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Contents lists available at ScienceDirect

Australasian Marketing Journal

journal homepage: www.elsevier.com/locate/amj

Editorial

Practices, systems, and meaning-making: An introduction to the special section on markets and marketing

When Bob Lusch and I had the first article on what has now become known as service-dominant (S-D) logic, “Evolving...” (Vargo and Lusch, 2004), published in the *Journal of Marketing*, and again in subsequent publications (e.g., Lush and Vargo, 2006), we suggested that S-D logic might serve as a foundation for a general theory of marketing. Around the same time, it began to become clear that there was something even more fundamental needed: a general *theory of the market*. Some of the awareness of this need for a theory of the market was spurred by the insight of Venkatesh et al. (2006) in their observation that “markets are everywhere and nowhere in marketing.” That is, in marketing academics, we use the term “market,” but have never adequately studied what a market is and how it works. Since then, we have noted that a number of similar calls for the need to define and (re)conceptualize the “market” and understand its role in society (e.g., Araujo, 2007; Callon, 1998; Kjellberg and Helgesson, 2007).

Some of these issues were discussed during and following an S-D-logic-focused special session at the Academy of Marketing Science World Conference in Verona, Italy in 2007. The creation of the Forum on Markets and Marketing (FMM) was an outcome of those insights and discussions. It is intended that FMM will be held every two years.

The first FMM, with a subtitle of “Extending Service-Dominant Logic,” was sponsored by the University of New South Wales in Sydney and hosted and co-chaired by Roger Layton in December 2008 – FMM 2010 is sponsored by Cambridge University and hosted by Irene Ng. The meta-issues addressed in the FMM 2008 call for papers were:

- Marketing, Markets and Value(s)
- Markets and Marketing Systems
- Grand or General Theory of Markets and Marketing

The articles in this special section of the *Australasian Marketing Journal* were developed from working papers and presentations from that forum. Additional FMM 2008 related papers are being published, along with a commentaries by me, in special sections of three other journals; these include:

European Journal of Marketing

- “A Stakeholder Perspective of the Value Proposition Concept,” Pennie Frow and Adrian Payne
- “Dynamics of Value Propositions: Insights from Service-Dominant Logic,” Christian Kowalkowski
- “Towards a Theory of Marketing Systems,” Roger A. Layton
- “Markets as Configurations,” Kaj Storbacka and Suvi Nenonen

Journal of Macromarketing

- “Property Rights Design and Market Process: Implications for Market Theory, Marketing Theory and S-D Logic,” Michaela Hasse and Michael Kleinaltenkamp
- “The Integrative Justice Model for Marketing to the Poor: An Extension of S-D Logic to Distributive Justice and Macromarketing,” Gene Laczniak and Nicholas Santos
- “A Stakeholder-Unifying, Co-Creation Philosophy for Marketing” Robert F.Lusch and Fred Webster

Marketing Theory

- “Theorizing about Service-Dominant Logic: The Bridging Role of Middle Range Theory,” Roderick J. Brodie, Michael Saren and Jaqueline Pels
- “Contextualization: Network Intersections, Value-in-Context and the Co-creation of Markets,” Jennifer D. Chandler and Stephen L. Vargo
- “Position and Potential of Service-Dominant Logic – Evaluated in an “Ism” Frame for Further Development,” Helge Löbler
- “Leveraging Insights from Consumer Culture Theory and Service-Dominant Logic: The Nature and Processes of Market Co-creation in Triple Bottom Line Firms,” Lisa Peñaloza and Jenny Mish

Toward a theory of the market

In a previous article in this journal, “On a Theory of Markets and Marketing: From Positively Normative to Normatively Positive” (Vargo, 2007), I outlined the issues behind the need for a closer look at the market(s) in order to advance marketing. The basic argument is that, whereas marketing, essentially by definition, has a normative purpose, normative decision making should be built on a more “positive” theory of the market. However, marketing’s foundation is actually based on economic science, which, in turn, is built not so much on how markets work but rather on Smith’s (1776) writings about what nations needed to do to become wealthy in the context of the Industrial Revolution: *The Nature and Causes of the Wealth of Nations*. In that context, Smith reasoned that the road to wealth was through the creation and export of surplus tangible goods and, thus, those activities that created these tangible goods were designated as “productive.” This identification of “productive” activities, essentially excluded *all* other activities, such as legal, military, government, and most of

what would now be known as marketing activities (with some exception), which were designated “unproductive,” not because they were not useful, or even essential, to human wellbeing but simply because they did not contribute to national wealth through creation and export of surplus tangible goods. For various path-dependent reasons, it was this production and product-centered orientation that provided the foundational orientation for economic science and, later, for marketing (see Vargo and Morgan, 2005).

Bob Lusch and I (e.g., Vargo and Lusch, 2004, 2008) have called the underlying orientation that developed from this “production” focus “goods-dominant (G-D) logic,” an orientation in which economic exchange is primarily understood in terms of goods, and contrasted it with S-D logic. The specifics of S-D logic are discussed extensively elsewhere (e.g., Vargo and Lusch, 2004, 2008) and will not be dealt with in depth here but the essence is that economic activity is primarily concerned with *service* – the *application of competences* (e.g., knowledge and skills) for the *benefit of another party*. That is, *service is exchanged for service*. In S-D logic, benefit, or *value*, is always determined by the beneficiaries (e.g., “customers”), which are always involved in its *co-creation*, through the integration of resources, gained through service, with other available market-facing, public, and private resources, in the context of their own lives. Thus, value – a measure of benefit – is always heterogeneous. S-D logic represents a shift from a traditional focus on static, tangible resources – what we call *operand resources* – to dynamic resources, like knowledge and skills, that are capable of co-creating value, what we call *operant resources*.

In addition to the need for a better understanding of the market as a foundation for better normative theory building for marketing, as suggested above and in Vargo (2007), shifting from a G-D logic to an S-D logic orientation, raises another issue for thinking about markets. In G-D logic, markets are defined in terms of types of goods (tangible or intangible) involved. However, in S-D logic, markets must be defined in terms of the benefits provided, as assessed by the beneficiary. This makes rethinking the meaning of and approach to understanding markets challenging.

Unfortunately, as noted, there is relatively little meaningful research within marketing to further the understanding of the market. Exceptions can be found in some of the work of the Industrial Marketing and Purchasing (IMP) Group (e.g., Håkansson and Snehota (1995) – networks as markets – and in the marketing systems work of Layton (2007); there are other exceptions. Some insight can also be found in economics, especially in the work of Simon (1996) and others in “new institutional economics” (North, 2005; Williamson, 2000). However, perhaps the best source of insight can be found in contemporary economic sociology and the sociology of the market, particularly as it has culminated in “practice theory,” a loosely defined, general approach usually connected with the work of Bourdieu (1990), Callon (1998), Giddens (1984), Granovetter (1973), Reckwitz (2002), and Slater (2002), with influence from other disciplines.

Meaning-making practices

Practice theory focuses on human activities that cause transformations and thus is similar to, but, mostly un-reconciled with the activity-based (operant resource) orientation of S-D logic. The underlying perspective is that simultaneously enacted, patterned activities of actors create the social structures that we call markets, as well as the context in which additional practices are performed.

Arguably, the most developed of these practice approaches in marketing can be found in the work of Kjellberg and associates (e.g., Araujo, 2007; Kjellberg and Helgesson, 2007), though there are others (e.g., Schau et al., 2009). The Kjellberg and Helgesson model posits that actors perform three basic practices: *exchange*

practices, *representational practices*, and *normative practices*. The process of performing these practices is an iterative one in which the development of rules for the conduct, creation of concepts for understanding, and execution of actual exchange practices mutually impact each other – that is, they are mutually translated through each other.

In “Practices as Markets: Value Co-creation in E-invoicing,” in this issue, Korkman, Storbacka, and Harald make one of the first explicit connections between S-D logic and practice theory and investigate it in the context of e-invoicing service. Their article centres on the resource-integration tenet of FP9 (Vargo and Lusch, 2008) – all social and economic actors are resource integrators – and identifies practices as resource-integration activities that lead to value creation. Customers are identified as primary resource integrators and socio-cultural resources are recognized as critical resources that are integrated. Notably, the authors argue *firms are extensions of customer resource-integration practices*, rather than the more conventional notion that customers are extensions of firm activities. The role of the firm, then, is to first provide resource-integration proposals through value propositions and then to assist customers in their resource-integration practices, if these value propositions are accepted.

As noted, the practices approach meshes well with the operant-resource focus of S-D logic but Korkman et al. are quick to point out that practices are more than just actions or processes; they have a contextual component and need to be understood systemically. This is consistent with the intention of the “value-in-context” re-labeling and extending of “value-in-use” (Vargo et al., 2008), which is also grounded in the resource-integration tenet of S-D logic, including the resource-embeddedness implications associated with its ninth foundational premise (FP9). Korkman et al. suggest that this practices interpretation enriches S-D logic, especially by providing insight into resource-integration practices that result in value creation and recommends that S-D logic adopt a practices approach that will assist in the assessment of the “value of a market by analyzing use value of practices that are carried out in a market viewed as a network of interdependent actors (a value creating system)” – that is, by understanding “*practices as markets*” – and thus “promoting a socio-cultural view to value co-creation”.

Legal and marketing systems and service ecosystems

Though taking a somewhat different approach, in “Systemic and Service Dominant Socio-Economic Development: Legal, Judicial and Market Capacity Building in Bangladesh,” Pecotich, Rahtz, and Shultz similarly explore the marketing system’s (Layton, 2007) role in value creation for numerous stakeholders in the context of legal practices in Bangladesh. While not expressed in terms of practice theory, the study can be conceptualized in terms of the relationship between *normative practices* and *exchange practices* at a macro level of analysis. They conclude that “the success of any marketing system is dependent upon the extent to which rules exist to ensure equitable exchanges and societal well-being” and that “markets and their processes ultimately interact with the other institutional elements of societies and, in essence, play reciprocal roles in the evolution of many of the structures and processes of a given society”. This view also meshes well with and informs the service ecosystem perspective recently discussed in S-D logic (e.g., Lusch et al., 2010; Vargo and Lusch, 2011).

Pecotich et al. argue that this view is consistent with and extends both S-D logic’s “network-with-network,” “resource-integration,” and “service-for-service” orientation and Layton’s (2008) system-embedded service dominant (SESD) model. They suggest that these orientations and their analysis offer a framework applicable to an array of institutions, enabling a more robust and effective contribution to the greater societal wellbeing of nations.

Behaviors

Ertimur and Venkatesh, investigate the interplay of normative and exchange phenomena at a micro and meso level of analysis in “Opportunism in Co-Production: Implications for Value Co-Creation.” They tie their analysis to S-D logic primarily through FP6 – value is always co-created” and look specifically at the potential negative consequences (for the firm) of this key S-D logic tenet.

More specifically, they investigate opportunistic behavior in the context of “co-production” – the collaborative creation of the value proposition – and link it to the “co-creation of value” – the related conceptualization of the more complex, systemic nature of the value-creation process (for firm, customer, and other resource integrators). Thus, they extend the conceptual links between these nested components of the co-creation process.

Rather than using practices theory, they frame their inquiry in terms of consumer culture theory (CCT), along with S-D logic, to provide perspective and use the “consumption cycle” – the “full range of consumers’ pre- and post-acquisition behaviors through which value is derived from the integration of marketer- and consumer-provided resources” (Arnould 2006, p. 294). Importantly, this CCT orientation includes “meaning-making activities” including both “exchange meanings” and “use meanings,” which they suggest better informs the co-production and co-creation link. Thus, in practice theory terms, this study extends its investigation to “representational practices.”

The focal, applied concern is how to “govern” customer relationships in the context of co-production. As with Korkman et al., the necessary shift in perspective is understanding that the firm is assisting the customer in value-co-creation, rather than the value-creation driver, though this is more explicit with Korkman et al. Consistent with Wathne and Heide (2000), Ertimur and Venkatesh’s analysis reveals two types of opportunistic behaviour: *active* – distortion of information and violation of social contracts – and *passive* – withholding of information – in the context of co-production. They conclude that opportunistic behaviours are driven by goal incongruity, mediated by information asymmetry and social disagreement.

Continuing the evolution

As noted, the purpose of FMM was to begin the conceptualization and understanding of markets, especially as viewed from an S-D logic orientation. Each of the three articles of this special issue contribute significantly to that purpose by (1) using S-D logic for a fresh perspective and orientation on specific market-related issues and (2) then supplementing this perspective through a link with an additional theoretical perspective – specifically, practices theory, a marketing-systems orientation, and CCT. Each has also contributed by provided an empirical investigation of market activity from an S-D logic perspective.

I see the joint outcome as part of a continuing series of contributions to an understanding of markets in terms of value co-creation through service-for - service exchange among resource integrating actors that, in turn can contribute to a better-informed

marketing practice. I encourage readers to see the other FMM 2008 related articles in the three other journals, as well as S-D logic related articles elsewhere and, most importantly, to provide their own contributions.

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