SPECIAL SECTION ON EXTENDING SERVICE-DOMINANT LOGIC

INTRODUCTION

Market systems, stakeholders and value propositions

Toward a service-dominant logic-based theory of the market

Stephen L. Vargo
University of Hawaii at Manoa, Honolulu, Hawaii, USA

Abstract

Purpose – This paper aims to provide an overview of the *European Journal of Marketing*'s special section on the Forum of Markets and Marketing, "Extending Service-Dominant Logic".

Design/methodology/approach – The approach takes the form of a conceptual integration of core concepts in S-D logic, markets, and marketing.

Findings – This special section provides insight into the complexity of markets by investigating markets as configurations and systems and how value propositions drive value co-creation.

Research limitations/implications – This introduction to the special section integrates individual contributions toward advancing S-D logic and suggests that additional research in this area will help to develop a general theory of markets and marketing.

Practical implications – The overview of this special section provides insight into how the development of a positive theory of the market(s) will help to further advance normative marketing theories and practice.

Originality/value – This overview of the special section integrates multiple perspectives on complex, dynamic systems and discusses their contributions to the development of an S-D logic-based theory of the market.

Keywords Marketing theory, Market system, Integration

Paper type Literature review

The first article on what has become known as "service-dominant (S-D) logic", "Evolving to a new dominant logic of marketing" (Vargo and Lusch, 2004), was published in the *Journal of Marketing* in 2004. In the relatively short period since then, there have been at least a half-dozen S-D-logic-focused conferences, a dozen S-D-logic-focused special issues (or sections) in journals, hundreds of S-D-logic-grounded articles, and countless related presentations by an increasing number of scholars from around the world and from diverse disciplines, all in addition to the dozens of articles and presentations in which Bob Lusch and I have participated. There have also been thousands of citations and cross citations of this growing body of S-D logic-related work.

As would be expected, this work has reflected both positive and skeptical, and in some cases openly critical views, from various authors. This is as it should be and,

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taken as a whole, has resulted in the collaborative work-in-progress that constitutes S-D logic, which is broader in scope and more deeply rooted than initially offered. Some of that breadth and depth was consolidated in "Service-dominant logic: continuing the evolution" (Vargo and Lusch, 2008), in a special issue of the *Journal of the Academy of Marketing Science*. In all of our efforts, our purpose has been to identify, find, converge, and point toward a logical extension of conceptual and perceptual shifts taking place in apparently diverse research streams, especially, though not exclusively, in marketing. This evolution seems to point to a somewhat different foundational understanding of the role of exchange in human systems than the more dominant foundation that has emanated from early economic philosophy and science.

The 2008 Forum on Markets and Marketing: Extending Service-Dominant Logic was intended to further advance this collaborative process. Two key goals motivated it:

(1) Beginning to nudge S-D logic from framework to theory.

(2) Extending the theoretical domain from marketing to markets.

Both of these goals require some elaboration.

Developing S-D-logic-based theory

In its initial and current form, S-D logic represents a "pre-theoretic" lens or perspective for viewing the economic (and social) world differently from the traditional microeconomic view, what Bob Lusch and I have called "goods-dominant (G-D) logic" (e.g. Vargo and Lusch, 2008). Thus, S-D logic does not yet constitute theory. However, S-D logic does operate as a framework for developing theory, at a paradigm level or way of thinking about how the world works (although we have consistently disclaimed paradigm status). Although S-D logic is not a theory per se, we do believe that building theory from an S-D logic foundation is the ultimate goal.

Our initial discussion of developing theory based on S-D logic focused on a general theory of marketing (see Lusch and Vargo, 2006). However, it has been suggested by a number of scholars, both studying S-D logic (e.g. Penaloza and Venkatesh, 2006, see also Venkatesh *et al.*, 2006) and elsewhere (e.g. Araujo, 2007; Callon, 1998; Kjellberg and Helgesson, 2007), that an essential first step toward a theory of marketing is developing a theory of the market. We (Bob Lusch and I) agree.

I have acknowledged and discussed the need for a developing a theory of the market(s) in order to advance a general theory of marketing in "On a theory of markets and marketing: from positively normative to normatively positive" (Vargo, 2007). At the heart of this issue is the nature of market-ing, which, by definition, has a normative purpose. Arguably, normative decision making regarding marketing should be built on "positive" theory (i.e. of the market) (Hunt, 1991). However, marketing's foundation is actually built on economic science, which, in turn, is build on Smith's (1776) normative views 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.

Smith argued that the road to national wealth was the production and export of surplus tangible goods and designated those activities that created tangible goods as "productive". This identification of "productive" activities was based on Smith's goal of increasing national wealth and the context (e.g. rise of the industrial revolution) at that time. With his designation of particular activities as "productive", Smith

essentially designated all other activities, such as legal, military, government, and most of what would now be known as marketing activities (with some exception) as "unproductive". They were classified as "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. It was Smith's focus on "productive" activities that established the G-D logic foundations for economic science and, later, for marketing (see Vargo and Morgan, 2005).

The challenges of developing an S-D-logic-based theory of markets and marketing 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 Forum on Markets and Marketing was one of the outcomes of these discussions. The first FMM (2008) was sponsored by the University of New South Wales in Sydney and hosted and co-chaired by Roger Layton in December 2008. The second FMM (2010) is sponsored by Cambridge University and hosted by Irene Ng. This bi-annual forum was created with the purpose of simultaneously developing S-D-logic-based theory and advancing our understanding of markets and marketing.

Toward a general theory of the market

The articles in this special section of the *European Journal of Marketing* were developed from working papers and presentations from the 2008 Forum on Markets and Marketing, which centered on "Extending service-dominant logic". The meta-issues in the call for papers included:

(1) Marketing, markets and value(s).

(2) Markets and marketing systems.

(3) Grand or general theory of markets and marketing.

Additional FMM 2008 papers are being published, along with commentaries by me, in special sections of three other journals. These are:

(1) *Australasia Marketing Journal*:

- "Practices as markets: value co-creation in e-invoicing", Oskar Korkman, Kaj Storbacka, and Bo Harald.
- "Systemic and service dominant socio-economic development: legal, judicial and market capacity building in Bangladesh", Anthony Pecotich, Don Rahtz, and Clifford Shultz.
- "Opportunism in co-production: implications for value co-creation", Burcak Ertimur and Alladi Venkatesh.

(2) *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.

(3) *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.

The four articles in this special section contribute to the major FMM initiatives and move S-D logic closer to a theory of the market(s), and marketing, by considering markets as complex configurations and systems, and by more deeply investigating how value propositions drive value co-creation.

S-D logic is essentially a value-co-creation model that sees all actors as resource integrators, tied together in shared systems of exchange – service ecosystems or markets. In this way, markets are characterized by mutual value propositions and service provision, governed by socially constructed institutions. Frow and Payne explore the complexity of these systems through the investigation of the relationship between value propositions and value creation among various stakeholders. The purpose of their paper, "A stakeholder perspective of the value proposition concept", is to identify how the value proposition concept, when viewed from the context of the broader system, rather than a dyad, provides new insight into value creation within a value network. They develop a five-step process for identifying key stakeholders and co-creating value propositions for them within a marketing system:

(1) Identify stakeholders.

(2) Determine core values.

(3) Facilitate dialogue and knowledge sharing.

(4) Identify value co-creation opportunities.

(5) Co-create stakeholders value propositions.

In "Markets as configuration", Storbacka and Nenonen draw on the "Nordic School" of marketing, the work of the Industrial Marketing and Purchasing Group (IMP) and their "markets-as-networks" orientation, industrial organization, economic sociology, a resource-based view of the firm, and practice theory, as well as S-D logic to further develop the understanding of markets as socially constructed configurations. Consistent with S-D logic, at the heart of these configurations are resource-integrating actors (Vargo and Lusch, 2008) involved in mutual value co-creation, conceptualized in terms of use value, through density creation. Storbacka and Frow advance a research agenda to address the questions of:

(1) How can the size of a market be assessed.

(2) What is the price formation mechanism in co-created market configurations.

(3) Are there generic design themes for market and business model configurations.

(4) What is the performative power associated with different elements of market configurations.
(5) What are the evolutionary and development paths of market configurations.
(6) What is the role of the configurative elements in the various stages of development of market configurations.
(7) Are there specific actor capabilities that influence the shape market configurations?

In a somewhat similar vein, Layton's article, "Towards a theory of marketing systems", focuses on the marketing system as the central unit of analysis. For Layton, a marketing system is defined as:

- a network of individuals, groups and/or entities;
- embedded in a social matrix;
- linked directly or indirectly through sequential or shared participation in economic exchange;
- which jointly and/or collectively creates economic value with and for customers, through the offer of;
- assortments of products, services, experiences and ideas; and
- that emerge in response to or anticipation of customer demand.

Like Storbacka and Nenonen's configuration, this marketing system is socially constructed but Layton emphasises the role of institutions and the dynamic, and thus heterogeneous and multi-level nature of the marketing systems in which exchange is embedded. He argues that fully understanding these systems requires micro, meso, and macro perspectives.

In "Dynamics of value propositions: insights from service-dominant logic", Kowalkowski takes a somewhat more focused approach, in a mostly business-to-business context, by investigating the emphasis of value-in-exchange and value-in-use in value propositions. In his study, Kowalkowski develops four guiding principles for developing value propositions, based on an S-D logic perspective. He proposes that:

(1) Value propositions with an emphasis on value-in-use are more likely to address the needs of multiple evaluators than those with an emphasis on value-in-exchange.
(2) The relative emphasis on value-in-use and value-in-exchange will normally change over time during the sales process.
(3) The discrepancy between value-in-exchange and value-in-use is lower for offerings in which value-in-exchange manifests itself as continuous financial feedback linked to value creation for customers than for other types of offerings.
(4) The closer the relationship between customer and provider, the more the emphasis of the value proposition can be placed on value-in-use.

The articles in this special section of the *European Journal of Marketing*, together with those in the three related journal special sections, begin to develop S-D-logic-based

theory and contribute to a deeper understanding of understanding of markets and marketing. I encourage readers of this and other related special sections to contribute their own ideas and research to continuing the development of a theory of the market(s) to strengthen the foundation and further advance the discipline of marketing.

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About the author

Stephen L. Vargo is a Shidler Distinguished Professor and Professor of Marketing at the University of Hawaii at Manoa. His primary research areas are marketing theory and thought and consumers' evaluative reference scales. He has had articles published in the *Journal of Marketing*, the *Journal of the Academy of Marketing Science*, the *Journal of Service Research*, and other major marketing journals and serves on six editorial review boards, including the *Journal of Marketing, Journal of the Academy of Marketing Science*, and the *Journal of Service Research.* He has been awarded the Harold H. Maynard Award by the American Marketing Association for "significant contribution to marketing theory and thought". Stephen L. Vargo can be contacted at: svargo@hawaii.edu