

exchange, in which tangible output serves as the distribution mechanism of service.

Developed by Stephen L. Vargo and Robert F. Lusch, S-D logic entered the marketing literature through a 2004 *Journal of Marketing* article titled “Evolving to a New Dominant Logic for Marketing”. S-D logic continues to expand and be refined by a growing community of scholars and practitioners (Vargo and Lusch, 2008). While S-D logic was initially considered an integrative framework for understanding markets and marketing activity, it is in principle a mindset for understanding broader socio-economic human activity, as it describes in generic terms how value is created through exchange in society.

The S-D logic theoretical framework builds on the following five axioms (Vargo and Lusch, 2016):

- Axiom 1: Service is the fundamental basis of exchange
- Axiom 2: Value is cocreated by multiple actors, always including the beneficiary
- Axiom 3: All social and economic actors are resource integrators
- Axiom 4: Value is always uniquely and phenomenologically determined by the beneficiary
- Axiom 5: Value cocreation is coordinated through actor-generated institutions and institutional arrangements

Service-Dominant Logic

Service-dominant (S-D) logic is a metatheoretical framework for understanding value creation built on the premise that *service*—the process of using one’s resources for the benefit of another—is the fundamental basis of exchange. S-D logic offers an alternative to the traditional goods-dominant (G-D) logic, which emphasized goods—tangible units of output—as the main focus of exchange.

G-D logic strongly aligns with neo-classical economics, offering a linear and firm-centric approach to value creation. In this view, value is embedded in goods and narrowly defined in terms of monetary value. Firms create value through the manufacturing and distribution process, while consumers destroy value through the act of consumption. S-D logic offers a counter-logic that perceives value as collaboratively created by resource-integrating actors and is based on a processual and systemic approach to value creation. S-D logic perceives the exchange of goods for money as a specific type of service-for-service

S-D logic engages five foundational concepts: actors, value, service, resources and institutions. It utilizes the generic term of *actors* rather than “producers” and “consumers” to underscore the idea that all are entities performing similar, *resource-integration* and *service-exchange* practices. All actors have agency but are guided and constrained by *institutions*. Value creation is the primary rationale for exchange. *Value* reflects a change (positive or negative) in benefit, or well-being, experienced by a particular actor. It is influenced by the combination of other resources available and interactions with other actors, implying that value is *always cocreated* and contextual.

The definition of *service*—the application of resources (e.g., skills and knowledge) by one actor for its own benefit or the benefit of others—is distinct from services (commonly plural) often used in G-D logic, which implies a form of output (i.e., an intangible good). Actors integrate a variety of tangible, static (operand) and intangible, dynamic (operant) resources obtained from various market-facing (purchased), public (shared, communal)

ANGELINE NARISWARI AND STEPHEN L. VARGO

and private sources (self, peers) to provide this service. In S-D logic, operand resources (on which an act is performed to generate effect) are secondary to the relatively dynamic, infinite, value multiplying operand resources (employed on operand and other operand resources to create an effect).

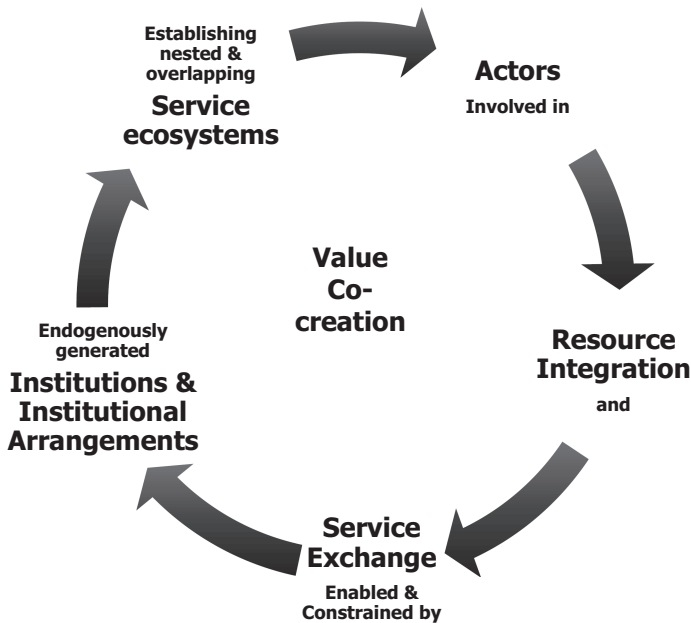
Institutions (i.e., actor-generated rules, norms, meanings and symbols) within *institutional arrangements* (i.e., broader assemblages of interdependent institutions) serve as coordinating mechanisms that facilitate service exchange and resources integration. However, in other contexts, institutions and their related institutional arrangements can also limit value cocreation activities due to, among others, obstructive ideologies.

Value cocreation occurs in *service ecosystems*—relatively self-contained, self-adjusting systems of resource-integrating actors connected by shared institutional arrangements and mutual value creation through service exchange. Value cocreation in service ecosystems reflects a *many-to-many perspective*. Analytically, these service-for-service exchanges can be observed at multiple *levels of aggregation*, reflecting multi-level structures. In this multi-level perspective, higher (macro-, meso-) levels of aggregation (e.g., “industries”, “markets”) emerge from micro-level

(e.g., firm-customer, firm-firm) interactions, while higher-level structures serve as the context of lower-level interactions. These structures are emergent phenomena resulting from the actions and interactions of various actors. To fully understand phenomena at one level requires a process of zooming in and out to view the focal phenomena from a level above or below.

The S-D logic mindset is captured in a *narrative of value cocreation* in which resource-integrating actors cocreate value through exchange of service in nested and overlapping ecosystems coordinated by actor-generated institutions (cf. Figure 1). This narrative is context neutral and applicable to diverse settings ranging from markets, to library science, civil engineering and art.

Since its inception, S-D logic has experienced several conceptual turns, namely the actor-to-actor, systems, institutional and multi-levels turn (Vargo, 2019), which is reflected in the depicted narrative. The *actor-to-actor (A2A) turn* reflects the shift in emphasis from the producer vs. consumer designation towards the understanding that all actors (e.g., individuals, firms, customers, families, organizations, etc.) fundamentally perform the same function of integrating resources to improve their respective wellbeing. The benefit



Source: Vargo and Lusch (2016).

Figure 1 The S-D logic narrative

ANGELINE NARISWARI AND STEPHEN L. VARGO

of this approach is that it bridges sub-disciplinary silos by providing a lens and language common across diverse areas of inquiry. This approach does not imply that all actors are identical. Rather, it affords the identification of their distinct roles in the value cocreation process in a systemic context, by not attributing predefined roles. Additionally, it enhances sub-disciplinary research, by offering a common, transcending orientation through which more insightful studies can be implemented.

The *systems turn* reflects a shift from a network to a system orientation, as captured in the context of the service ecosystem. This implies moving beyond a focus on the “consumer-producer” dyad as the basic unit of analysis towards that of triads—the smallest unit of analysis for a system. This approach enables the observation of more dynamic forms of exchange reflecting two relationships across three (or more) actors, in which actors interact directly and reciprocally with another while also operating as an intermediary or are influenced by, and influence, another party (e.g., partner, competitor). Acknowledging a third party in an exchange relationship reveals complementary and noncomplementary roles.

The *institutional turn* in S-D logic recognizes the critical role of institutions to enable exchange and value cocreation under cognitive and time constraints. Institutions are humanly devised resources that can be continually integrated to assemble and reassemble the social context. Due to their rule-like and taken-for-granted nature, institutions also have constraining properties that limit behavior. However, when shared by actors, institutions function as coordinating mechanisms that facilitate resource integration and hold the service ecosystem together, generating a network effect that results in increasing returns. Markets, that make up the economy and are made up of diverse submarkets, are considered “institutionalized solutions” as they emerge, stabilize and change through an ongoing process of *institutional work*—the intentional creation, maintenance and disruption of institutions.

Lastly, the *multi-levels turn* builds on the systems and institutional approach by considering various levels of analysis and theorization. S-D logic distinguishes between *levels of aggregation*, which relate to the perspective taking of phenomena (i.e., micro-, meso-, macro-levels) and *levels of abstraction*, which consider distinct levels of specificity in theorization (i.e., micro-theoretical, midrange-theoretical, meta-theoretical; Vargo and Lusch, 2017).

Perhaps somewhat counterintuitively, given the above, S-D logic supports a flat-world view—that

is, the micro-, meso-, and macro-levels of observation simply reflect different levels of aggregation of the same phenomenon, which can be used for analytical purposes. Although these levels can be observed independently of each other, they are inherently connected. For example, countries, societies, markets, organizations (i.e., meso- and macro-level entities) cannot exist independently of the individual actors that constitute them (i.e., micro-level entity). Therefore, S-D logic places equal focus across all levels of aggregation. One needs to oscillate focus among these analytical levels of aggregation to fully understand a particular phenomenon. In terms of level of abstraction, S-D logic has predominantly focused on meta-level theory development. However, as the metatheoretical development of the S-D logic narrative becomes increasingly developed, institutionalized and articulated, there is increasing attention being paid towards lower-level theories (of abstraction).

As an extension and elaboration of these conceptual turns, particularly the systems turn, a series of orientations are beginning to take place in S-D logic research. Acknowledging service ecosystems as *complex-adaptive systems*, and value cocreation as complex adaptive processes, S-D logic will increasingly draw from complexity theory, which studies open, non-linear, dynamic systems, comprising many components that continually adapt to the changing environment. Service ecosystems emerge from and often comprise a number of moving parts that organize themselves through feedback mechanisms that are understandable or not random but not completely predictable, i.e., complex. Relatedly, S-D logic is increasingly focusing on *emergent phenomena*—systemic characteristics that result from the interaction of its constituents (actors) that is not attributable to any of those constituents, what is often captured in something like “the whole is more than just the sum of its parts”. Examples in business are value, brand meaning, innovation and markets. Emergent phenomena are best observed by zooming out to a higher level of aggregation than the phenomena of interests.

As a framework that aims to simplify a complex world and lend itself to transdisciplinary research, S-D logic is characterized by four overlapping characteristics: transcending, unifying, accommodating and transformative. S-D logic reflects a *transcending mindset* due to its ability to resolve tensions and paradoxes in G-D logic—e.g., reconciling producers vs. consumers as resource integrators, subsuming tangible vs. intangible goods

(services) as service. S-D logic is *unifying* in that it aims to organize diverse existing knowledge through a common set of concepts, lexicon and framework by uncovering commonalities rather than highlighting differences. S-D logic is also *accommodating* as it builds on, and is compatible with, various research streams from within (e.g., consumer culture theory (CCT), relationship marketing) as well as beyond the marketing field (e.g., institutional theory, practice theory, systems thinking). Lastly, S-D logic is *transformative*, as it prompts questions and reveals insights often unattainable through a G-D logic.

S-D logic originated in academic marketing and has made significant impact on research in marketing in general, its sub-disciplines, as well as other business disciplines. Although the S-D logic narrative emerged as a perspective or lens for thinking, numerous scholars are beginning to consider S-D logic as converging toward a *theory of the market*, and more broadly, as an overarching framework for theorizing both market and nonmarket value cocreation. Thus, S-D logic has found wide applicability, not only in other business and economic disciplines but also in areas as diverse as civil engineering, information systems, sports, tourism, philosophy and the arts.

ANGELINE NARISWARI AND STEPHEN L. VARGO

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