relatively independent, moving parts than G-D logic. As such, it provides scholars and practitioners a mindset that allows them to reframe phenomena in ways that provide opportunities for reconceptualizing traditional concepts and developing new ones.

Hence, a fundamental quality of S-D logic is that it seeks to identify and understand the commonalities between concepts that are usually thought of as very distinct from one another, rather than their differences. In other words, S-D logic implies a set of very specific epistemological approaches that, instead of creating divergence and further separation

of phenomena, strive to identify and reconcile tensions, which can lead to the convergence of logics (Vargo and Lusch, 2008a, 2017).

Consider how S-D logic's foundational insight of having a processual-orientation to the basis of exchange – that is, viewing all exchange in terms of using one's resources for the benefit of another actor (i.e., *service*) – transcends the output-based division of exchange into goods and 'services' exchange implied by G-D logic. In this way, S-D logic can describe more wide-ranging phenomena with many fewer concepts than G-D logic. In other words, it is not so much that G-D logic is wrong, as that it limits understanding by focusing on special cases of exchange and value creation, rather than the general case (Vargo and Lusch, 2014). Hence, rather than seeing G-D logic and S-D logic as binary alternatives, G-D logic (or at least 'goods logic', without the 'dominance') should be seen as a restricted case, nested within S-D logic, rather than replaced by it. In other words, the more general metatheoretical framework of S-D logic can explain the existence of G-D logic as a special case.

In the following sections, we first discuss four characteristics of the S-D logic mindset that potentially make it useful for both academics and practitioners, especially in reframing the 'conventional wisdom' grounded in G-D logic. More specifically, we argue that S-D logic is a transcending, unifying, accommodating, and transformative mindset. Second, we identify five key inversions of logics for academics stemming from the transcending conceptualizations of S-D logic and suggest related implications for research within marketing and beyond. Third, we discuss four of S-D logic's counterintuitive strategic insights and their implications for practitioners.

CHARACTERISTICS OF S-D LOGIC AS A MINDSET

In the following, we argue that four, partially overlapping, characteristics can describe the

S-D logic mindset. These characteristics can potentially allow S-D logic to be useful in advancing transdisciplinary research by providing a common, generalizable lexicon that can reconcile disparate concepts and models and motivate innovative insight for both academics and practitioners. First, S-D logic is *transcending*, meaning that it is capable of resolving some of the tensions and paradoxes incumbent to G-D logic, such as the goods–services divide. Second, S-D logic can be *unifying*, meaning that it provides a lexicon and metatheoretical framework that potentially allows a focus on the common denominators of concepts, rather than their differences and, therefore, links discussions that have previously been seen as disconnected. Third, S-D logic is amenable to reconciliation with and further development from diverse research streams and, therefore, is *accommodating* in its approach. Fourth, S-D logic has *transformative* potential as it allows insights that are not possible with a G-D logic mindset.

S-D Logic as a Transcending Mindset

To say that S-D logic, as a mindset, is transcending means that its key concepts can resolve tensions and paradoxes within the existing ways of thinking. The purpose of scientific enterprise is to make the complicated simpler through model building. These models are, however, always only approximations and are necessarily restricted as they are made for specific purposes. Therefore, over time, they eventually conflict with one another and present *paradoxes*. In its essence, a paradox is revealed when two apparently contradictory factors or tensions appear to be true at the same time regarding a phenomenon or a situation (Poole and Van de Ven, 1989). For example, in the service literature, 'services' were characterized in terms of attributes that were undesirable in relation to goods – the IHIP characteristics of

intangibility, heterogeneity, inseparability of production and consumption, and perishability (see Vargo and Lusch, 2004b), yet, at the same time, service economies were seen as advanced economies, following industrial economies. The metatheory of S-D logic grew out of a desire to solve such tensions and paradoxes within the existing models built by marketing scholars within the numerous subfields of the discipline (Vargo and Lusch, 2017: 52).

Poole and Van de Ven (1989; also see Lewis, 2000) propose four strategies for resolving paradoxes. One of these involves developing a wholly new conceptualization that resolves or suspends the paradoxical tension, by accommodating the dualisms. This strategy is aligned with S-D logic's aim to develop transcending conceptualizations to reconcile the identified tensions. Such transcending conceptualizations frequently involve higher-order abstractions, which can capture a broad range of specific phenomena. In other words, they enable one to see beyond what has been perceived previously (Vargo and Lusch, 2017).

Consider, for example, how S-D logic's foundational insight that a processual understanding of the basis of exchange as *service* – that is, viewing all exchange as using one's resources for the benefit of another party – transcends the output-based division of exchange into goods exchange and 'services' exchange. In this way, S-D logic can describe a much wider range of phenomena with many fewer concepts. It also enables an understanding of the differences between phenomena in a novel and arguably more robust way by using a common conceptual denominator as a point of departure for this analysis. For example, with the processual, service-based understanding of exchange, goods become a special case of service exchange, an indirect form of service, rather than a completely different phenomenon (cf. Vargo and Lusch, 2004a).

A more recent transcending conceptualization is the adoption of generic 'actor-to-actor'

(A2A) orientation (Vargo and Lusch, 2011) and the identification of common activities that all actors do in relation to value creation, rather than myopically pre-assigning roles, such as 'producers' (as active value creators) and 'consumers' (as passive value destroyers), as is often done in G-D logic. By identifying the common set of activities for all actors, that is, value cocreation through resource integration and service exchange, S-D logic does not argue that all actors are exactly the same. Rather, it advocates having a common point of departure for understanding all actors, which allows a deeper focus on their specific uniqueness than the traditional, a priori role structure implied by G-D logic, as will be discussed.

S-D Logic as a Unifying Mindset

The second characteristic of S-D logic is that it can be unifying. In other words, the conceptual thinking leading up to S-D logic strives for *convergence* rather than divergence of logics (Vargo and Lusch, 2008a, 2008b, 2011). Convergence refers to 'moving toward union or uniformity' (Merriam-Webster, 2017a). As discussed, the initial S-D logic work aimed to reconcile divergences in academic marketing thought by identifying the underlying assumptions of different subfields of marketing by showing how they are functions of the restricted and limited framework provided by G-D logic. This work continues as S-D logic strives to offer a foundation for a general theory of the market. The advancement of S-D logic toward a general theory requires a synthesis of a wide range of theoretical frameworks stemming from different disciplinary backgrounds and levels of abstraction (Vargo and Lusch, 2017). Hence, S-D logic is, and should increasingly be, transdisciplinary, both in meta and midrange theory development and in application. Such syntheses of knowledge can be difficult, since different disciplines often use different

terms for similar phenomena or the same term with different conceptualizations. Much of the work has been and will be concerned with finding or developing a more robust lexicon, through reframing traditional concepts and reconciling differences in language.

Soon after the introduction of the initial 2004 article, which mainly focused on value cocreation in dyadic exchange between a firm and a customer, the core S-D logic literature moved toward emphasizing that value cocreation takes place within and among multiple actors (see e.g., Lusch and Vargo, 2006b; Vargo and Lusch, 2008b, 2011). Aligned with Gummesson's (2008) suggestion to move toward a network-based, stakeholder approach and 'balanced centrality', Vargo and Lusch (2011) argued that all actors can be similarly viewed as resource integrators and service providers that form exchange systems while they cocreate value (see also Vargo and Akaka, 2012; Vargo et al., 2008).

This suggestion has wide-ranging implications because it signals that all actors fundamentally do the same things: integrate resources and engage in service exchange, all in the process of cocreating value (Vargo and Lusch, 2016). Vargo and Lusch (2011) argued that business-to-business (B2B), rather than the traditional business-to-consumer (B2C) orientation of mainstream marketing, offers a better exemplar of the actor-to-actor (A2A) orientation. This is because in B2B there are no producers or consumers in the strict sense, but rather all actors in this discussion are considered as enterprises (of varying sizes, from individuals to large firms), engaged in the process of benefiting their own existence through benefiting the existence of other enterprises – that is, through service-for-service exchange – either directly or indirectly. However, the A2A orientation and its generic actor designation should not be confused with a position that all actors are identical. Indeed, it is intended to do just the opposite – disassociate them from predesignated roles (e.g., consumers) and set

the stage for characterizing them in terms of distinctly constituted identities (Vargo and Lusch, 2016).

The bottom line is that, once actors are viewed as generic resource integrators and one zooms out to a more appropriate level of analysis, it is possible to see the networked and systemic nature of their interaction within, for example, markets. This enables scholars to draw from all of the marketing subdisciplines, as well as often untapped streams of research outside of marketing. In other words, the unifying nature of S-D logic enables them to draw on the vast, disparate knowledge about aspects of the market, looking for additional transcending concepts, and reframing what is known – that is, continuing to search for the commonalities, rather than the differences in what we know. Hence, S-D logic does not advocate discarding or replacing what is known. Rather, it advocates trying to organize the existing, disparate knowledge through a common set of concepts and a common framework (Vargo and Lusch, 2017).

S-D Logic as an Accommodating Mindset

Third, S-D logic is intended to be an inclusive and accommodating mindset. As discussed, the initial ideas of S-D logic resulted from an analysis of over four decades of shifting industry practices and pioneering scholarly work. Many of these sources were pointing to the fact that traditional approaches to marketing largely mischaracterized services in terms of the absence of goods-like qualities (see also Chapter 2 in this *Handbook*). The 2004 article highlighted and integrated insights from several research streams, mainly in subdisciplines of marketing, that were challenging and reframing the assumptions of this dominant worldview. Hence, since its beginning, S-D logic has encouraged input and ideas for further development from diverse research streams, such

as service marketing, consumer culture theory (CCT), the network theory of the Industrial Marketing and Purchasing (IMP) group, relationship marketing, and various resource-based views.

More recently, Vargo and Lusch (2017) outlined several additional sources of further input to the S-D logic's metatheoretical framework. All of these are theoretical perspectives from which substantial insights can be reconciled and connected with S-D logic's processual, systemic, and institutional orientation on exchange and value cocreation. Among the most important of these sources are institutional theory, practice theory, systems theory, complexity theory, and evolutionary theory. Vargo and Lusch (2016) recently brought the institutional perspective to S-D logic axiomatically and find it integral to both metatheoretical and midrange theoretical advancement of the understanding of value cocreation. Institutional literature that can be drawn on for the further development of S-D logic can be found in most social science disciplines, such as economics, political science, sociology, and organizational theory.

S-D logic has also increasingly been embracing practice theory as both metatheoretically and midrange theoretically fundamental, since the adoption of the actor-to-actor orientation (Vargo and Lusch, 2011). Vargo and Lusch (2017) highlight that one particular form of practice theory, Actor Network Theory (ANT) (Latour, 2005), might be especially worth noting. Among other things, it warns against the potential pitfalls of reifying levels of aggregation, since all practices are entangled, suggesting a 'flat world' understanding. Furthermore, ANT also advises that material objects have agency. Both of these ideas are further advanced and connected to S-D logic in Section VII 'Actors and Practices', as well as in Chapter 41 of this *Handbook*.

Given the service ecosystems turn (see Chapter 41 and Section IV in this *Handbook*), S-D logic can benefit from being further informed by systems thinking, which implies

a number of shifts in perspectives: from parts to wholes, from objects to relationships, from measuring to mapping, from structures to processes, and from Cartesian certainty to approximate knowledge (Capra and Luisi, 2014; see also Vargo et al., 2017). Tightly aligned with systems theory is the study of complex adaptive systems – dynamic systems characterized by feedback and self-adjustment – in complexity theory. The integration and advancement of complexity theory is critical to S-D logic, since service ecosystems are complex adaptive systems, by definition, and value cocreation is a complex adaptive process. All of the above-mentioned theoretical perspectives have several common characteristics. Vargo and Lusch (2017) argue that perhaps the most important one is that they are all evolutionary, in the sense that future states and structures are built on foundations formed by past states and structures. Hence, the inclusion of evolutionary concepts such as co-evolution (e.g., Nelson, 1994) and inclusive fitness (e.g., Gardner and Foster, 2008) are likely to be particularly useful in informing S-D logic. Arguably, this continual openness to the potential of these and other theoretical developments in contributing to the future development of the service-based value cocreation narrative points to one of the hallmarks of S-D logic: its accommodating and inclusive nature as a mindset.

S-D logic as a Transformative Mindset

Fourth, we contend that S-D logic can be transformative in the sense that it allows insights that are not possible with G-D logic. To this end, from the numerous elaborations and extensions of S-D logic, probably the most important has been a general alternating *zooming out and zooming in* (Chandler and Vargo, 2011) to allow a more holistic, dynamic, and realistic perspective of value creation, through exchange, among a wider configuration of actors (Vargo and Lusch,

2016). Hence, whereas G-D logic is firm-centric, S-D logic is based on an understanding of the interwoven fabric of individuals and organizations exchanging service to create value in the context of their everyday lives (Chandler and Vargo, 2011; Lusch and Vargo, 2014). As such, S-D logic highlights the dynamic and complex nature of value cocreation by arguing that actors continually apply and exchange their competences and integrate available resources from multiple sources for value cocreation (Vargo and Lusch, 2011). This zooming out to a more systemic perspective on value creation has also made apparent the need to articulate more clearly the mechanisms – institutional arrangements – that enable and constrain the often massive-scale cooperation involved in systems of value cocreation (Vargo and Lusch, 2016).

Institutions in a sociological sense, as used here, consist of formalized rules and less formalized norms defining appropriate behavior, as well as cultural beliefs and cognitive models, frames, and schemas encapsulating the often taken-for-granted assumptions and beliefs fundamental to guiding social action in different situations (Scott, 2014). S-D logic argues that institutions and institutional arrangements – sets of interrelated institutions – can be thought of as the ‘rules of the game’ in a society (North, 1990) that enable and constrain the way resources are integrated, and value is both cocreated and determined (Vargo and Akaka, 2012; Vargo and Lusch, 2016; Wieland et al., 2016).

Hence, the metatheoretical framework of S-D logic not only accommodates institutional arrangements; their coordinating role is essential for a deeper understanding of the value cocreating processes with which S-D logic is ultimately concerned. By accommodating institutional arrangements into its understanding of value cocreation, S-D logic offers a much more holistic view on economic activity than G-D logic, which is not really concerned with questions that explain how complex phenomena, such as organizations and markets, are able to emerge in the first place.

Both the systemic and institutional orientation of S-D logic are encapsulated in the concept of a service ecosystem, defined as a ‘relatively self-contained, self-adjusting system of resource-integrating actors connected by shared institutional arrangements and mutual value creation through service exchange’ (Vargo and Lusch, 2016: 10–11). The service ecosystems perspective enables a view of society as a system characterized by a flow of reciprocal service provision among its parts (Lusch and Vargo, 2014; Vargo and Lusch, 2011, 2016), which comprise assemblages and sub-assemblages of resource-integrating, service-exchanging actors organized into families, firms, and communities that constrain and coordinate themselves through institutional arrangements (Vargo and Lusch, 2016). This view is significantly different from the firm-centric G-D logic mindset and allows insights not possible with the more restricted G-D logic.

It has been suggested since early in the explication of S-D logic that it could lend itself to a general theory, not so much of marketing, but rather a general theory of the market (e.g., Lusch and Vargo, 2006a; Vargo, 2007). However, unlike G-D logic, S-D logic, at its core, is not about marketing, management, business, economics, or any other firm and economic exchange-centric framework as described above. Instead, S-D logic’s premise for theorizing is a broader understanding of how actors, guided by institutional arrangements, cocreate value by integrating and exchanging resources within human exchange systems. With the help of this larger perspective, S-D logic is primarily concerned with positive theory about how society cocreates value (Lusch and Vargo, 2014), rather than normative theory concerning how individual companies can maximize profits, though normative implications can also be derived. In other words, S-D logic and its service ecosystems perspective aim to provide a metatheoretical framework for explaining value cocreation in a society that is broader than just explaining economic activity within markets.

As such, S-D logic is also equipped to be used to make the distinction of what is included in the phenomenon of markets and what is not. Hence, the systemic and institutional orientation of value cocreation combined with the processual understanding of the basis of exchange and the general actor conception has the potential to move S-D logic from the status of a theoretical framework toward a true theory of the market and beyond (cf., Vargo, 2007).

A general theory of the market grounded on the axiomatic assumptions of S-D logic has implications that extend far beyond the focus of marketing. From an S-D logic perspective, value cocreation becomes the purpose of society, rather than a subset of social activity that is equalized with economic exchanges. This implies that, ‘it could be argued as much that society exists to support the “market”, broadly conceived, as it could be argued that the market exists to support society’ (Vargo and Lusch, 2017: 65). Furthermore, Vargo and Lusch (2017) argue that when the service-for-service nature of value cocreation is combined with the generative nature of resource integration and the generalizability and scalability of institutionalization, the theoretical potency of all three orientations is increased. That is, to the extent that the S-D logic narrative has the transformative potency to morph into not only a theory of the market, contributing to marketing, but to social sciences more broadly. Such developments would not be possible with the more restricted understanding of value creation grounded in G-D logic.

S-D LOGIC’S KEY CONCEPTUAL INVERSIONS FOR ACADEMICS

Consistent with the idea of transcendence, S-D logic’s narrative of value cocreation, introduced in Chapter 1, points toward several conceptual inversions compared with the ‘conventional wisdom’ grounded in G-D

logic (Lusch and Vargo, 2014; Vargo and Lusch, 2008a, 2017). Inversion generally refers to ‘a reversal of position, order, form, or relationship’ (Merriam-Webster, 2017b) and in this context specifically it refers to the conceptual inversions of the generality of concepts. In other words, what is considered a general case in G-D logic, becomes a special case in S-D logic and the transcending conceptualization becomes the general case. It is important to reemphasize here that, after an inversion, the concepts should be seen not as binary alternatives but rather nested with one transcending the other. Five key conceptual inversions will be discussed in more detail in the following.

Conceptual Inversion 1: An Exchange of a Good is a Special Case of Service Exchange

In the initial 2004 article, Vargo and Lusch traced the evolution of marketing thought and reframed its ongoing fragmentariness in the past three decades as an outcome of challenging the outdated assumptions of the mainstream worldview. It argued that all of these transformations are converging to a new dominant logic which can be understood in terms of service orientation if service is understood as a process instead of a type of output. This foundational idea of S-D logic was grounded on a fundamental shift in worldview highlighted by many other scholars before. For example, over 150 years ago, Bastiat (1848/1995, p. 157) declared that ‘services are exchanged for services’. Later, Kotler (1977: 8) noted that the ‘importance of physical products lies not so much in owning them as in obtaining the services they render’. Echoing these views, Normann and Ramirez (1993) argued that tangible products can be viewed as embodied knowledge or activities. Similarly, Coombs and Miles (2000: 97) argued that ‘material products themselves are only physical embodiments of the services they deliver, or tools for

the production of final services'. What was new with S-D logic was the articulation of an initial, integrated framework for thinking about value cocreation in terms of a reciprocal process perspective on exchange.

As described above, S-D logic defines service in its own right as the process of one actor using its resources for the benefit of another, rather than defining service through reference to goods (e.g., an intangible good) or as an add-on to a good (e.g., after-sales service), as has traditionally been done in economic (including marketing) thought (Vargo and Lusch, 2008b). In short, the role of goods and 'services' (outputs, plural) is inverted and 'service' (process, singular) is identified as what is always exchanged, either *directly or indirectly* (e.g., through a good). The term 'services', which is a derivative of G-D logic, becomes redundant and can be dropped from the lexicon. Therefore, S-D logic proffers the counterintuitive claim that there are no 'services' (Vargo and Lusch, 2014).

The non-existence of services (as a specific type of output) also implies that there is no 'new services economy' (Lusch and Vargo, 2014). The fact that all exchange from a process perspective is service exchange, that is, the application of their physical and mental skills, makes all economies service economies. This applies to hunting and gathering, agriculture and mining, and industrial or manufacturing and post-industrial eras (see also Chapter 1). Over time, changes among relative proportions and types of mental and physical skills have of course occurred and some direct service exchanges have been replaced with indirect forms of service exchange and vice versa. However, in all cases, the process of providing service is the common denominator for all of these 'economies'. In short, ever since human actors began to specialize and exchange, they have been dependent on the service of others and have provided service to others with service needs, and, thus, the economy always has been service based.

Hence, S-D logic grew, in part, out of the reconsideration of the relationship between goods and 'services', with the latter being seen as a special case of the former – essentially, intangible goods. However, a review of the contemporary and historical literature revealed exceptions to this thinking, suggesting that goods are actually a special case – an indirect form – of service provision, which represents the common denominator of exchange. This inverted conceptualization began to relieve the tension between the two concepts and, as S-D logic developed, it further exposed other instances in which the traditional conceptual relationships seemed to be inverted (Lusch and Vargo, 2014).

Conceptual Inversion 2: Producers and Consumers are Special Cases of Resource-Integrating Actors

As stated in Chapter 1, one of the axiomatic assumption of S-D logic is the rationale for viewing economic and social agents as generic 'actors', rather than 'producers' and 'consumers'. Here, in this discussion of the counterintuitive nature of S-D logic in comparison with G-D logic, we want to take another opportunity to emphasize this point. Economic science is grounded in the concept of the supply of valuable products that are demanded, in which the firm is viewed as producer and supplier of a quantity desired and the customer is viewed as the demander and consumer of some desired quantity (cf. Vargo and Lusch, 2004a). If one considers this a bit more closely, it is easy to challenge the idea that supply is a unique, one-sided, firm characteristic and demand a unique, one-sided customer characteristic.

For instance, whereas firms might supply particular resources, they also have a demand for (and expect) customers' resources; in fact, that is why they engage in marketing

activities – in order to engage in exchange with customers. At the same time, whereas a customer might have demand, it must be able to supply something. This might happen through money – financial resources or what, in S-D logic, are called service rights (see e.g., Lusch and Vargo, 2014) – but it also can happen through co-design, self-service, providing positive word-of-mouth, etc. In addition, if all actors are cocreators of value through the integration of firm resources with other market-facing, public, and private resources, then they must be performing ‘production’, as well as ‘consumption’, functions. This was more evident when exchange was done through barter, but similarly applies for exchange today (cf. Vargo and Lusch, 2011).

But is ‘consumption’ really the right word for characterizing the activities of beneficiary actors? Consumption implies using something up in a manner in which that something has no more value after these activities are done. However, can education, for example, be consumed? What about books or entertainment? Or rather are they internalized and potentially used in future ‘production’? S-D logic argues that the ‘producer–consumer’ divide does not really offer a useful premise for the quest of understanding (economic) exchange; on the contrary, the whole notion of a one-way flow of production to consumption masks the systemic nature of exchange and value (co)creation (Vargo and Lusch, 2011, 2016). For these reasons, it is best to view all actors as resource-integrating, service-exchanging, value-cocreating actors. In other words, producers and consumers do not exist, at least not as actors with separate functions. Instead, a ‘producer’ and a ‘consumer’ can be considered as roles in which resource-integrating actors can be identified in specific instances of value cocreation. In short, producer and consumer are special cases (momentary, institutionally defined roles) of more generic actor roles.

Conceptual Inversion 3: A Market Exchange is a Special Case of Service Exchange

According to Lusch and Vargo (2014), G-D logic suggests that the firm is connected with other actors through economic transactions. In this view, suppliers (including employees, credit grantors, and suppliers of materials) always enter in a particular production process through a ‘market’. However, S-D logic’s broadened view on exchange suggests the firm, like the customer, integrates a variety of resources from private, market-facing, and public sources (Vargo and Lusch, 2011). In this way, an enterprise cocreates value with all of its stakeholders, including those with whom it is not directly engaged in economic exchange. In other words, S-D logic highlights that a resource for a specific value cocreation instance is always integrated within complex constellations of other resources stemming from various sources (Chandler and Vargo, 2011; Vargo and Lusch, 2011), and this process was ongoing before there were sources formally identified as ‘market-facing’.

By connecting with institutional theory, S-D logic offers a metatheoretical explanation exchange and value cocreation that is not just restricted to markets, but that portrays the market as *one form of organizing service exchange for value cocreation*. Usually this form is characterized by indirect service-for-service exchange in which service from one actor (usually identified as producer) is an exchange for rights for future service exchange in a form of currency from another actor (usually identified as consumer). In other words, exchange and value cocreation, from a service ecosystems perspective, is a much broader phenomenon than just markets (Wieland et al., 2016) and, therefore, it has the ability to conceptualize markets as a form of exchange that differs from other forms of organizing exchange based on the governing institutional arrangements carrying specific typifications of actors and their appropriate

activities. Due to this, S-D logic and its service ecosystems perspective are equipped to explore Callon's (in Barry and Slater, 2002: 292) suggestion that 'you must not imagine society as a context for different types of activities including economic activities; you have to imagine the process through which collective relations are constructed, including relations that can be called economic relations'.

In another early institutional contribution on markets, Arndt (1981) argued against the domination of the neoclassical economic theory's market conceptualization within academic marketing and suggested that the institutional approach stemming from political science offers a more robust theoretical perspective. He noted that the marketing applications of institutionalism had so far taken a narrow view on 'institution' and limited their attention to the role of organizations working as 'marketing middlemen', that is, a special type of organization. He, however, saw much more potential in adopting a more generic view on institutions as 'the set of context, conditions, and rules for economic transactions' (Arndt, 1981: 37). Arndt (1979) also highlighted that markets were not the only way of organizing exchange by studying situations in which exchanges previously counted as market transactions were moved inside a company, for example, through mergers and acquisitions. In short, market exchange represents a special case of broader service exchange from multiple sources (cf. Wieland et al., 2016).

Conceptual Inversion 4: Rationality is a Special Case of Heuristic Decision Making

With some exception, neoclassical economic and marketing thought has generally been built on models of rational humans involved in extensive calculative decision making and judgment. There is little doubt that humans have calculative abilities but there is also

considerable evidence that they are not nearly as extensive or universally employed as these underlying models suggest. An alternative understanding of human decision making and action is based on heuristic tools. The seminal effort in economics and business is usually credited to Simon (1956) and his work on 'bounded rationality'. Simon's work is often interpreted as suggesting that heuristics are used as cognition-conserving tools that allow the more desirable, calculative, and optimizing skills to be held in reserve. However, Gigerenzer and Todd (1999) present evidence supporting the idea that heuristics can actually be more robust for problem solving than calculation, in part because they are more generalizable (cf. scientific models). Regardless of relative superiority, there is considerable evidence (e.g., see Laroche et al., 2003) that heuristics play an important role in decision making.

One way to further understand heuristics is by studying an integral part of service ecosystems: institutions and institutional arrangements which can be seen as heuristic tools (Vargo and Lusch, 2016). Arguably, the most in-depth discussion of this institutional structure and the corresponding heuristics (though not necessarily using this term) in marketing can be found in consumer culture theory (CCT) (e.g., Arnould and Thompson, 2005), with which S-D logic is increasingly being connected. Of particular note are the signs, symbols, and meanings of human artifacts (Akaka et al., 2014). Venkatesh et al. (2006: 251) see the 'market as set of culturally constituted institutional arrangements' and go as far as to suggest that we should consider the 'markets as a sign system'. At a minimum, this heuristic and symbolic perspective reinforces the necessity of looking beyond the firm and the customer, in isolation or as a dyad, to understand value creation and to look to the service ecosystem as the appropriate level of analysis. This implies at least a triadic orientation (Chandler and Vargo, 2011). None of this means that there is no rational, calculative thought; it just means that it is not

only 'bounded' (Simon, 1996), but is also enhanced by human institutions that provide shortcuts to the very process of value creation, rather than just to value-related choice decisions. In short, rational thought might be best understood as a subcategory of heuristic thought, arguably a somewhat inefficient and often ineffective one.

***Conceptual Inversion 5:
Manufacturing and Managerial
Decision Making are Special Cases
of Marketing and Entrepreneurial
Activity***

Vargo and Lusch (2014) argue that, like G-D logic, much of managerial thought, including marketing thought, has its roots in the Industrial Revolution, which emphasized the scientific understanding and normative control of increasingly large, bureaucratic organizations. This grounding motivated much of the management thought to strive toward efficiency, primarily in manufacturing but also in innovation and distribution. More broadly, this specific perspective on managerial activity morphed into a general orientation for economic activity, with an emphasis on control of, and efficiency within, existing organizations and markets (cf. Freedman, 1992).

To counter this dominant view of the functioning of organizations, Drucker (1985) began to identify a movement toward what he coined 'entrepreneurial management' in the mid 1980s. Projecting this movement into the future, he envisioned a future in which the economy and organizations were not seen in terms of machines that should be fine-tuned and operated through levers and switches for optimal performance and efficiency.

More recently, effectuation theory (Read et al., 2009; Sarasvathy, 2001) has inverted several principles that are central to the normative theories of predictive rationality in many management approaches. Effectuation, for example, moves from a logic of foresight

to a logic of non-predictive control and views the environment as endogenous, not exogenous, to the actions of actors, who therefore attempt to cocreate it through commitments with a network of partner, investor, and customer stakeholders (Read et al., 2009). These interactions result in the emergence of new structures, to include new organizations, markets, and venues and platforms for value creation (Alvarez and Barney, 2007), and highlight the primacy of entrepreneurial activity over managerial decision making.

Likewise, S-D logic's processual, systemic, and institutional framework of value cocreation implies a dynamic model, in which entrepreneurial activity can be seen as the rule, rather than the exception. It argues for the importance of a dynamic service ecosystems view in which actors both influence and are restricted by the institutional context (cf. Giddens, 1984) that develops from their collective value-creating processes, through innovative resource integration and service provision. Vargo and Lusch (2014) argue that 'this, in turn, implies that value creation is an unfolding process, for which there is no end state to optimize or toward which to move'. Rather, value cocreation is an emergent process within an ever-changing context which, by necessity, requires more of an entrepreneurial activity than managerial decision making from the part of the actors participating in it.

All of this suggests that the relative roles of managerial and entrepreneurial approaches might be misconstrued, both in business schools and in practice. That is, we tend to see (marketing) managerial decision making as the primary activities of individual actors and organizations, and entrepreneurial activities as a special case. The above, however, suggests that this logic needs to be inverted; entrepreneurial activities are fundamental to value creation in ecosystems of resource integration and service exchange; managerial decision making within highly institutionalized and relatively stable markets is a special, limited case, applicable to only a few situations (Vargo and Lusch, 2014).

S-D logic also argues for inverting the role of marketing and manufacturing. In other words, it views marketing as a primary function of the firm, and manufacturing (and other production processes) as having a more supportive role (Lusch and Vargo, 2014). Marketing in this sense is not limited to the ‘marketing’ activities that are captured in traditional marketing management, such as segmenting a preexisting existing market for the purpose of targeting one or more segments and positioning firm offerings through manipulation of the marketing mix. Rather, marketing involves the creating, increasing, and recreating of markets through developing innovative approaches to resource integration and service provision; it represents the essential purpose of the firm (Vargo and Lusch, 2014; see also Drucker, 1954). That is, marketing, in the sense it is used here, is a transcending function. Unlike manufacturing, it cannot be outsourced. Understanding this central, but non-centric, role of marketing by inverting the manufacturing–marketing relationship reveals new opportunities for innovation as well as achieving and sustaining strategic advantage (cf. Bettencourt et al., 2014).

S-D LOGIC’S COUNTERINTUITIVE STRATEGIC INSIGHTS FOR PRACTITIONERS

Since the emergence of S-D logic, there have been questions about how practitioners benefit from rethinking economic activity from an S-D logic perspective. At first, even though ‘Evolving...’ (Vargo and Lusch, 2004a) was published in a relatively managerially oriented journal, the direct managerial implications of S-D logic were not as explicitly identified. This was mainly because the focus of the core scholarly work in S-D logic has been to develop a more robust alternative to the G-D logic-grounded, value-creation, and delivery narrative in the academic literature. However, as Vargo and Lusch (2017)

suggest, the S-D logic narrative has now become more cohesive and comprehensive and, thus, better able to lend itself as the basis of midrange theory that responds to the issues faced by practitioners (see also Sections IX and X in this *Handbook*). We argue that the S-D logic narrative of institutionally guided actors continually integrating resources from various market-facing, public, and private sources to dynamically form new resources for value cocreation through service exchange sets up a number of counterintuitive strategic insights for practitioners. Some of these insights are discussed in the following sections.

Counterintuitive Strategic Insight 1: A Competitive Focus is Inherently Non-Competitive

In S-D logic, the purpose of service provision is to participate in another actor’s cocreated wellbeing in return for reciprocal service provision. The focus therefore is (should be) on providing service to a beneficiary actor, in the context of that actor’s own existence – its relevant networks, available resources, guiding institutional arrangements, etc., and not on beating the other potential service providers.

This implication is something like the ‘customer orientation’ (see e.g., Brady and Cronin Jr, 2001; Deshpandé et al., 1993), but the S-D logic perspective is much more inclusive and dynamic. This is because S-D logic (1) argues that what constitutes the actor’s wellbeing is ever-changing, (2) recognizes that what the service provider is offering is input into the beneficiary’s wellbeing, not the direct cause of it and (3) posits that the service provider is only one actor among the numerous actors with whom a focal beneficiary is cocreating its wellbeing. These other actors should not only be seen as being in direct competition with a specific service provider, but can also often be seen as complementary collaborators in enabling value to be perceived by a beneficiary. In short, the

definition of benefit as well as of alternative, viable contributors changes over time and across contexts.

This does not suggest that awareness of competition is not important; it is extremely important, but focusing on the competition shifts focus away from the beneficiary. Competition can be a motivator, but beating one's competition should never be a primary goal for any actor. Service provision for the wellbeing of one or several other actors, in the context of their own existence, should be the goal.

Counterintuitive Strategic Insight 2: If you are not Losing Market Share, you are not Innovating

Related to the issue of competitive focus is the issue of being preoccupied with one's 'market share'. The extent of an actor's market share neither has meaning nor benefit in an S-D logic understanding of exchange and value cocreation. The notion of market share has no meaning because, in an S-D logic world, there are no preexisting markets. Rather, markets are continually being defined and redefined through innovation. In short, successful innovators own 100 percent of their 'market' – at least initially, they were instrumental in defining it. Because conventional, competitive orientations direct other actors to emulate successful innovations, successful specific market solutions are often quickly copied, thus diluting apparent market share. In the meantime, innovative firms are redefining the market to be shared.

Consider Apple and the initial iPod. What market were they penetrating? Conventional wisdom would say the MP3 market, but a benefit-oriented, service perspective would identify the market in terms of the resources necessary to allow the organization of entertainment. Apple's competitors, however, typically tried to make better MP3 players, even as Apple moved to other functions and more customization through apps, a trajectory of

innovation that eventually led to iPhones and iPads, continually disrupting existing technologies and the associated markets. Hence, it was not so much that Apple was entering a pre-existing market, but rather creating a new one by fundamentally changing the way resources were integrated for the specific value cocreation goals related to its technologies.

In other words, if an actor is focused on protecting its current market share, it has probably already lost the game for an alternative solution that eventually will become the dominant solution. This means that maintaining one's strategic advantage requires continual change and the ability to rethink opportunities to disrupt the existing ways of integrating resources and cocreating value, even if the present situation would be beneficial for an actor currently. S-D logic's transcending understanding on how value is cocreated offers a 'boundless' view of market possibilities by providing an unconstrained view of how an actor might support others' value cocreation, an enlightened view of how context shapes value cocreation possibilities, and a more open-ended understanding of the potential sources of strategic advantage (Bettencourt et al., 2014).

Counterintuitive Strategic Insight 3: Customers do not Want What you are Selling

Theodore Levitt famously argued 'People don't want to buy a quarter-inch drill. They want a quarter-inch hole!' Aligned with this observation, the service-based understanding of S-D logic posits that it is not the exchanged output (e.g., a drill), that beneficiaries want, but the service these resources are providing when integrated with other required resources. In other words, it is not the means, but the ends that people are after. So, if a firm narrowly defines itself as the provider of these means, it will miss the true reason why customers are interested in the offering. Such firms might also not realize that the same end can be achieved through multiple different

means in which resources are integrated from various sources in versatile ways, and may be blinded by what Levitt (1960) referred to as ‘marketing myopia’.

Similarly, given that S-D logic recognizes that it is the service that buyers seek, rather than the output (e.g., goods) per se, it points toward more creative ways of monetizing the resources of the firm. For example, consider Rolls Royce, which realized that its customers did not really desire to own engines, but rather just desired thrust, leading Rolls Royce to sell ‘Power by the Hour’. Not only did it provide a strategic advantage by aligning the value proposition with the outcome desired by customers, it also further aligned the joint purposes of both the firm and the customer by placing maintenance with the firm. This makes sense as the firm arguably has the necessary competences and is, therefore, best equipped to do maintenance. This setting might also make the firm more motivated to establish long-term reliability that will be beneficial to both actors. An additional benefit to the firm is long-term subscription, rather than one-time transaction. Other examples can be found in the move toward ‘software-as-a-service’ and other similar service-subscription business models.

Furthermore, most likely, the beneficiaries will interpret the resourceness of a specific output very differently from the meaning intended by the service provider. Pinch and Bijker (1984) call the fact that the same artifact can have different meanings for different actors ‘interpretative flexibility’. Rather than considering this a threat, a service provider should think of it as an opportunity to rethink the ways it is able to assist the beneficiary in their value cocreation activities and, at the same time, capitalize on their innovative competences.

Counterintuitive Strategic Insight 4: Best Practices are a Road to Failure

As discussed, institutionalization is an essential component of value cocreation, as it

enables actors to do things with less deliberation and continual problem solving. However, institutionalization simultaneously carries the threat of things becoming taken-for-granted. That is, the ability of ‘performing without thinking’, for example, by following ‘the best practices’ of the field, can easily lead to acting without reevaluating the appropriateness of such institutionalized practices for the context at hand (cf. Vargo and Lusch, 2016). Thus, institutions can become ineffective dogmas, ideologies, and dominant logics, which can hinder the opportunities to ‘think and act differently’ and in essence innovate. Perhaps more important, what are seen as best practices are the actions of different actors, relying on different operant resources, being applied in a different context. Thus, best practices have the same strategically detrimental consequences as a competitive focus, as discussed.

This does not mean that one cannot learn from successes (and failures) of the past. However, this learning requires zooming out, especially to higher levels of abstraction (Vargo and Lusch, 2017), to focus on generalizable principles, rather than contextual specifics. This is of course the role of science and is qualitatively different from the simple emulation of best practices, regardless of context.

CONCLUSIONS

At its essence, S-D logic represents an alternative mindset to the prevailing G-D logic mindset. Whereas G-D logic views (ideally) tangible, units of outputs (i.e., goods) as the basis of exchange and, therefore, the core to understanding value creation in organizations and economies, S-D logic argues that the fundamental basis of exchange and value creation is reciprocal service provision between actors. This initial insight has led to the development of a processual, systemic, and institutional S-D logic narrative of exchange and value

cocreation through service provision by institutionally guided actors within service ecosystems. In this chapter, we have discussed how and why both academics and practitioners might benefit from moving from a G-D logic mindset to S-D logic. We have argued that, as a mindset, S-D logic can be described in terms of four characteristics that all relate to the basic purpose of science to simplify a complex world. These characteristics can be thought of as tools that have both theoretical and practical implications. More specifically, we have argued that S-D logic, as a mindset, can be seen as transcending, unifying, accommodating, and transformative. Due to these characteristics, S-D logic enables both academics and practitioners to reframe existing knowledge and gain insights that are not possible with a more G-D logical mindset. For academics, these insights take the form of conceptual inversions and for practitioners, they represent counterintuitive strategic insights. Examples of both types of transformative insights have been discussed and we hope that in future many more will be derived with the help of the metatheoretical framework of S-D logic.

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