



Beyond Circularity—A Service-dominant (S-D) Logic Perspective

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Abstract

The idea of a circular economy, in which parts of discarded products are reused to create new products, has intuitive appeal for goals of sustainability. However, it also partially perpetuates a mental model of economic activity that is at the root of unsustainability. This make-buy-destroy-rebuy (products) mental model has been called “goods-dominant logic.” In this commentary, I advance an alternative mental model, called “service-dominant logic,” which lends itself to business models that can make circularity unnecessary.

Keywords Service-dominant logic · S-D logic · Service ecosystem · Mental models · Institutions

Clearly, the continual disposal of goods is problematic for societal well-being. Thus, the idea of recirculating them, in whole or in part, when they have become unusable or unfashionable has intuitive appeal. But does the idea of a circular economy solve the problem or, in some ways, partially perpetuate it? The answer is likely somewhat of both but, arguably, as much or more of the latter than the former.

The problematic mental model

The problem lies in the traditional mental model of the role of economic activity in society. As the idea of the need for “circularity” implies, economic activity is usually understood in terms of a linear one-way model of production and consumption, often captured in the concept of a *supply chain*, in which a *producer* obtains materials from a supplier and *creates value* in the form of *products* for *consumers*. It is an intuitively simple mental model derived from economic thought that developed concurrently with the Industrial Revolution and has generally been accepted, without question, at least until recently. I have referred to this as *goods-*

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dominant (G-D) logic [1]. Others have used the terms “neoclassical economics research tradition” [2], “manufacturing logic” [3], “old enterprise logic” [4], and “marketing management” [5]. The model is depicted schematically in Fig. 1.

Whichever term is used, consider the rather profound implications of this mental model. It implies that there is a “producer” (e.g., firm), which is the *creator of value*, and “consumers” (individuals, organizations, etc.), which are *destroyers of value*. The idea is that one actor creates value, through production, and others destroy it, through product use, and then return to the creator for more value-laden products. This mental model is at the *root of the sustainability problem*, and while the idea of circularity—recycling parts of the product, thus making the consumer also a supplier—partially ameliorates the make-buy-destroy-rebuy problem, it also prolongs the problem by retaining the idea that value resides in goods, thus necessitating them. That is, it promotes the idea that economic activity centers on the production of value-laden goods by firms.

An alternative mental model

There is, however, an alternative model, one that is not fundamentally centered on goods and firms but is focused on *service provision*. At its core, it sees economic activity more accurately conceptualized in terms of *service-for-service exchange*, with *service* defined as *using one’s resources for the benefit of another*. Goods, if involved, are seen as service provision vehicles. This is known as *service-dominant (S-D) logic* [1, 6, 7], in contrast to the traditional G-D logic discussed above. This distinction between goods (i.e., output) and service (i.e., a process) is a subtle but potentially powerful one—it implies a mental model of value in terms of benefit for, and identifies the venue of value creation to be, the beneficiary (e.g., the customer), rather than the firm. Thus, it enables the consideration of other approaches to value creation.

This foundational shift in the mental model also affords an alternative to “circularity.” That is, if value is understood as benefit provided through service, this suggests that it can be provided independently of the sale of goods. It is a shift toward which forward-looking firms have been migrating for some time. For instance, Rolls Royce sells “power by the hour” (i.e., thrust) rather than jet engines. Similarly, various companies are selling “lumens as a service” (LaaS) and “heating as a service” (HaaS). This shift toward selling service is being accelerated by digitalization—for example, the selling of entertainment (e.g., music and videos) digitally

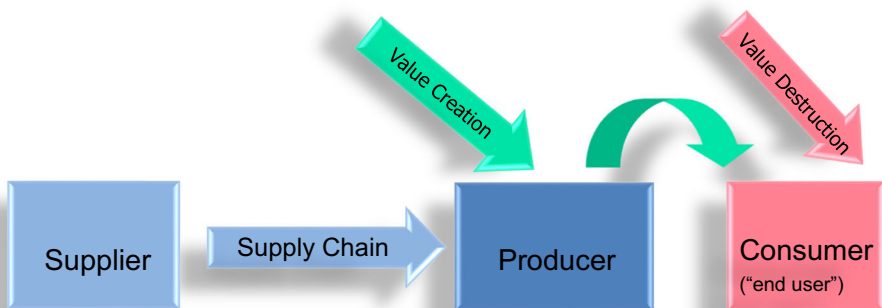


Fig. 1 The supply chain

rather than embedding them in CDs, which requires materials, transportation, storage, and disposal.

However, there is much more to this mental model. In S-D logic, value is obtained through the application of resources (always mental and sometimes physical), which are obtained by integrating resources from not only a wide range of market-facing sources (i.e., from firms, for money, in markets) but also public (e.g., community and government) and private (e.g., friends and family) sources. The *primary resource integrator*—the only one that must always be involved in one’s own value creation—is the beneficiary. These resources are obtained through service-for-service exchange. Thus, all actors are both providers (i.e., “producers”) and beneficiaries (i.e., “consumers”). Hence, the value chain associated with G-D logic becomes a “value constellation” [8], conceptualized in S-D logic as a “service ecosystem,” with the firm and the customer understood as just two of the actors in a vast network of resource-integrating, service-providing (and service-receiving) actors. The service ecosystem is depicted in Fig. 2.

Once we’ve zoomed out to understand value creation in terms of service ecosystems rather than simply in terms of firms, goods, and customers, it becomes apparent that these systems have other properties. For example, service-for-service exchange in ecosystems requires coordination, which is primarily accomplished through intrinsically generated *institutions* (norms, conventions, regulations, symbols, etc.), with sets of interrelated institutions called *institutional arrangements*. Thus, service ecosystems are defined in terms of *relatively self-contained systems of resource-integrating actors connected by shared institutional arrangements and mutual value creation through service exchange*. Examples of service ecosystems include families, firms, markets, industries, communities, and society. These service ecosystems are overlapping and nested; thus, the linear value chain model becomes a systemic model, as depicted in Fig. 2.

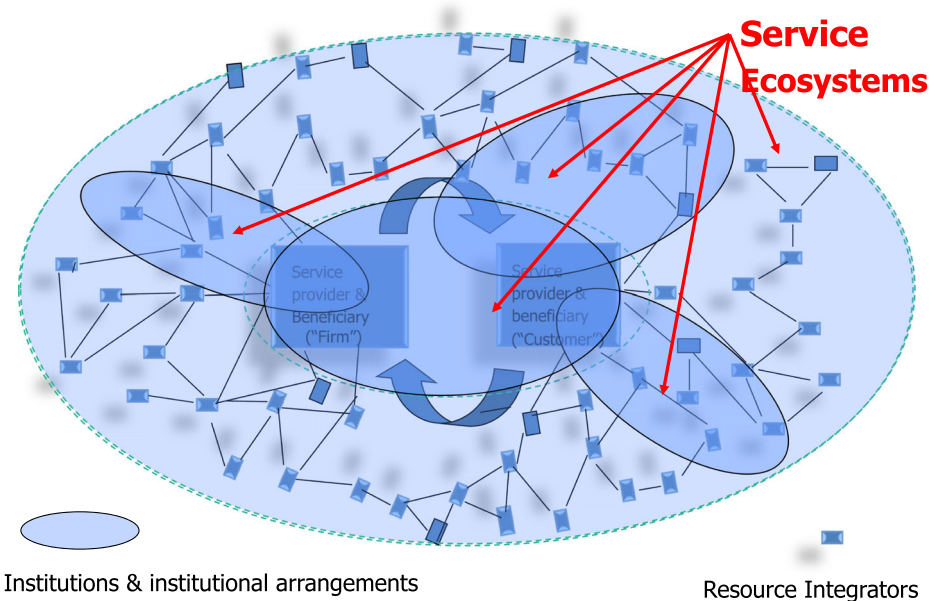


Fig. 2 Service ecosystems

This S-D logic-based, institutionally coordinated mental model of value creation through service exchange in service ecosystems implies a host of alternatives to the make-sell-use-destroy-discard process assumed in G-D logic. In addition to selling service flows, it provides a more robust framework for thinking about firm and societal business models such as *platform provision* and *sharing*. Given that institutions are the essential building blocks of S-D logic, this also points toward approaches to implementation of sustainable business models through some form of *institutional work* [9]—the essential process for establishing a sustainable approach to value creation and societal well-being. While I advocate looking beyond circularity to identify more robust approaches to sustainability, in some cases, circular is the best we can do. In these instances, this alternative mental model can provide a more useful framework for the reconceptualization and execution of circularity as well.

Declarations

Conflict of interest The author declares that there is no conflict of interest.

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