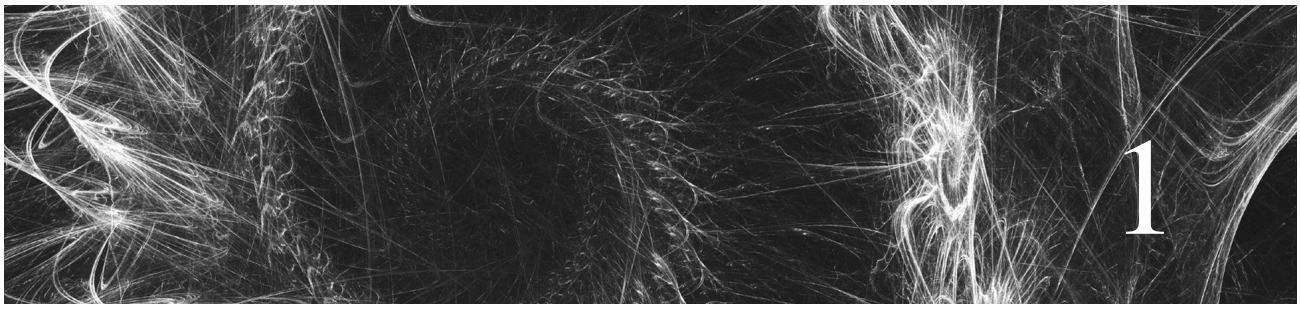

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An Overview of Service-Dominant Logic[1]

Robert F. Lusch and Stephen L. Vargo

INTRODUCTION

Over the last several decades, there has been an explosion of interest in service(s). This is often at least partially attributed to an apparent increase in the role of services in developed countries – that is, the contention that the economies of developed countries are shifting from being manufacturing-based to services-based. Concomitant with this apparent shift, there has been an explosion in firms' reorientation toward characterizing themselves in terms of services rather than manufacturing, as well as an exponential increase in service-oriented, academic literature in essentially all the business disciplines. In short, it appears that there has been a service revolution. Thus, on the surface, it might be assumed that the shift to a service economy is the compelling motivation for this service-oriented book. However, it is important to understand from the outset that this is not a book about a services revolution at all; in fact, it is not even about services, at least in the traditional sense of the word – essentially meaning intangible goods.

Rather, service-dominant (S-D) logic (Vargo and Lusch, 2004a, 2008, 2016) is a research stream that has emanated over the last 20 years from a concern with two related and problematic, if not intractable, issues associated with the traditional understanding of service(s): (1) does it really make sense that services only become economically important following industrialization – i.e., wouldn't most economic activity prior to the Industrial Revolution be considered service based – and (2) why, if goods are so uniquely foundational to economic activity, as has been assumed, has the problem of making a robust distinction between goods and services been so intractable? S-D logic addresses these and derivative issues and proposes an alternative orientation that transcends the goods–services divide by refocusing the purpose of economic activity on value cocreation through service exchange.

S-D logic offers a metatheoretical framework that identifies *service* (usually singular) – *the process of using one's resources for the benefit of another actor* – rather than goods, as the fundamental basis of economic (and social) exchange. In S-D logic, *goods are service-delivery mechanisms*. That is, S-D logic represents an emerging *service realization* rather than a reflection of a *service revolution*. Thus, in S-D logic, all economies are service economies and the Industrial Revolution represents a particular form of service provision – service through mass production.

This distinction represents much more than just a semantic manipulation or the replacement of 'goods' with 'services'. It represents a shift from a focus on firm output with some sort of embedded 'goodness' (utility) to a focus on the process of actors reciprocally using their resources (e.g., applied knowledge and skills), with other actors, for mutual benefit – that is, for mutual value creation. Once this foundational shift is made, a whole host of auxiliary, value-related shifts in understanding come into focus, such as what value means, how value is created, and how value is assessed. This process orientation requires zooming out beyond the traditional unit of analysis of exchange, the dyad (e.g., firm and customer), and taking a wider, systems orientation on value creation, even to understand what is happening within the dyad. This reorientation informs both research and practice in profoundly different ways compared with the more linear, value creation and delivery model of a goods-centered orientation.

It is also important to recognize that, while S-D logic is often associated with the work of Vargo and Lusch (e.g., 2004a, 2008, 2016) and sometimes with the discipline of marketing, it is actually both much more deeply seated and more broadly applicable. S-D logic is an attempt to capture and synthesize reorientations in thinking about economic and social activity for tens if not hundreds of years. It has also been elaborated, since 2004, by a large and growing community of associated scholars and practitioners, and has had impact in a full range of business and non-business disciplines (for an overview see Vargo and Lusch, 2017).

The S-D logic narrative is a fairly simple one that is primarily informed by just a handful of concepts and five axioms. In fact, in addition to the issues stated above, it was motivated by a desire to simplify the conceptual models of economic, and, mostly, social exchange. Yet, to the novice reader, it can be a challenge to grasp, at least initially. This is because the lexicon used for discussing S-D logic is, necessarily, mostly the same lexicon associated with the traditional understandings – usually referred to as goods-dominant (G-D) logic. However, some of these concepts have connotations that are different from the G-D logic meanings.

The purpose of this chapter is to provide an introduction to the core framework of S-D logic. To accomplish this purpose, we (1) outline the historical roots and development of S-D logic, (2) introduce its core concepts, (3) explain the five axioms including the related, derivative foundational premises, and (4) present a simple, recursive, parsimonious narrative that captures the dynamics of value cocreation within societies.

DEVELOPMENT OF S-D LOGIC

As noted, some of the roots for what has become known as S-D logic run deep, some of them at least as far back as the bifurcation that also led to the dominant orientation that we call G-D logic. These deep roots will mostly be dealt with in the following chapter, whereas here we will focus on more recent developments. However, a brief overview of the sequence of events leading to the conceptual separation of 'goods' and 'services' is probably useful here.

Generally, the most critical divide can be seen coming from the work of Smith (1776 [1904]) as expressed in the *Wealth of Nations*. Smith began his discussion with the

role of the division of labor in value creation, through exchange.

For Smith, labor referred to the execution of specialized skills, which was the source of all value. He distinguished between 'real value', or the usefulness of something to someone ('value in use') and 'nominal value', or purchasing power ('value in exchange'), and then discussed how real value was created through economic activity. However, given the specific concern with national wealth creation, after establishing the primacy of human activity and value in use, and outlining how the economy worked, he largely abandoned this discussion and focused his attention on manufactured goods and value in exchange. Though Smith would later become known as the 'father of economics', he was not really trying to develop a theory of economics at all; rather he was developing a normative theory of how countries, in the context of the nascent Industrial Revolution, could increase their national wealth through international trade. Thus, he focused on a very narrow conceptualization of 'productivity': the creation of surplus tangible goods that could be exported for trade. All other activities, though beneficial and necessary for individual and national wellbeing, were considered 'unproductive' in terms of international trade, because they could not be exported.

The economic scholars (e.g., Say, 1821; Mill, 1929) who followed Smith (1776 [1904]) generally disagreed with his productive-versus-unproductive classification of labor, recognizing that all activities that contribute to wellbeing are productive (i.e., have value in use). But Smith's model of value embedded in and distributed through tangible goods fit well with economic philosophers' desire to turn their subject matter into economic science. At that time, the model of 'science' was Newtonian Mechanics – the study of matter embedded with properties (Bell, 1953) – and so most scholars ultimately acquiesced to Smith's view and the 'product' (good) embedded with 'utilities' (exchange value) became the focus of neoclassical economics. That is, it became grounded on a foundation of goods-dominant (G-D) logic (see Vargo and Morgan, 2005 reprinted as Chapter 2 of this *Handbook*).

Not all economists subscribed to this model. For example, Bastiat (1848/1964) argued for a services-based understanding (Vargo and Morgan, 2005). However, the goods-based model prevailed and what is now called G-D logic became the paradigmatic basis on which all business disciplines later became grounded.

In Chapter 2 of this *Handbook*, we discuss how, given this productive, manufacturing, goods-centered understanding, marketing scholars wrestled with the issue of how marketing fit into the value-creation equation. That is, if manufacturers created value in the factory, what did marketers do? The issue was usually resolved by arguing that marketing created additional utilities, such as time, place, and ownership (e.g., Shaw, 1994). The robustness and usefulness of this multiple-utility explanation was debated over the following half-century or more.

A similar issue arose as it became apparent that much of what was being exchanged in the economy did not fit the goods-based model, partly because the 'products' were intangible. The initial response was to delineate 'services' from 'goods' (e.g., Zeithaml et al., 1985) by treating the former as a particular type of product – intangible units of output. However, this created additional conceptual difficulties, such as how utility could be embedded in intangible goods, and what the roles and processes of time, place, and ownership utility are (see Dixon, 1990), concepts that had been used to justify the 'value-added' role of marketing. Academics in other disciplines were having similar issues stemming, directly and indirectly, from the goods- and production-centered model.

The initial S-D logic article, 'Evolving to a New Dominant Logic of Marketing' (Vargo and Lusch, 2004a) was, in part, intended to capture and extend a convergence of related divergent thought noted in a growing number

of academic articles, business trade books, and managerial articles in practitioner-oriented journals, such as in the *Harvard Business Review*. For example, 'Marketing Myopia' by Theodore Levitt (1960) can now be seen as an early indicator of the need to focus executives away from a goods-dominant logic. A decade and a half later, 'Breaking Free from Product Marketing', authored by a marketing executive, was published in the *Journal of Marketing* (Shostack, 1977). By the early 1980s more writings emerged around services (Lovelock, 1983; Normann, 1988; Bateson, 1989) and relationship marketing (Arndt, 1979; Berry, 1983). By the mid-to-late 1990s the idea of moving marketing and business away from transactions to relationships and from goods to services was solidifying (Gummesson, 1995; Gronroos, 2000). This coincided with an increasing move away from an emphasis on making things embedded with value-to-value (co)creation (Prahalad and Ramaswamy, 2000), experiences (Pine and Gilmore, 1998), and cocreation experiences (Prahalad and Ramaswamy, 2004). Signals were becoming stronger that marketing and business were searching for a new perspective on exchange and its processes.

More specifically, 'Evolving…' (Vargo and Lusch, 2004a) was about synthesis of thought that appeared to be moving to a new, yet not fully delineated, dominant logic in which service was seen as the basis of exchange. In fact, this nascent logic was not initially explicitly referred to as S-D logic. However, with a fundamental focus on service-for-service exchange, it was implied. Perhaps sensing a potentially significant impact of a service-based logic, in an unprecedented decision, Ruth Bolton, editor of *Journal of Marketing* at the time, invited commentaries by seven notable, worldwide scholars. At least, in part, this probably resulted from the nature of the comments received in the five-year submission-review and invited-revision process. Reviews of these submissions ranged from high praise, and indications that the article would be discipline changing, to suggestions that the manuscript represented nothing new, arguing it merely summarized trends in thinking that had been developing for over a century in the marketing literature. All of the invited commentaries (see Bolton, 2004) were positive in tone and suggested that there was indeed an underlying shift in how value creation in business and marketing could (should) be understood.

Within several months of publication, through various presentations and discussions, we began to more clearly identify the confluence as S-D logic. Shortly after publication, a broader set of over 50 scholars further explored S-D logic in a set of 31 original essays, resulting in the publication of *The Service-Dominant Logic of Marketing: Dialog, Debate, and Directions* (Lusch and Vargo, 2006). Notably, some of these scholars (e.g., Achrol and Kotler, 2006; Holbrook, 2006; Levy, 2006) were skeptical of S-D logic but the majority were supportive and elaborative. Together, these insights by well-respected scholars served to catalyze additional debate, a process that was extremely helpful in establishing and advancing the credibility of the service-orientation.

As a further catalyst, David Ballantyne organized the Otago Forum, at the University of Otago, which brought together a small number of invited conferees to share ideas and interpretations on S-D logic. David's approach was a dialogical orientation in which attendees could learn from each other. This was both helpful to the success of the forum and consistent with the foundations of S-D logic. While as many questions developed and were left unanswered as were answered, most attendees seemed to more clearly sense the potentially broad appeal and transcending nature of S-D logic, as well as some sense of its applicability and appeal beyond marketing. This was evident in the special issue of *Marketing Theory* that resulted from the forum.

Motivated by a need for a continuing dialog within a growing S-D logic community, the

Forum on Markets and Marketing (FMM) was developed by Robert Lusch and Stephen Vargo. Participation, from the outset, was globally broad. The inaugural FMM (2008) was hosted by the University of New South Wales, with subsequent FMMs hosted by Cambridge University (2010), the University of Auckland (2012), the CTF, Service Research Center of Karlstad University (2014), the University of Warwick in its Venice facility (2016), and the University of Arizona (2018). These forums have been instrumental in moving S-D logic forward.

Meeting in Stockholm in late 2007, Evert Gummesson, Christina Mele, and Francesco Polese found themselves in a free flow of ideas about marketing and management theory, renewed paradigms, and even grand theories. They shared ideas about service, complexity, systems, and human behavior. This afternoon meeting on a rainy day solidified into a forum focused on three rapidly growing, interconnected themes that they felt could transform service, marketing, and business thought: service-dominant logic, networks and systems theory, and service science. The Naples Forum on Service was first held in 2009 and has been followed by meetings every two years – the most recent in 2017 – under the continuing guidance of Gummesson, Mele, and Polese. Individually and collectively, the Naples Forum has brought a broader transdisciplinary exposure to and involvement in S-D logic, especially among younger scholars and doctoral students. It has evolved into a premier conference that has an enormous impact on the proliferation and elaboration of S-D logic.

In addition to these ongoing, highly focused conferences and their associated journal special issues, there have been a significant number of additional S-D logic focused conferences and special sessions at other major conferences, as well as dozens of S-D logic focused journal special issues and special sections. Of particular note are focused publications of the *Journal of the Academy of Marketing Science*, *Marketing Theory*, *Journal of Service Management*, *Journal of Macromarketing*, *European Journal of Marketing*, *Journal of Business Research*, and *MIS Quarterly*, among others. As noted, and partially evidenced by the last two special issues, S-D logic has had significant impact beyond marketing, including on management information systems, human resources, hospitality management, healthcare, education, public administration, design, and arts and philosophy, to name a few (see Vargo and Lusch, 2017 for a more detailed account of its impact).

UNDERSTANDING THE LEXICON

However, crossing silos and disciplinary boundaries has not been seamless. As noted, while the lexicon and narrative of S-D logic are actually quite simple, S-D logic can be initially a bit challenging to fully grasp. This is because the S-D logic lexicon is mostly shared with, or at least is similar to, the one used in G-D logic, albeit often with nuanced meanings. Thus, S-D logic is often first viewed and interpreted through a firm-centered, manufacturing-oriented lens (Lusch and Vargo, 2006). Consequently, the novice reader might struggle somewhat. Sometimes this leads to a premature rejection of some of the core ideas of S-D logic. However, at least for those willing to study carefully, the sentiment often turns into something like 'well, of course, that is correct' or 'yes, that seems so obvious now'.

This *Handbook* is intended to assist in this transition of mindset, but it will require some thoughtful reading and reflection, along with an open mind. Predictably, this is often especially true of seasoned scholars, not just in marketing but in all business disciplines. This is not surprising, since virtually all these disciplines have deeply embedded ideas and concepts that are often in conflict with S-D logic – usually some variant of what we call G-D logic – making its premises challenging

to grasp, at least initially. Following is a brief introduction to the core concepts of S-D logic.

Foundational Concepts

At its core, S-D logic deals with five foundational concepts: actors, service, resources, value and institutions. From this core, other concepts can be derived, as will be discussed.

Actors

To allow a high-level generalization about the activities of entities involved in the exchange system, when practical, S-D logic avoids using traditional labels such as 'consumers', 'producers', 'suppliers', and other role-specific terms typically found in the traditional literature. Rather, it uses the more neutral, generic term 'actor(s)', to reflect the fact that all of these entities do fundamentally the same things: resource integration and service exchange (see Vargo and Lusch, 2011). The term also implies that these entities have the ability to act – in short, actors have agency – normally influenced by institutions (e.g., norms, values, rules, conventions) that limit or constrain these actions.

The focus on actors allows the separate study of business-to-consumer (B2C), business-to-business (B2B), and consumer-to-consumer (C2C) to be consolidated under an actor-to-actor (A2A) rubric. The move to generic actors introduces parsimony that is critical to more general theories/frameworks. It also allows knowledge previously associated with one discipline or sub-discipline to be used to inform others – for example, informing what has traditionally been called B2B, through consumer culture theory (CCT) (e.g., Arnould and Thompson, 2005), and vice versa.

Value

Value creation is the reason for exchange. Value is an indication of benefit, a net change in the wellbeing of a particular actor (Lusch and Vargo, 2014). This means that value is actor specific, making each instance of its creation contextually distinct. The contextual nature of value is experiential, holistic, and influenced by the availability, integration, and use of other combinations of resources and exchanges and interactions with other actors. It also implies that value is always cocreated, as will be discussed (Vargo and Lusch, 2008, 2016).

Service

Service is what is exchanged in value cocreation. As noted, the *service* (usually singular) of S-D logic is not the same as *services* (usually plural) in G-D Logic. That is, rather than being understood as a form of intangible output, service is conceptualized in terms of the application of resources – for example, knowledge and skills – by one party for the benefit of another or oneself (Lusch and Vargo, 2014). Service can be provided directly, such as in a dentist extracting a tooth, or indirectly, either through a good (e.g., a pill to relieve tooth pain), or through money (i.e., the rights to future service). Thus, somewhat counterintuitively, in S-D logic, there are no 'services'. Also note, however, that even with the tooth extraction tool (goods, such as dental instruments) are also used; thus, a precise distinction between direct and indirect service exchange involves elements of both.

Resources

Resources are the source of service provision. They are anything an actor can draw on to increase wellbeing – value. They can be tangible or intangible and can also be classified as operand or operant. *Operand resources* are (potential) resources that require other resources to act on them to provide benefit – often, they are static and tangible, such as natural resources. *Operant resources* are resources that are capable of acting on other (potential) resources to create benefit – they are often intangible and dynamic, such as knowledge and skills. The primary operant

resources typically addressed in discussing service exchange are human skills and capabilities or, more generally, applied knowledge. This implies that technology – applied beneficial knowledge (Moykr, 2002; see also Akaka and Vargo, 2013) – is at the center of societal value creation.

Institutions

Institutions are actor-generated rules, norms, meanings, symbols, and similar aides of communication, collaboration, and decision-making (North, 1990; Scott, 2008; Vargo and Lusch, 2016) that make value cocreation possible. It is important to note that the term 'institutions', here, and elsewhere in institutional theory, does not refer to organizations, as the term is sometimes used in everyday discourse. Institutions typically exist as part of more comprehensive *institutional arrangements*, interrelated assemblages of institutions that are used together as coordination mechanisms of resource integration and service exchange and similar value-creation activities. Institutions are key to understanding service ecosystems, as will be discussed. Although institutions can enable value cocreation, they can also be problematic; that is, they can lead to ineffective dogmas, ideologies, and dominant logics that can hinder these same activities, at least in some contexts.

Fundamental Premises and Axioms

S-D logic is a theoretical framework that comprises 11 foundational premises (FPs, see Vargo and Lusch, 2016), which are intended to explain value creation through service-for-service exchange. As such, like premises in all theoretical frameworks, they are assumed true. Thus, they are not intended to be tested empirically for truth content, though, as Hunt (2010) points out, they could be. Five of the foundational premises have been identified as core and given the status of axioms, from which the other FPs could be derived. All of the FPs, including those that have been axiomatized, are discussed in the following section and the five axioms are shown in Figure 1.1.

Axiom 1/FP1: Service is the fundamental basis of exchange

In S-D logic, as indicated, service (singular), implying doing something for the benefit

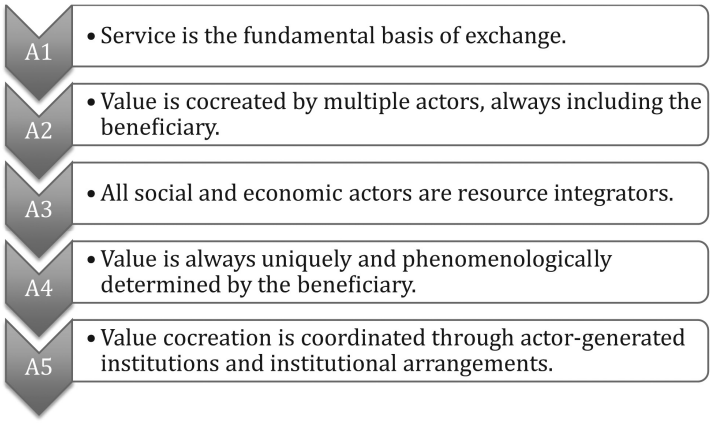

Figure 1.1 Axioms of service-dominant logic

Source: Adapted from Vargo and Lusch (2016).

of another actor, is distinguished from 'services' (plural), which implies units of output, usually thought of as intangible goods, as reflected in G-D logic. This latter connotation is associated with the perspective that 'services industries' exchange units of intangible output, such as degrees or credit hours produced by a university, room nights filled by a hotel, or tons of freight-miles hauled by a rail transportation firm.

There are a number of reasons that a process-and-benefit orientation is a more robust orientation than a units-of-output orientation. First, 'goodness' is not defined in terms of output but rather is based on what the good does for the beneficiary (e.g., customer) or, more precisely, how the goods assist the beneficiary in the value-creation process – that is, they are best seen as inputs. Second, it forces an inadequate understanding of service(s), either as an add-on to a good or as a particular type of good – usually an inferior one since it is characterized in terms of production-oriented deficiencies, such as inseparability from production, inability to be standardized, stored, etc. (see Vargo and Lusch, 2004b; Akaka and Vargo, 2013), rather than a benefit-providing process. Finally, the goods orientation fails to capture the two-way (and greater) dynamics of exchange: 'I'll do something for you if you do something for me' – that is, service is exchanged for service. Perhaps ironically, goods, viewed as service-providing mechanisms, make more sense in S-D logic than in G-D logic; in the former, they have a purpose – provide benefit, through service – other than just items to be sold.

FP2: Indirect exchange masks the fundamental basis of exchange

Once the primary form of exchange moves beyond barter, it becomes difficult to see that what everyone exchanges is, fundamentally, service. With market economies, most individuals rely upon two primary markets, the labor market, in which they exchange their knowledge and skills for pay (economic currency – e.g., money) and the benefit market they draw on to acquire service(s), through economic currency, which they need but do not provide for themselves directly. Thus they take the economic currency they obtain in their employment and exchange it for the service they need or want. This economic currency is a future-service right. It is thus just a fungible place-holder for future, yet-to-be-specified service, indirectly exchanged. Because it is indirect, the service-for-service nature of the exchange process is difficult to see.

This difficulty is even more pronounced in the case of organizational (i.e., firm) service provision. As Coase (1937) and Williamson (1975) argued, the purpose of the firm is to organize 'production' activity to at least temporarily avoid the market, which is embedded with transaction costs. Within the organization, service provision and exchange are still performed, just not through markets: they are carried out indirectly, with employees using their skills and knowledge to perform a micro-task (service provision) in the form of partially completed processes that culminate with service provision for an external beneficiary. This external beneficiary does not reciprocate by directly serving the micro-level service provider directly. Rather, economic currency is obtained by the firm from the market, through service exchange, and then used to compensate the employees. This further masks the true nature of what is taking place and it thus takes a larger, systems perspective to see that economic activity is fundamentally concerned with (often many) individual actors exchanging their applied knowledge and skills with others in order to obtain the service they need.

FP3: Goods are distribution mechanisms for service provision

This FP is actually implied by FP1. Goods are not valued for their 'goodness'; they are obtained for what they can do for a beneficiary. That is, they are valued because they are tools for service provision. This is fairly easy to see in the case of some goods.

Consider, for example, tools such as the ax, jug, wheel, cart, pulley, harness, and spear; their value is clearly in their service, by enabling actors to better sustain themselves and others. That is, as stated in FP1, goods are not the fundamental basis of economic exchange; service is, but sometimes this service is provided indirectly, through a good.

The service role of some goods, such as fish or grain, is perhaps less clearly seen, yet it is the same. The value from both of these (and other commodities) is a function of what the goods do for some beneficiary, such as providing energy and other nutritional benefits. For all goods (e.g., tools and commodities), it is important to note that the benefits provided through service need not be purely functional; they can also be emotional and symbolic, such as having a new car that provides a means of communicating social status and personal values, as well as mobility.

In all cases, the value from goods is obtained through the service of other actors, such as through fishing, farming, and design and manufacturing, which 'embeds' knowledge and skills in them. That is, one can think of the goods as 'frozen activities' (Normann and Ramirez, 1993) or 'informed' with embodied knowledge (Madhavan and Grover, 1998). Infusing matter with structure or information provides the goods with the capacity for self-service by another actor (Lusch and Vargo, 2014). In this sense, they become the distribution mechanism for service provision. As Kotler (1977: 8) noted, 'the importance of physical products lies not so much in owning them as in obtaining the service they render'.

It is also important to note that goods, as service intermediaries, typically meet higher-order needs, best understood as complex experiences. A pair of athletic shoes, a motorcycle, wine, tablet computer, can only meet needs when combined with other resources, such as other goods, specialized user skills, and other resources. That is, they can be considered 'artifacts around which customers have experiences' (Prahalad and Ramaswamy, 2000: 83). Simply, goods provide partial means for reaching valued states (Gutman, 1982).

FP4: Operant resources are the fundamental source of strategic benefit

Few would deny that operand resources, such as tangible goods and natural resources, are important to wellbeing, and it is not the position of S-D logic to counter that in any way. However, for operand resources to provide benefit requires their being acted upon – for example, extracted, transformed, experienced. Thus, clearly, they require operant resources, such as knowledge and skills. That is, actors can apply knowledge and skills – operant resources – to operand resources to realize their potential, their resourceness (Lusch and Vargo, 2014). In short, operant resources are the key to benefit.

Benefit is often concerned with access. For instance, the legal system is a potential resource but only to the extent to which actors have access to it. This can vary considerably by knowledge and the skills of how to use the legal system, and these can be influenced by socio-economic status and cultural factors.

Thus, it is important to consider both resourceness and accessness in evaluating resources. Resourceness and accessness are also functions of operant resources. Operant resources can improve actors' abilities to provide service to other actors (beneficiaries) and thus to obtain benefit through them. In short, they are essential for achieving strategic benefit.

Operant resources can also provide other, less obvious benefits. For example, unlike operand resources, which can become depleted, operant resources not only are not depleted with use but also can increase through use, such as the development of additional knowledge and skills. That is, operant resources beget operant resources.

Similarly, operant resources cannot only provide access to operant resources, they can also make their utilization more efficient

and can enhance availability (accessness), by creating a larger pool of them or by finding substitutes. For instance, the continual development of operant resources has not only reduced the amount of petroleum consumed per passenger mile in transportation (e.g., through fuel efficiency); it has also increased the availability (resourcessness) of potential resources (e.g., the expansion of usable petroleum reserves through the enhancement of exploration and drilling technology), as well as the conservation of those resources.

The focus on strategic benefit, coupled with the service-for-service perspective of S-D logic, moves the mindset of businesses and nations away from *gaining competitive (or strategic) advantage* over others. Rather, it focuses on serving one's self through beneficial service to others.

FP5: All economies are service economies

FP5 can be derived from FP1/A1: 'Service is the fundamental basis of exchange'. Economic history books do not tell this story. Neither do contemporary economists, including those employed by government to help manage the economy. More often, the government narrative is one about the development of society in terms of 'eras' or 'economies' – for example, hunter-gatherer; extractive (agriculture, fishing, mining, timber); industrial (manufacturing); post-industrial (information and services). The focus is on the principal output (goods) of these eras, such as animals killed or berries gathered (hunter-gatherer), wheat cultivated (agriculture), shoes produced (manufacturing), or college degrees produced or insurance policies underwritten (services). And the principal output at the time of these eras was primarily around the markets that were expanding.

Given this dominant orientation, FP5 points toward a very counterintuitive notion that a service economy is not something new but rather is the only type of economy there has ever been. In this service orientation, the often identified 'eras' or 'economies' associated with economic output are understood in terms of applied macro-specializations (i.e., service), in which the expansion and refinement of particular types of knowledge and skills were emphasized. This point is summarized in Figure 1.2, in which the typical economic eras are reframed.

One reason that these distinctions matter is because the output orientation distorts

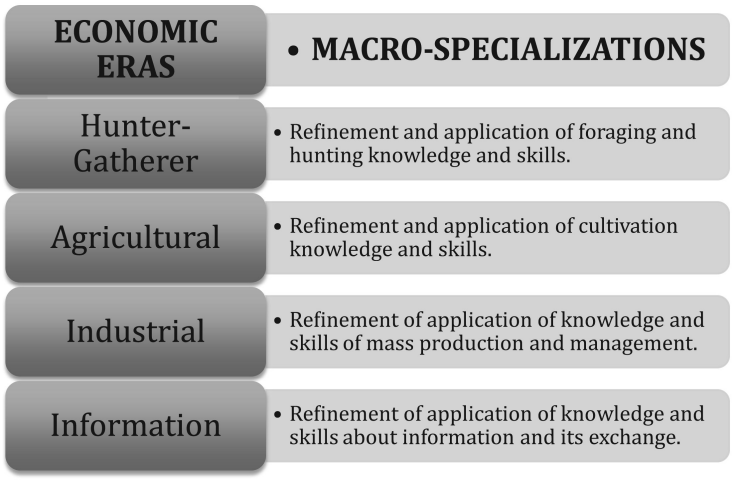

Figure 1.2 Economic eras and macro-specializations

economic activity. For example, government statisticians attempt to trace economic activity in terms of the apparent proportional growth and decline of employment in output-based, economic categories. However, this creates several inconsistencies, if not illusionary characterizations. Consider a 'manufacturing' firm that employs not only factory workers but also workers that perform other tasks, such as marketing, accounting, food preparation, management, planning, logistics, insurance, finance, R&D, training and education, legal, engineering, business analytics, selling, etc. Because of the output-based classification of the company, government statistics show all of these activities (and associated jobs) as part of the 'manufacturing' sector. But what if the company outsources the cafeterias in the factories and office buildings or the logistical management of its output? In the output-based classification schema, employment in manufacturing would decline and services employment would be seen as increasing. Yet nothing has changed in terms of actual economic activity and jobs. People (and firms) are still just applying specialized knowledge and skills. An operant-resource based classification system is normalizing and can alleviate this distortion.

The important point of all of this is that nations, states, and cities can see economic activity and growth opportunities more clearly if they recognize that all economies are fundamentally concerned with the application and exchange of specialized knowledge and skills (operant resources) and categorize activity based on these resources and not on the type of output a firm (or economy) 'produces'.

Axiom 2/FP6: Value is cocreated by multiple actors, always including the beneficiary

S-D logic recognizes that value is created through the 'actions of multiple actors, often unaware of each other, that contribute to each other's wellbeing' (Vargo and Lusch, 2016: 8) – that is, it is cocreated. More specifically, it is the process of increasing the wellbeing (viability) of an actor through the integration of resources available from the service ecosystems of which it is a part. This value cocreation is not optional. Human systems and all societies comprise specialized actors, with interdependencies, often on a massive scale. Thus, no single actor can create value.

As noted, value cocreation occurs through a large host of actors drawing upon and integrating many resources. By zooming out, it becomes evident that value cocreation is not dyadic but is a multi-actor phenomenon. 'In short, cocreation of value is the purpose of exchange and, thus, foundational to markets and marketing' (Vargo and Lusch, 2016: 9). It is not optional.

This conceptualization of value cocreation contrasts somewhat with a conceptualization in which value cocreation is seen as a normative statement of customer involvement in firm activities. This involvement can be an important part of value cocreation, but it need not always be. S-D logic uses the term 'co-production' to capture this increasingly normatively advocated meaning found in both the academic and business literatures. Co-production is understood as the (relatively optional) involvement of the customer in the 'creation of the value proposition – essentially, design, definition, production, etc' (Vargo and Lusch, 2016: 8). Examples include actors participating in an online brand community, or taking part in an open-innovation product development process, or taking an unassembled set of components the firm sells and assembling them into a piece of furniture. It is related to cocreation of value – and might even be seen as a subset – but the concepts capture an important distinction.

FP7: Actors cannot deliver value but can participate in the creation and offering of value propositions

Given that, according to S-D logic, value is always cocreated (FP6/Axiom 1), it follows that one actor (e.g., the firm) cannot create and deliver value to another (e.g., a customer),

as often assumed in G-D logic. Thus, they can only make or endorse value propositions.

Value propositions are assurances of potential value or benefits. Also, consistent with FP6, value propositions are not created solely by service providers. Many other actors, such as members of brand communities, suppliers, employees, and even governments are cocreators of the value proposition. For example, a firm's brand community may use social media to influence a brand's image, which in turn influences, at least implicitly, the value proposition. Likewise, suppliers, through such practices as quality control, customization, and warranty programs; employees, through their firm-identification practices, such as wearing a branded t-shirt; and government agencies, through taxing offerings and regulating where and to whom offerings can be sold, also influence the development of value proposition.

Value propositions then are multi-actor (including service provider and beneficiary) narratives, or stories, of value potential (Vargo and Lusch, 2016). These narratives are not static, but rather are dynamic, shifting and morphing over time, through actors modifying or contextually reinterpreting events, as they occur prior to, during, and after service exchange. Dynamic, multi-actor, narrative understanding is consistent with the idea that value is holistic and experiential, occurring through engagement with not only the service provider, but also other actors and their resources, over time (Chandler and Lusch, 2015; see also Brodie et al., 2011; Wieland et al., 2017; and FP9 and FP10).

FP8: The service-centered view is inherently beneficiary oriented and relational

Since service is defined in terms of providing benefit for another actor (beneficiary), S-D logic does not require an add-on concept of 'customer orientation'. In fact, even the term 'consumer' or 'customer' suggests something of a firm-centered orientation, since there can be no customer orientation unless the firm is the starting point. In a related sense, a 'consumer' implies an actor who uses up the output of the firm. Similarly, the idea of a 'customer' is contingent upon identification of a particular firm. In S-D logic, the beneficiary actor, which can be an individual, a family, a firm, or any other entity, depending on a given value analysis, is primary, by definition (Vargo and Lusch, 2016).

As stated in FP6, value is always cocreated; this implies that it is inherently relational. The meaning of 'relational', however, is somewhat different from the meaning in G-D logic. That is, S-D logic does not use 'relational' to convey the traditional notion of a series of repeated transactions, as often used in customer relationship management. Rather, S-D logic recognizes that all service exchange and value creation is complex and multi-faceted (see FP9 and FP10 and Lusch and Vargo, 2014). This relationship claim is amplified by the fact that complex, often massive, value cocreation is coordinated by the institutions and institutional arrangements (norms, values, rules, etc.) that are shared by the actors involved.

Axiom 3/FP9: All social and economic actors are resource integrators

This FP is intended to capture the other activity, besides service provision, in which all actors must engage: resource integration, given that any act of service provision requires drawing upon and integrating a variety of resources. We have identified two types of resources: operand and operant. Resources can also be categorized by source. One useful classification of the source of resources distinguishes market-, private- and public resources. *Market resources* are those that can be acquired in the marketplace, for example an automobile or medical advice. *Private resources* are non-market facing and can include operand and operant resources that are exchanged through social networks, such as a friend lending a car or a grandparent

taking care of a grandchild. *Public resources* are shared, communal, non-market-facing resources, typically provided through government or quasi-government actors – for example, national defense, roadways, language, childhood education, and property rights (Lusch and Vargo, 2014).

Depending on prevailing institutions and institutional arrangements, what might be classified as market-facing, private, or public resources varies. For instance, in some nations healthcare is publicly provided and in others it is a market-facing resource. Lending a car to a friend that would be considered a private resource could become a market-facing resource if an actor rents a car to a friend, rather than lending it for a period of time. Likewise, public resources, such as childhood or college education, could become market facing if the beneficiary is responsible for payment. In all cases, this resource acquisition is typically accomplished through service exchange, often indirectly provided.

Regardless of the source, resource integration represents the combination of resources to create new resources. This creates an evolutionary path that Arthur (2009) calls 'combinatorial evolution', creating path dependencies and lock-in that impact both the development and disruption of technologies and market development (see Wieland et al., 2017).

Axiom 4/FP10: Value is always uniquely and phenomenologically determined by the beneficiary

In S-D logic, value is understood in terms of the *wellbeing*, the *viability* (survivability), of the system. Although value is cocreated, its appraisal is assessed by, or at least in reference to, a particular beneficiary. This assessment is unique to each beneficiary because the experience in each instance of exchange is in a different context, thus dependent on the availability, integration, and use of a different combination of resources and actors.

Thus, for any given service-provision event, value assessment will vary, depending on the actor under consideration. For example, acquisition of a new sports car might be judged as beneficial to the purchaser and the seller (though in different ways and varying degrees) but might be assessed negatively by (or in relation to) the purchaser's family, or even society.

Importantly, this value assessment relates to more than the act of exchange or even to the functional benefits of the resource. The *experiential nature* of value implies a more holistic assessment, in which the resource acquired is only an input to something more general. For example, the value related to the purchase of an Ikea sofa is contingent on the overall sense of family or home experience as the sofa is combined with a house, other furniture and decorations, family activity, etc., all in the context of shared family and other social institutions.

Axiom 5/FP11: Value cocreation is coordinated through actor-generated institutions and institutional arrangements

Institutions are the humanly devised rules, norms, beliefs, etc. that enable and constrain action and make social life predictable and meaningful (North, 1990; Scott, 2008) *and institutional arrangements are assemblages of interrelated institutions* (sometimes referred to as 'institutional logics'). Institutional thought comprises a large and growing literature from multiple disciplines including sociology, organizational science, economics, political science, and, to a more limited extent, marketing (Vargo and Lusch, 2016).

In addition to facilitating cooperation and coordination, institutions economize cognitive resources, which is essential, since economic and social actors do not have the individual rational capacity idealized in neoclassical economic thought. Simon (1996) describes the use of these cognitive shortcuts, or heuristics, for decision-making in terms of 'bounded rationality' and 'procedural rationality'.

In S-D logic, institutions play a particularly important role because value cocreation

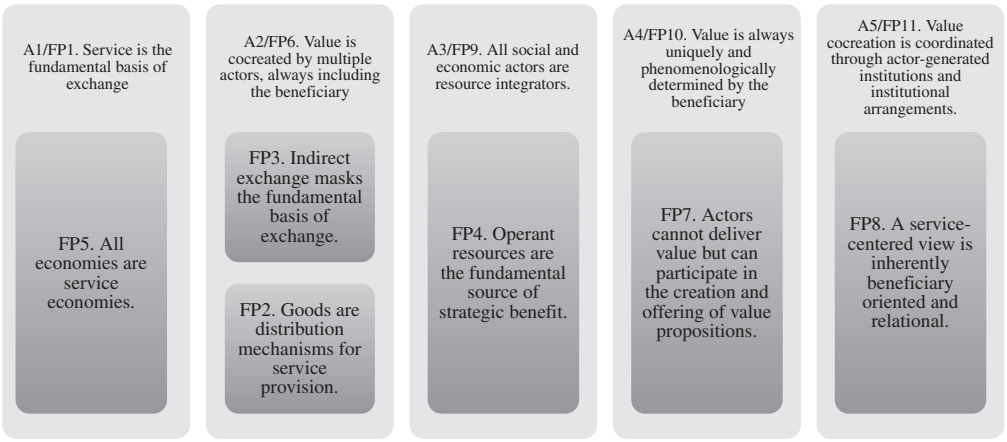

Figure 1.3 Axioms and foundational premises

(A2/FP6) and determination (A4/FP10), through resource integration (A3/FP9) and service-for-service exchange (A1/FP1), implies a system of coordination among actors for the avoidance and reconciliation of conflict. Institutions serve this function or, more generally, provide the building blocks 'for increasingly complex and interrelated resource-integration and service-exchange activities in nested and overlapping ecosystems organized around shared purposes' (Ostrom, 2005; Vargo and Lusch, 2016: 17), as will be discussed in the next section. In summary, the five axioms and foundational premises that can be derived from them are displayed in Figure 1.3.

Service Ecosystems

In academic marketing, ecological thinking in relation to markets was advocated by Alderson (1965), but the call was not taken up after his death. However, recently, ecological thinking in terms of the ecosystems framework has seen a resurgence of interest (Iansiti and Levien, 2004; Mars et al., 2012; Reeves et al., 2016). As discussed, S-D logic encourages zooming out (along with zooming in), which reveals a 'many-with-many' actor perspective (cf. Gummesson, 2006) – that is, a systems orientation, which is more fully elaborated by Vargo and Lusch (2011). The term 'service ecosystems' is used to characterize these dynamic, value-cocreating systems of mutual service provision. We use the term 'ecosystems' to identify these systems because it denotes actor–environment interaction and energy flow. More specifically, we use the term 'service ecosystem' to identify the particular kind of critical flow – mutual service provision. We (Lusch and Vargo, 2014; Vargo and Lusch, 2016) define a service ecosystem 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).

Relatively self-contained

Service ecosystems are open systems; they must be to establish and maintain their dynamism. However, they are also relatively self-contained, based on some significant amount of connectivity and shared institutional arrangements. For example, a firm such as an auto dealership might be considered a service ecosystem, which has a clearly identifiable purpose. But so too could the auto 'industry',

which has shared institutional arrangements (e.g., standards and protocols) and a common purpose, though one less consciously experienced and perhaps more difficult for its member actors to articulate. The systems are overlapping and nested and parts of higher-level (of aggregation) systems (e.g., societal), from which they draw at least part of their institutional arrangements. Their self-containment is less a function of boundaries, which often tend to be rather fuzzy, than of their sharedness of institutions, including their role in relation to other actors in the ecosystem (e.g., dealer–manufacturer).

Self-adjusting

Service ecosystems regulate themselves through self-adjusting processes, often involving many actors. Self-adjustment (or self-organization) is the ability of a system to arrange and rearrange its components without an external or other overall governance mechanism. This process is usually enabled by positive feedback loops based on shared governance mechanisms – that is, institutional arrangements.

Multiple levels of aggregation and structure

Service ecosystems are multi-level in structure. These levels are revealed by zooming out and zooming in (Chandler and Vargo, 2011). The structures are emergent phenomena resulting from the relationships among actors. That is, higher-level of aggregation (e.g., meso-level) structures emerge from micro-level interactions. Even higher-level (e.g., macro-level) structures emerge from further interactions within meso-level structures. In short, higher-level structures emerge from lower-level interactions and then serve as the context that impacts lower-level interactions (Lusch and Vargo, 2014). The relationship between actors and structures is referred to by Giddens (1984) as 'structuration'. The structuration of service ecosystems is illustrated in Figure 1.4.

It is however important to understand that these 'levels' do not exist independently of one another. Rather they are perspectives on a single existential level (see this Handbook, Chapter 41).

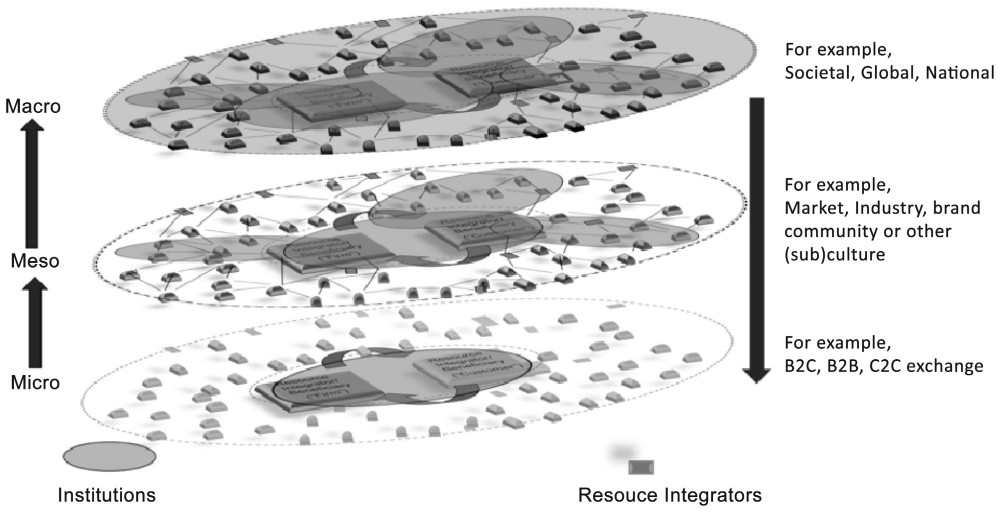

Figure 1.4 Service ecosystem

Source: Lusch and Vargo (2014).

S-D Logic Narrative

The central focus of S-D logic is about value cocreation. This is inherently a multi-actor process that occurs in networks where resources arise and come from many actors, which argues for a dynamic systems orientation (Vargo and Lusch, 2016). Mechanisms, however, are needed to coordinate actors to facilitate resource integration and service exchange. Institutions and institutional arrangements arise as a solution to the coordination problem that humans must deal with in service-to-service exchange (Vargo and Lusch, 2011; Vargo and Lusch, 2016).

The preceding helps to establish a narrative of value cocreation. This narrative, however, is not a once-to-be-told story; rather, it is perhaps better thought of as a continuing story of actors interacting and exchanging that unfolds over time, as actors integrate resources, reciprocally provide service, and cocreate value through 'holistic, meaning-laden experiences in nested and overlapping service ecosystems, governed and evaluated through their institutional arrangements' (Vargo and Lusch 2016: 7). Figure 1.5 provides a representation of the narrative and process of S-D logic.

CONCLUDING COMMENTS

Any brief introduction to S-D logic has its limitations, just as the initial 17-page article 'Evolving…' in 2004 (Vargo and Lusch, 2004a) did. This is why this *Handbook* was

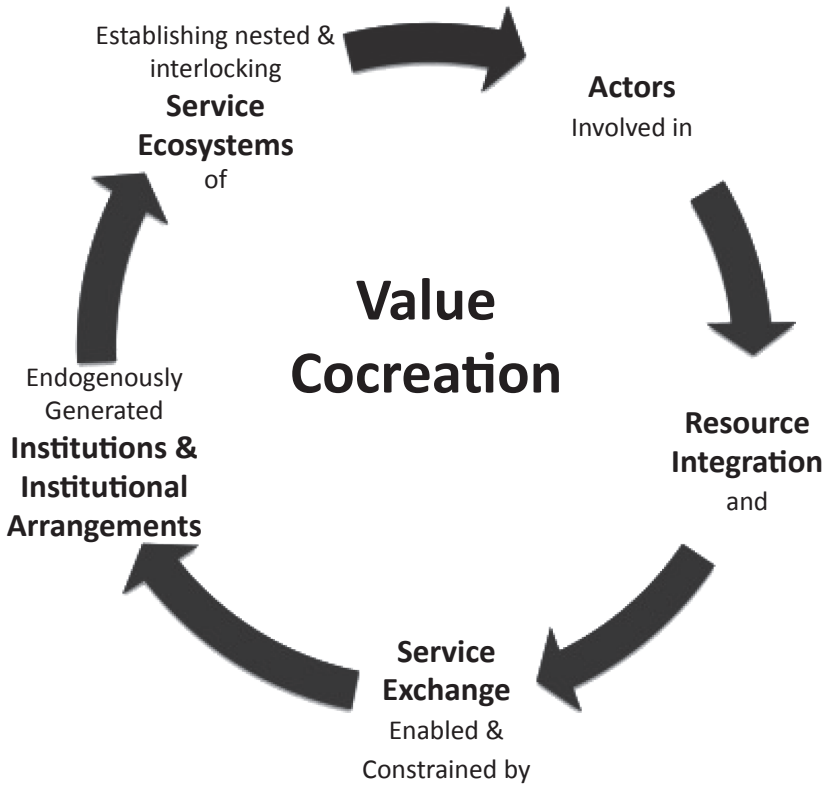

Figure 1.5 The S-D logic narrative

Source: Vargo and Lusch (2016).

developed, to provide updated, more in-depth information. Some, if not most, of what was summarily described in this chapter will take on added meaning in subsequent sections of this section, as it is explored, elaborated, and occasionally challenged. Regardless of the readers' disciplinary background or current research program, we hope they find new, refreshing, and robust perspectives for looking at related phenomena. We believe that this is needed because what we see as a restrictive, G-D logic perspective has spread well beyond economics and business thinking and pervades much thinking about how we teach, how we philosophize, what and how we measure to obtain evidence, and how we live together in community and society. Fortunately, we find that S-D logic is now also beginning to have widespread influence.

Note

1 This chapter draws heavily on various articles and book chapters, especially Vargo and Lusch, 2014, 2016, and 2017.

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