



S-D  
Logic

# Transforming Business Models with Technology and Innovations

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**Frontiers in Service Conference**

Bergen, Norway  
June 26, 2016

**Stephen L. Vargo**

Shidler Distinguished Professor

Shidler College of Business, University of Hawai'i

# Reframing Business Model, Technological & Innovation Thinking: An S-D Logic Perspective



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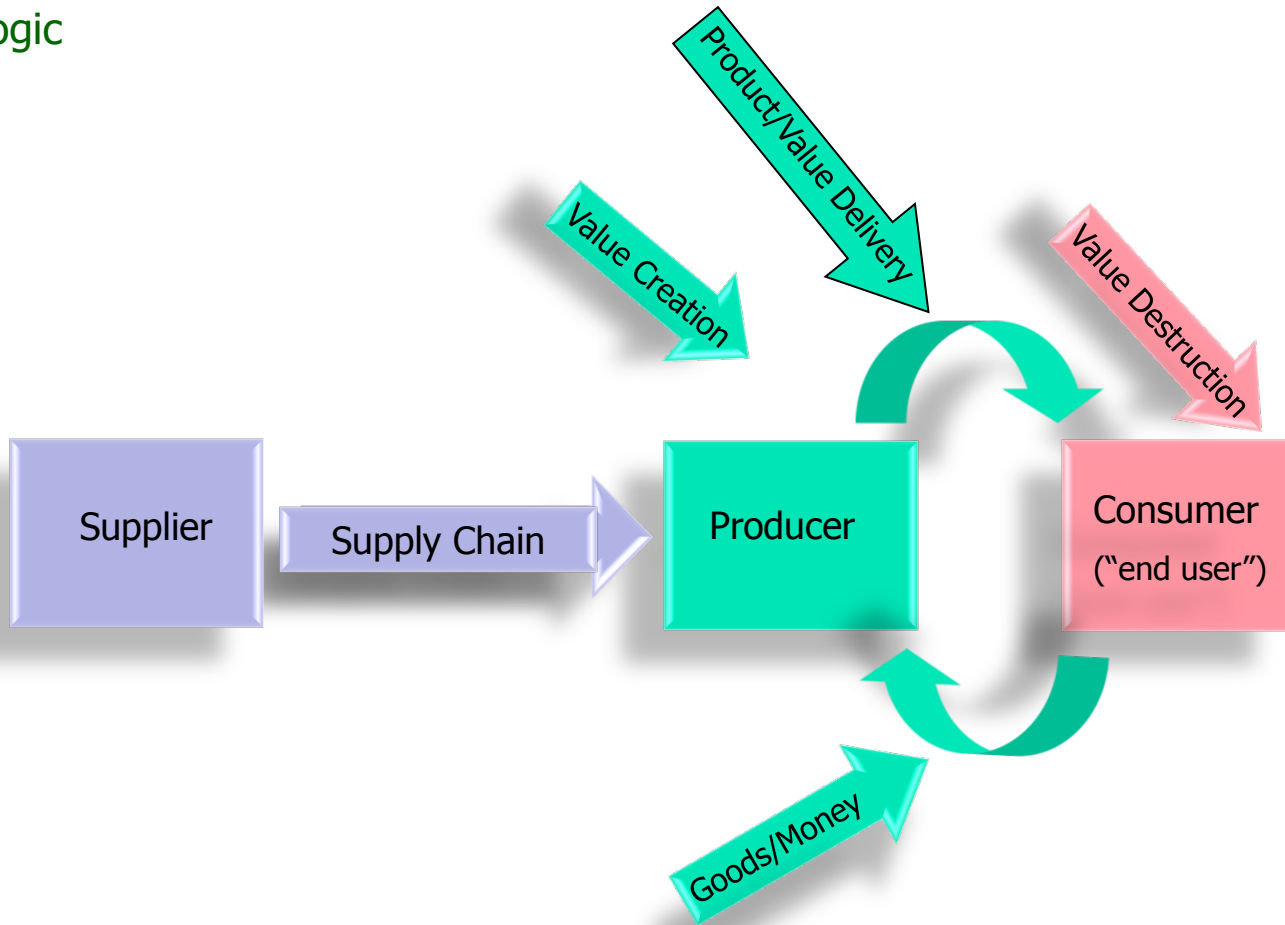
Shidler Distinguished Professor

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# Goods-Dominant Logic Model: Value Production and Consumption



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# Rethinking Goods and Service(s)

## Wrong Thinking about Goods: **Good are not why we buy goods**

- **Service** (benefits) they provide
- **Intangibles** (brand, self image, social connectedness, meaning)
- **Inputs** into holistic **experiences**

## Wrong Thinking about Service: **"Services"** Stated as types of Goods

- Value-enhancing **add-ons** for **goods**, or
- A particular (somewhat inferior) **type of good**: intangible output

## **"Right thinking"** About **Service**: The S-D logic perspective

- **Service** is a **process**, not a unit of output
  - **Using** one's resources for **another's benefit**
- **Goods** are **delivery mechanisms** for **service**
- **Customers** are not "end users"
  - just **other service providers** (employees, parents, CEOs, etc.)



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# **THE SERVICE-DOMINANT LOGIC PERSPECTIVE**



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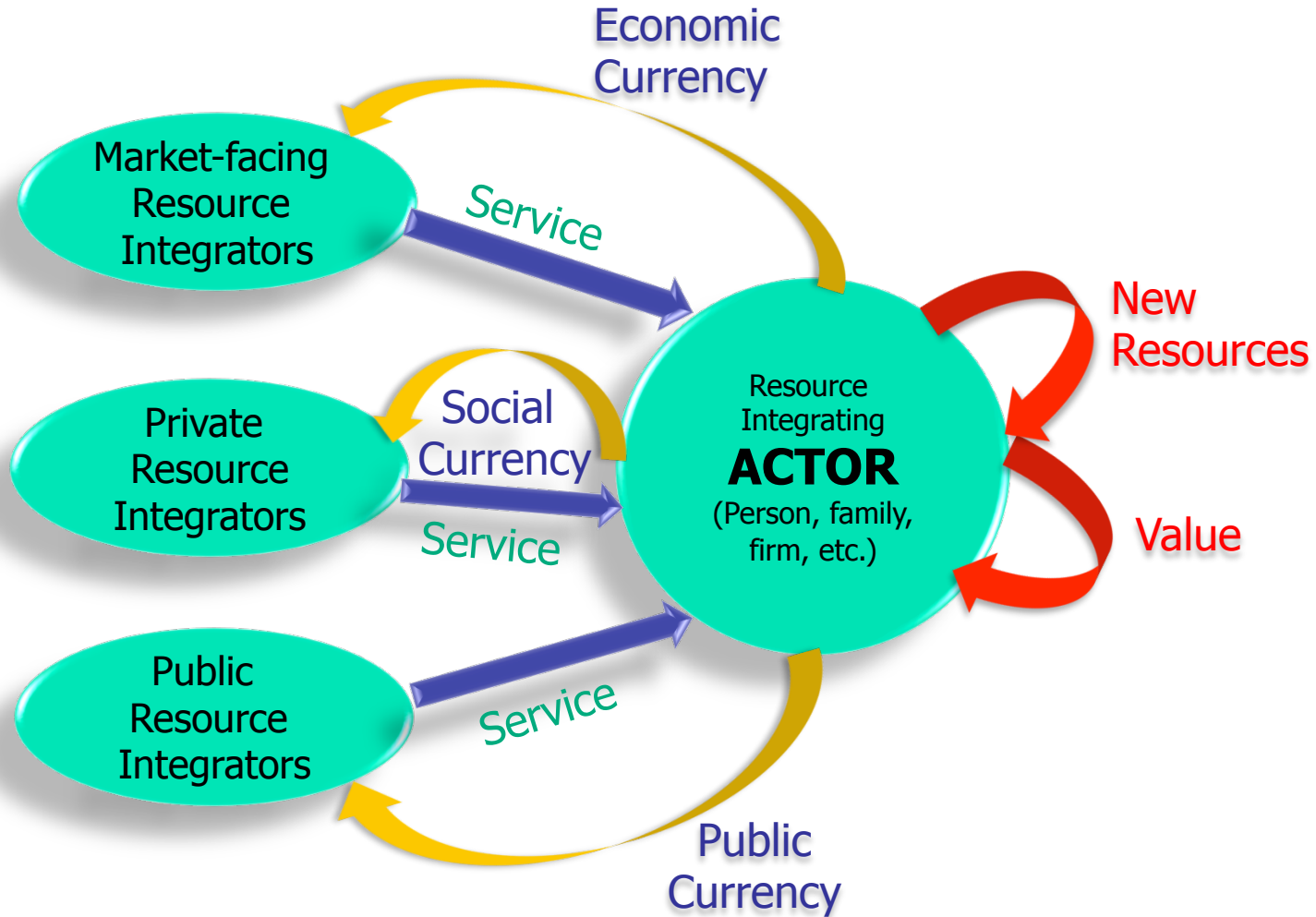
# Axioms of Service-Dominant Logic

Premise		Explanation/Justification
<b>A1</b>	<b>Service</b> is the fundamental basis of exchange.	The application of operant resources (knowledge and skills), "service," is the basis for all exchange. Service is exchanged for service.
<b>A2</b>	<b>Value is always cocreated by multiple actors, including the beneficiary</b>	Implies value creation is interactional and combinatorial.
<b>A3</b>	<b>All economic and social actors are resource integrators</b>	Implies the context of value creation is networks of networks (resource-integrators).
<b>A4</b>	<b>Value is always uniquely and phenomenological determined by the beneficiary</b>	Value is idiosyncratic, experiential, contextual, and meaning laden.
<b>A5</b>	<b>Value cocreation is coordinated through actor-generated institutions and institutional arrangements</b>	Institutions provide the glue for value cocreation through service-for-service exchange

# Value Co-creation through Resource Integration & Service Exchange



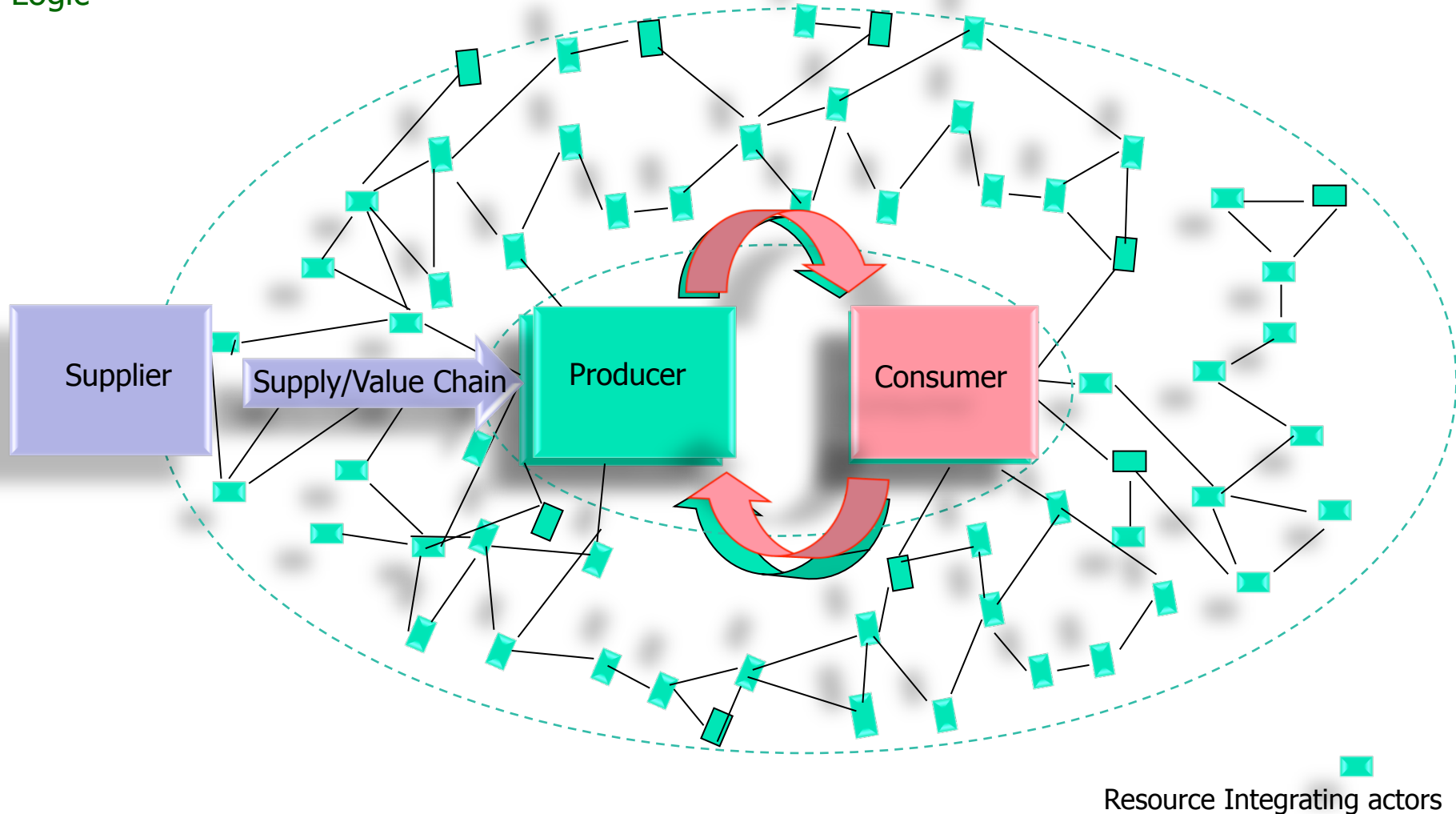
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# Micro Exchange Embedded in Complex (Eco)Systems of Exchange



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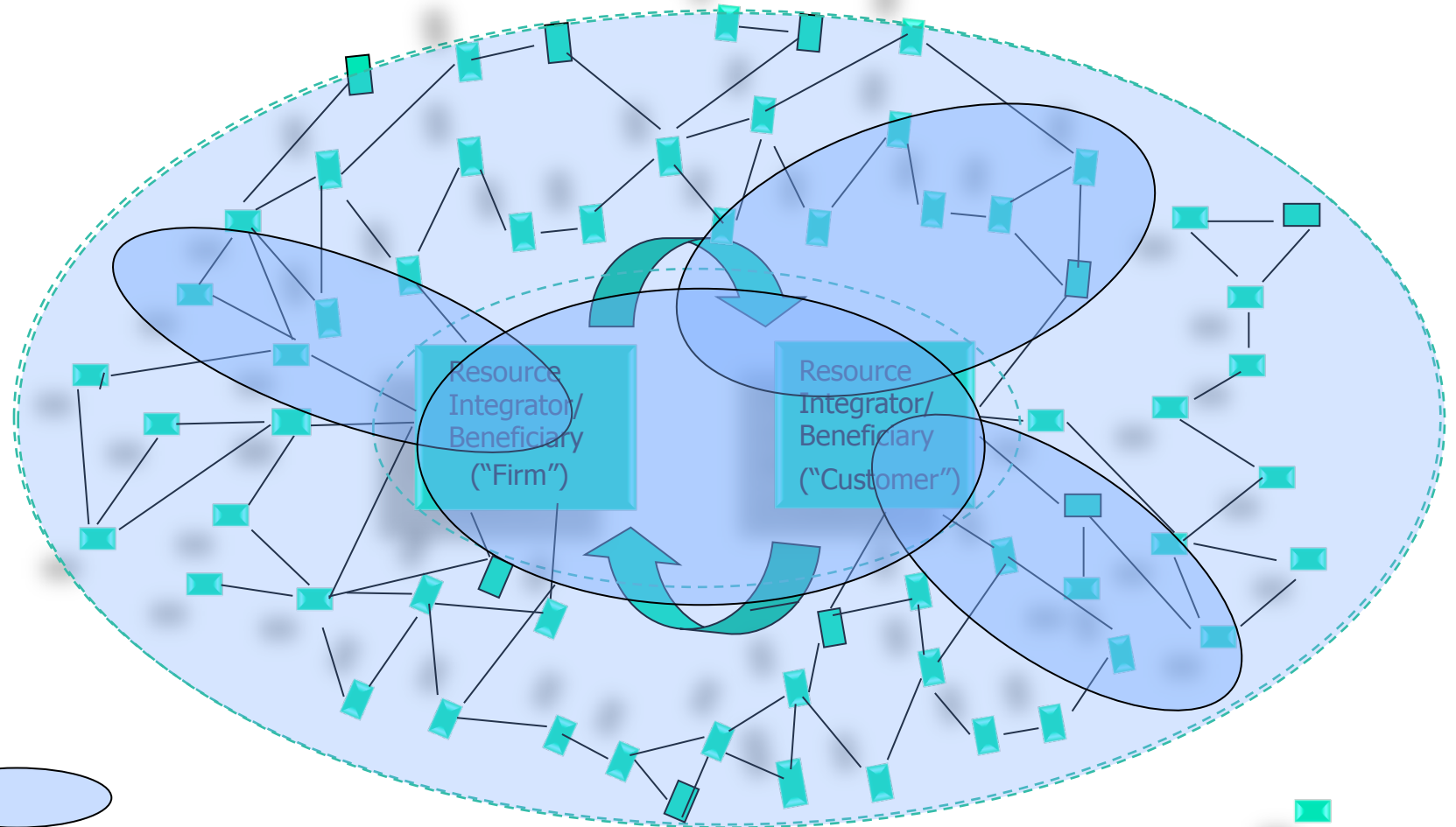




# Resource Integration & Service-for-service Exchange within Service-ecosystems



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Institutions & Institutional  
arrangements/logics

Resource Integrators

# The Structure and Venue of Value Creation: Institutions & Service Ecosystems



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## Institution

- “any **structure or mechanism** of social order and **cooperation** governing the behavior of a set of individuals within a **given human community**.”

- (Stanford Encyclopedia of Social Institutions)

## Service Ecosystem (S-D logic)

- relatively self-contained, **self-adjusting systems** of **resource-integrating actors** connected by **shared institutional arrangements** and **mutual value creation through service exchange**.

# Resource Integration & and the Structuration of Service Ecosystems



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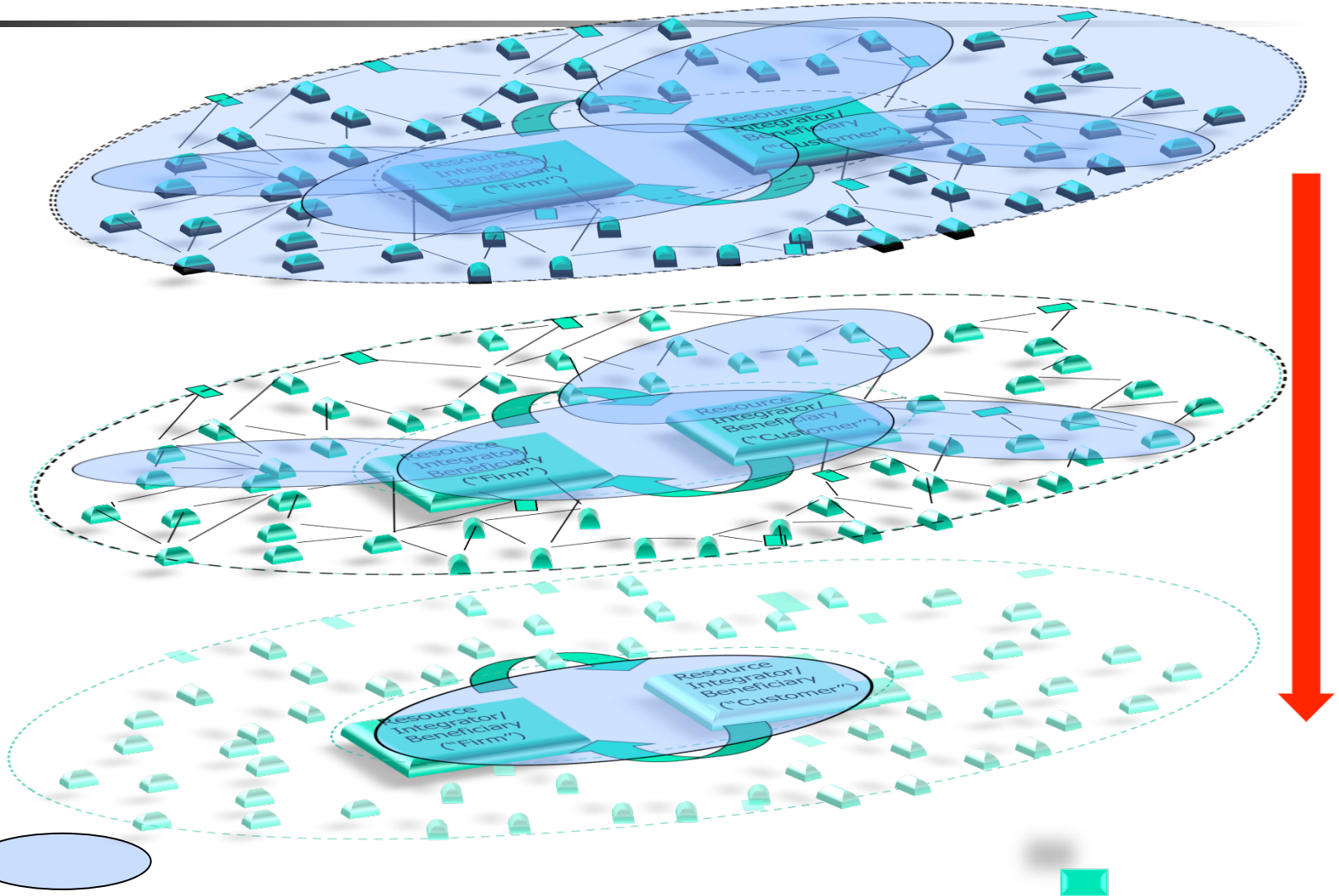
Macro



Meso



Micro



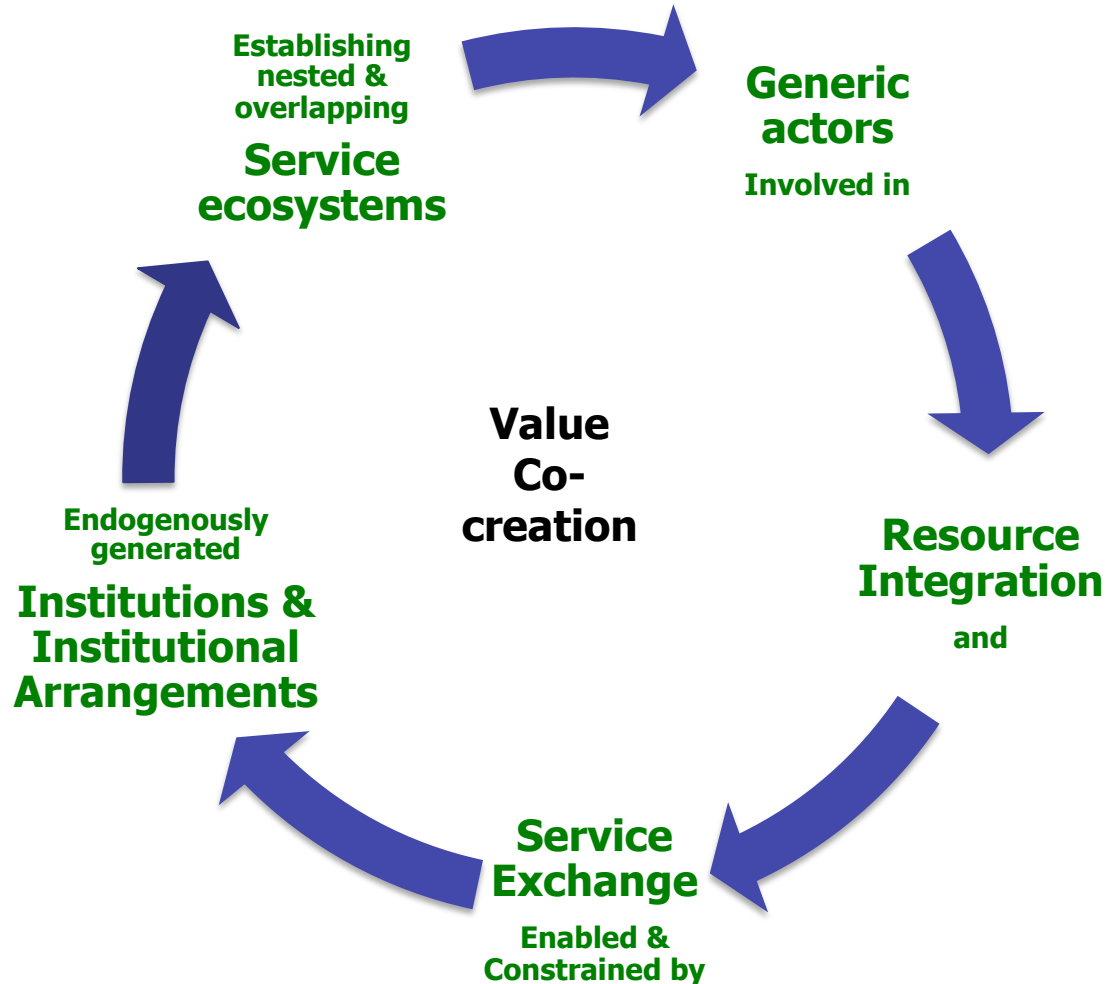
Institutions

Resource Integrators

# The Core Narrative & Processes of Service-Dominant Logic



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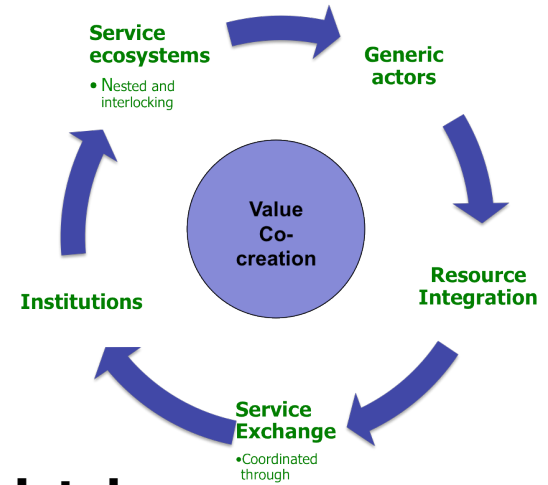


# "Hip-Pocket" S-D Logic



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Components  
& Structural Perspectives



**Societal:**  
National, Global, etc

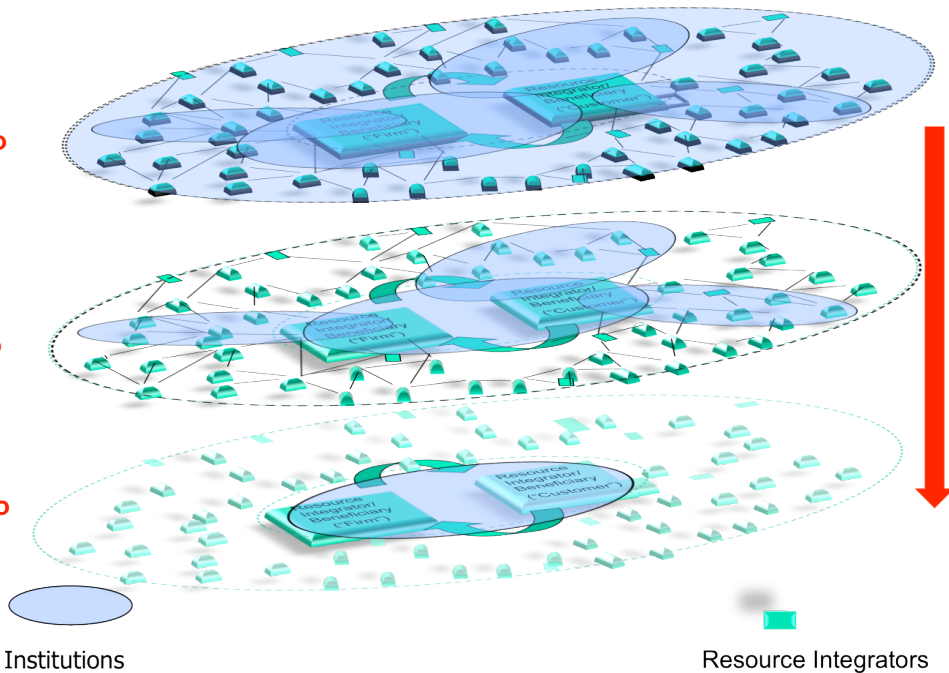
**(Sub)culture:**  
Brand, Market, "industry, etc

**Exchange**  
B2C, B2B, C2C, etc

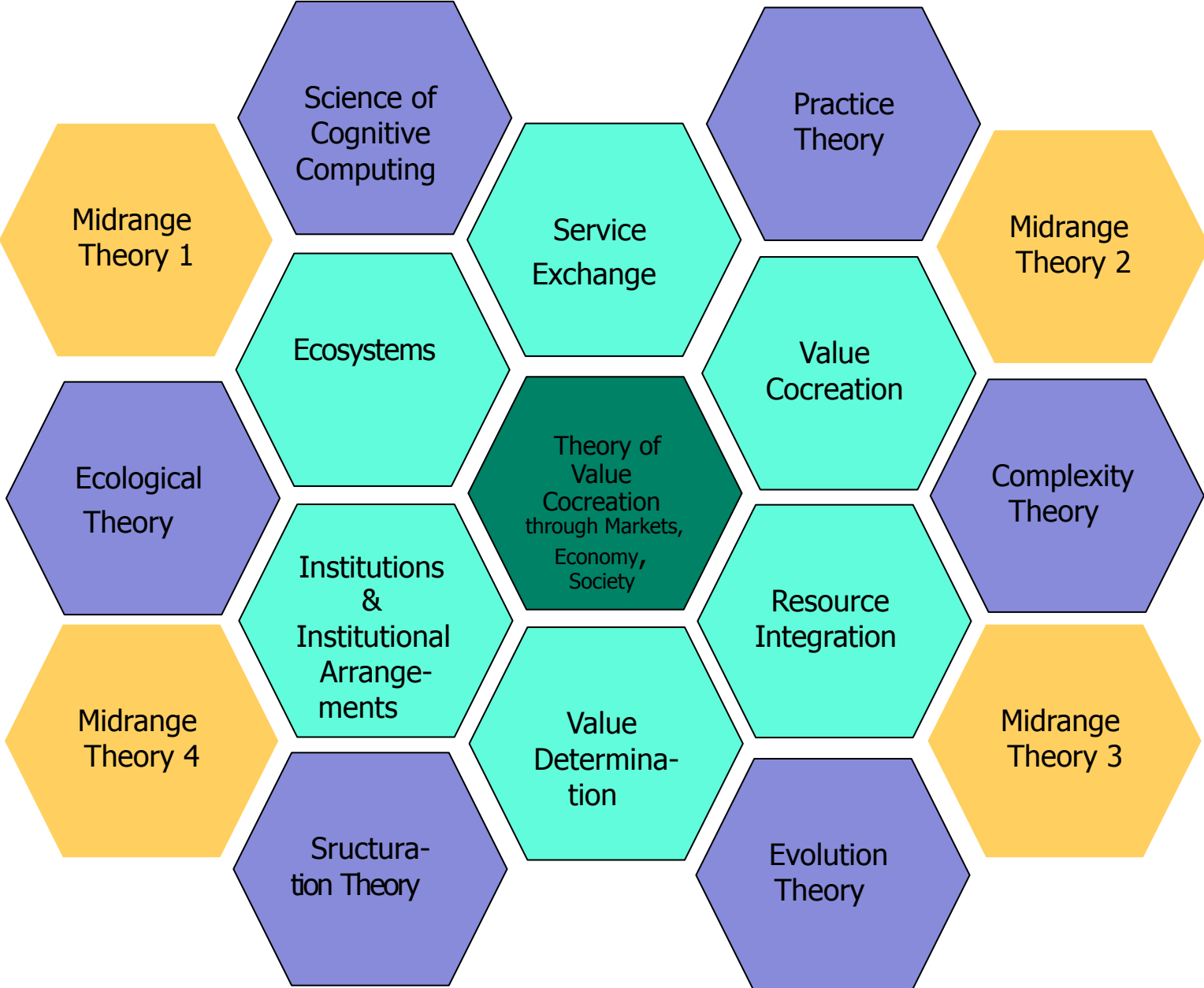
Macro

Meso

Micro



# Broadly Drawing from...





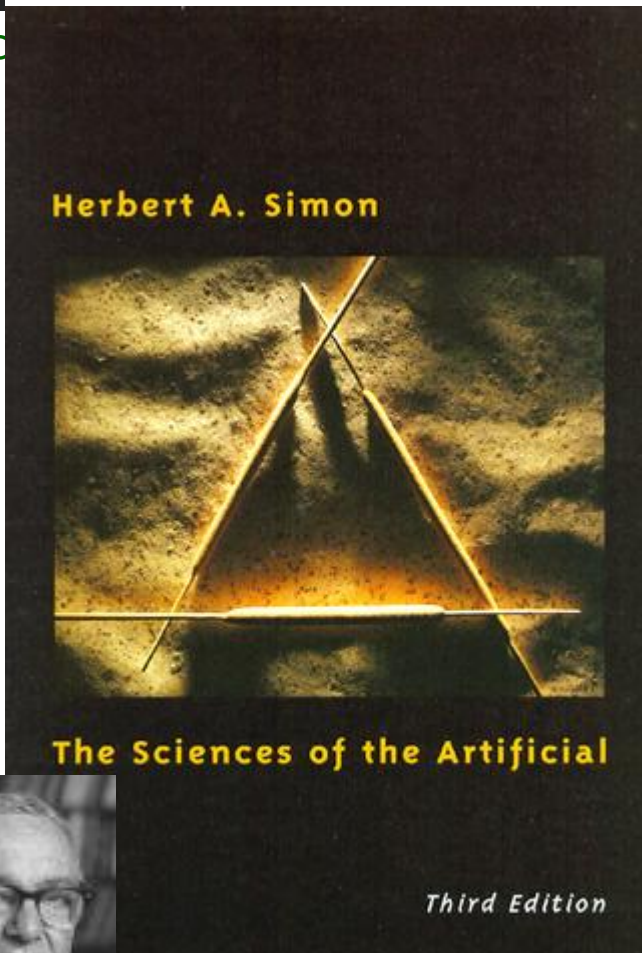
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# **INSTITUTIONS AND INSTITUTIONAL WORK**



# The Sciences of the Artificial

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- The **world we live in** is much more a man-made, or **artificial** one, than it is a natural one
  - The significant part consists **mostly of artifacts**, called **symbols** (p. 2)
- 'Judgment' is a **heuristic search**
  - The real-world economic actor is a **satisficer**, who accepts good enough, because (optimization) is not a choice.(p. 29)
- **Markets and organizations** are **social schemes** that facilitate coordinated behavior, **conserving** the critical **scarce** resource of **human ability** to handle complexity (p. 49)



# Institutions as the Building Blocks of Social Science



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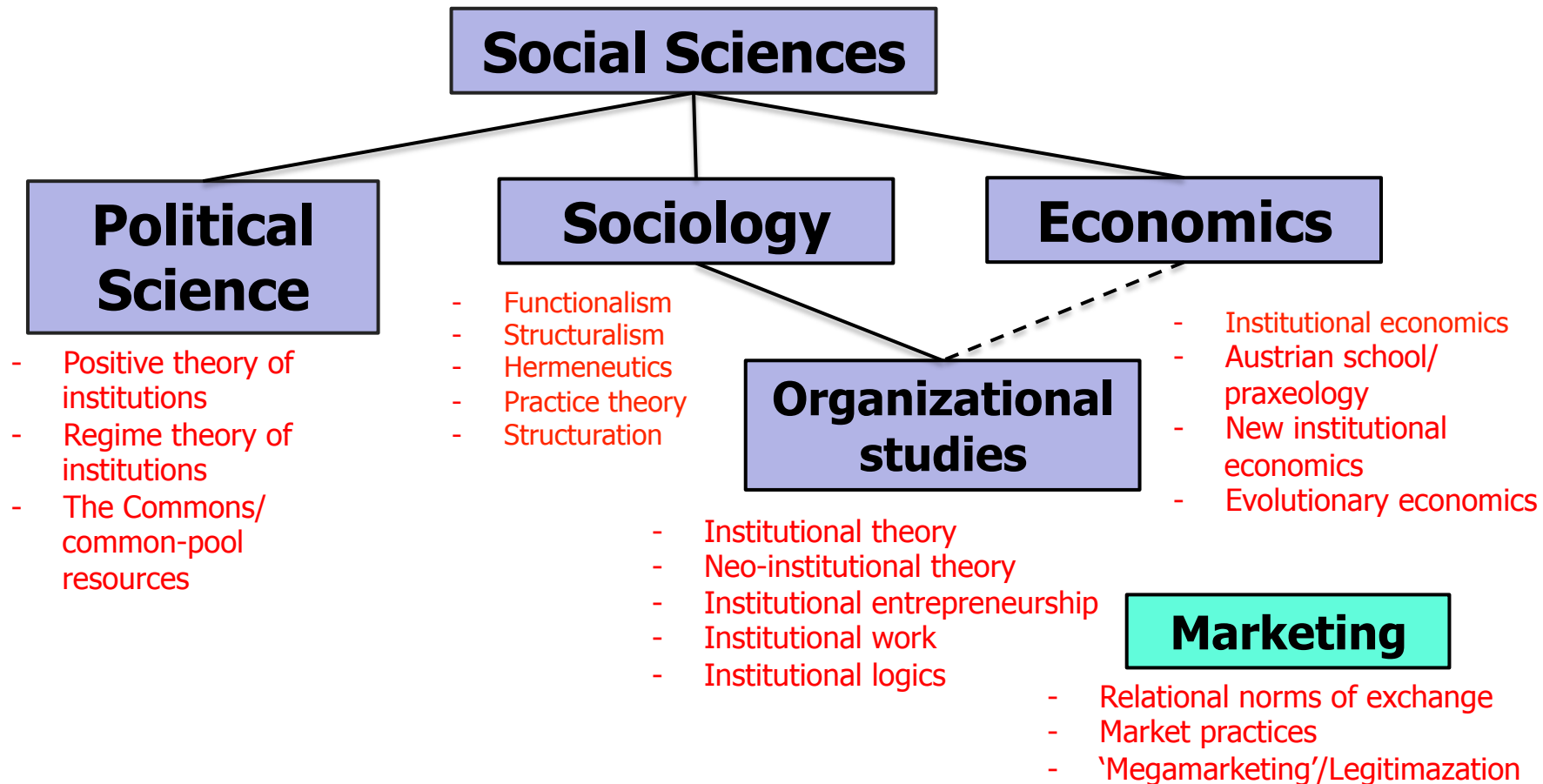
- “The discovery of the **inescapable evidence** of the **interdependence of market phenomena** overthrew [the] opinion that there was in the course of **social events no regularity and invariance** of phenomena [as found in] “**natural phenomena**”... (von Mises, 1949 p. 2).
- “One must study the **laws of human action** and **social cooperation** as the physicist studies the **laws of nature**” (von Mises, 1949 p. 3).
- Can we **dig below** the immense **diversity of regularized social interactions** in markets, hierarchies, families, sports, legislatures, elections, and other situations to **identify universal building blocks** used in crafting all such structured situations?  
**Yes.** (Ostrom 2005)
- The **diversity** of regularized social behavior that we observe at multiple scales is **constructed from universal component** organized in many layers. (Ostrom 2005)
- **Institutions** are both the “**recursive organizers**” of practices and the “**practices** with the greatest time-space extension.” (Giddens 1984, p. 17)

# Formal Institutional Theory Across Disciplines



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- "Greater divisions exist within than between disciplinary camps." (Scott 2000, p. 2)



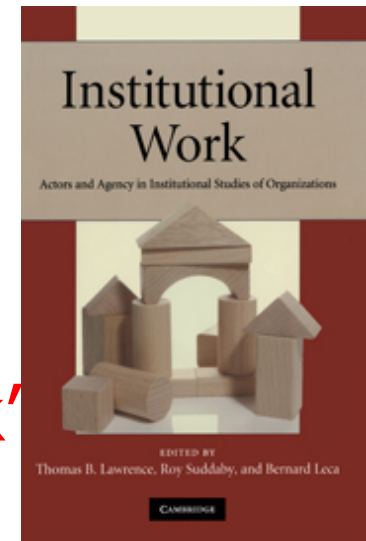
# Innovation: The S-D Logic Perspective



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Continual **creation of new markets** by:

- **Leveraging** existing service institutions/ ecosystems
- Dynamically **reconfiguring** service ecosystems
- **Creating** new ecosystems
- In short: doing “**institutional work**”





# Institutional Work

Interplay of Actors, Agency, & Institutions

Development

- **Isomorphism** – institutional dominance
- **Agency** – Individual intention
  - Especially specialized: “**intuitional entrepreneurs**”
- **Structuration**: Duality of agency and structure

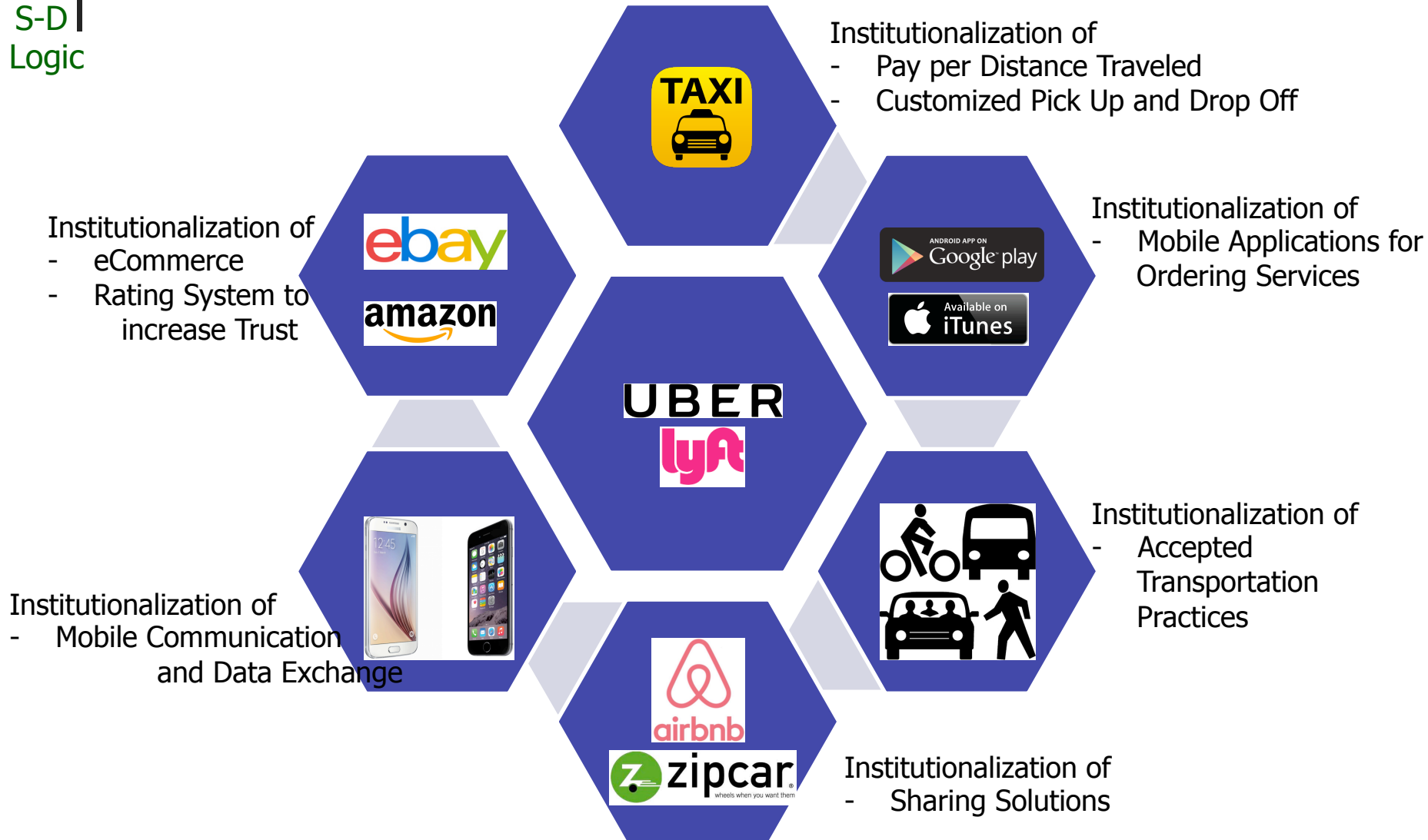
Institutional work = intentional form of structuration

- **Maintenance** of institutions
- **Disruption** of institutions
- **Creation** of institutions



# Complimentary Institutionalizations and Upstream Adoptions Processes for UBER and Lyft

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# Select Institutional Work by Uber/Lyft: Maintenance, Disruption and Change



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## **Institutions**

### **maintained:**

- Pay for Distance Traveled
- Customized Pick Up and Drop Off
- Use of traditional Cars
- Etc.



**UBER**  
**lyft**

## **Institutions**

### **disrupted :**

- Professional Drivers
- Cash Payments
- Flagging Down
- Regulated Industry
- Etc.

## **Institutions**

### **changed :**

- Rating System of Driver and Passenger
- Payment in Cloud
- Etc.



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# An Institutional Perspective on:

Technology



(Market) Innovation



Business Models



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# TECHNOLOGICAL INNOVATION





# The Meaning of Technology

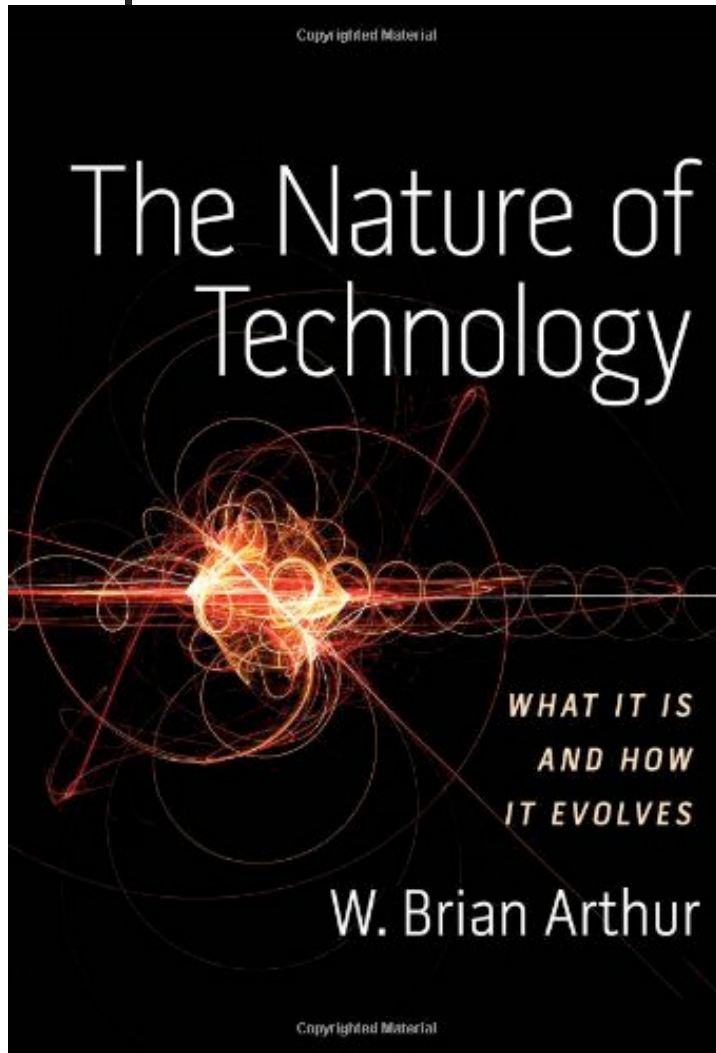
## ■ Definitions

- A means to **fulfill a human purpose**
  - Arthur (2009)
- **Useful knowledge**
  - Mokyr (2002)
- The **application of scientific knowledge** for practical purposes
  - Oxford New American Dictionary

## ■ And relationship to **service**

- **Use of competences** (knowledge and skills) for another's benefit
- Service = **applied, beneficial technology** (operant resources)

# Arthur on New Technologies: Resource Integration



## **Combinatorial Evolution**

"A novel technology emerges always from accumulation of previous components and functionalities already in place." (p. 124)



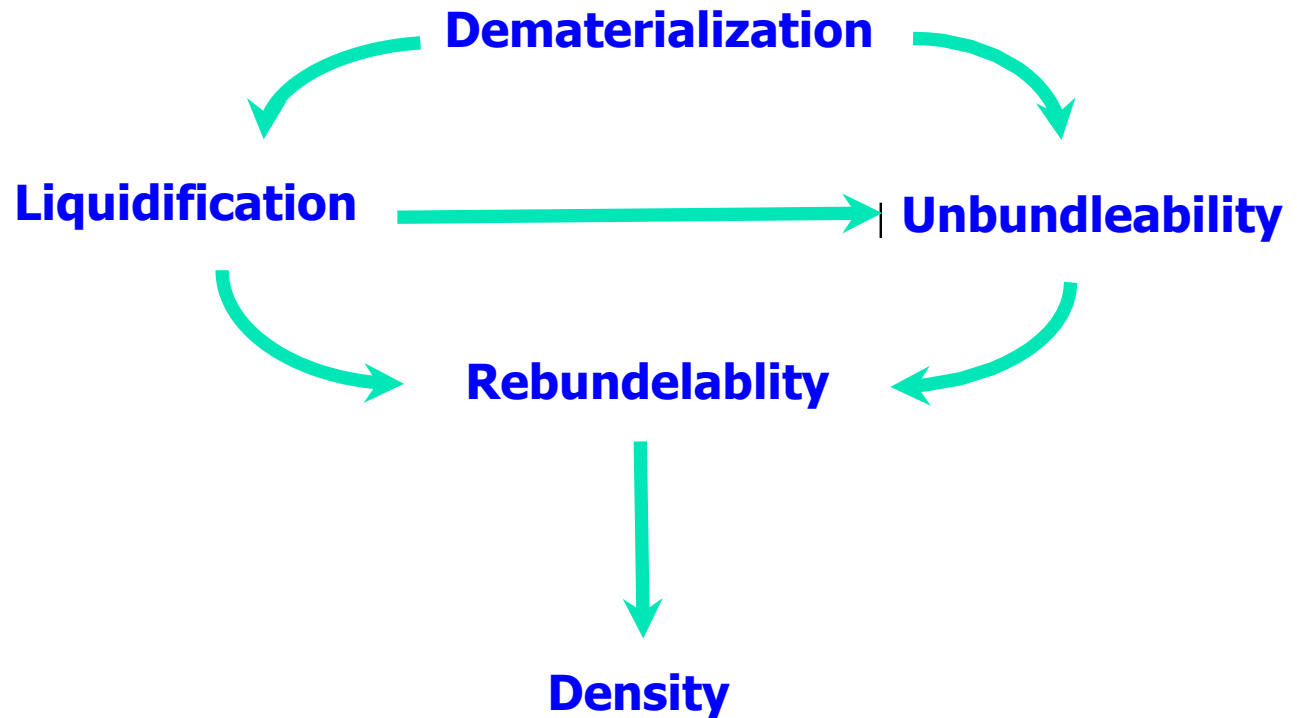
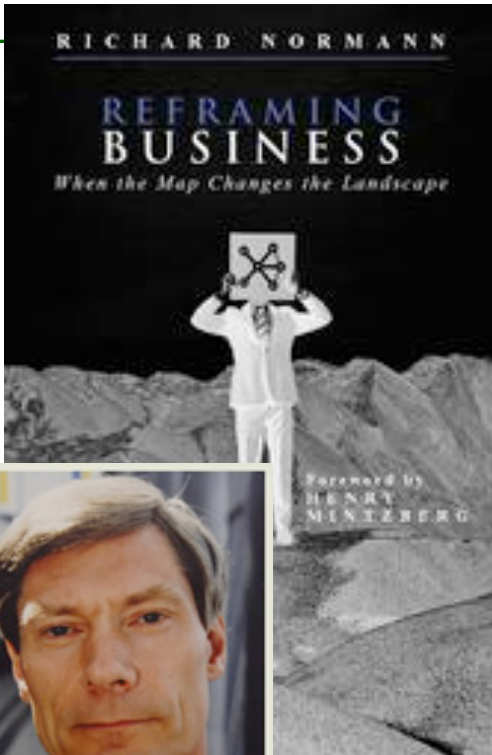
**More generally, the combinatorial evolution of institutions**



# What has Changed: Liquification

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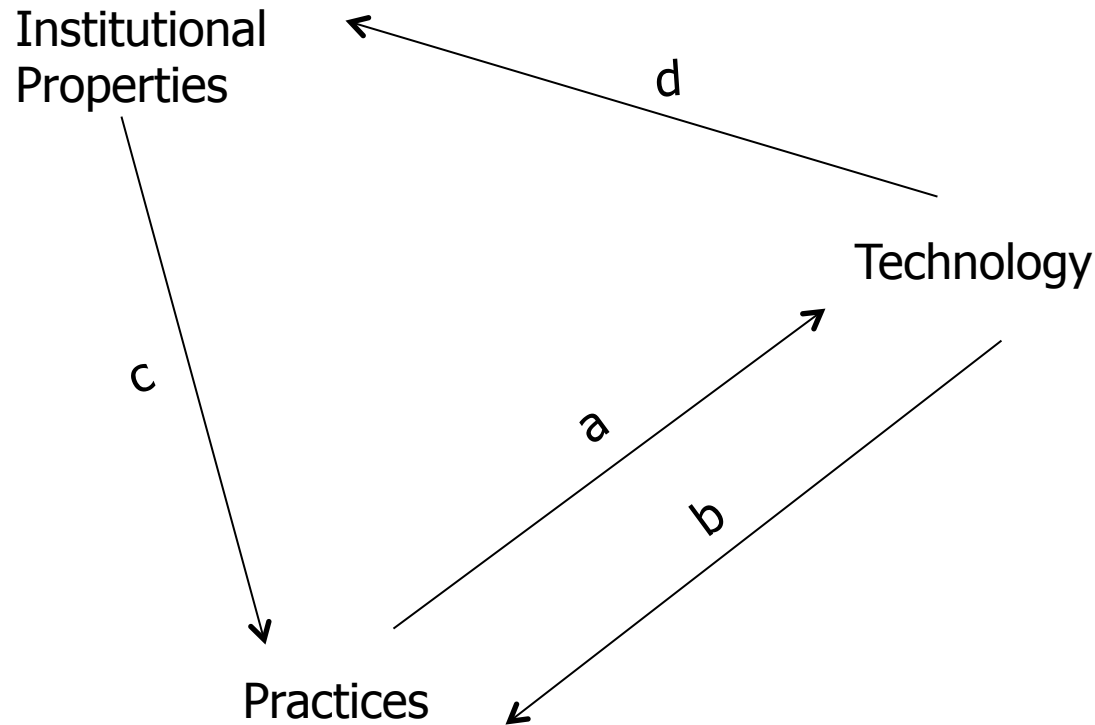


There is no services revolution;  
there is a service revelation, based on an IT and ICT revolution

# A Structurational Theory of Technology



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- a) Technology as a product of human influence
- b) Technology as a medium of human action
- c) Institutional Conditions of Interaction with IT
- d) Institutional Consequences of Interaction with IT

Adapted from Orlikowski 1992, p. 441



# Duality of Technology

## Technology as an Operand Resource

- Technology as a **product of human action**
- The **outcome of design, development, appropriation and modification** ( function of both "design" and "use")

## Technology as an Operant Resource

- Technology as a **medium of human action**
- **Institutions** (norms, meanings, understandings) associated with technology **enable it to influence action**
- The **introduction/acceptance** often requires **changes in daily practices**
  - can result in **changes in institutional and institutional arrangements**



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# MARKET INNOVATION



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# Where was the Market...?

“Why  
would  
anyone  
want...”

A horseless carriage (Model T)

Talking movies

A Television

A Personal computer

A Microwave oven

The Internet

An iPod

# Implications for Understanding the Market



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- There are no (a priori) **markets**
  - There are just micro-level, service exchanges
    - gifts, generalized reciprocity, service-for-service
- There is **a market system**:
  - transitory, **contextual configurations of resources and exchanges**, sometimes linked by **institutions**
- ...and hence markets **can “exist”**
  - They can:
    - Be **envisioned** --images of service potential
    - become **institutionalized** -- Intersubjective realities
  - Thus, **markets** become **performed** within the **Market**
    - They exist because we act like they do
    - “Markets are functions of marketing” (and other business practices)



# A Market as an Institutionalized Solution



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Quasi-predictability



De-institutionalization  
Re-institutionalization

# Some implications of S-D Logic for Innovation/ and Design



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- Invention of things is a special case
  - More generally, **we design institutions**
    - **Common solutions, markets**
    - **Meanings, symbols – facilitators of cooperation**
- Innovation is a **resource-integration** function
  - New innovation comes from **recombinations**
- Innovation is not just a specialized function
  - **Everyone is a innovator/designer**
- The **chief innovator** is the value **beneficiary** (e.g., the customer)
  - Thus, **innovating for innovators**



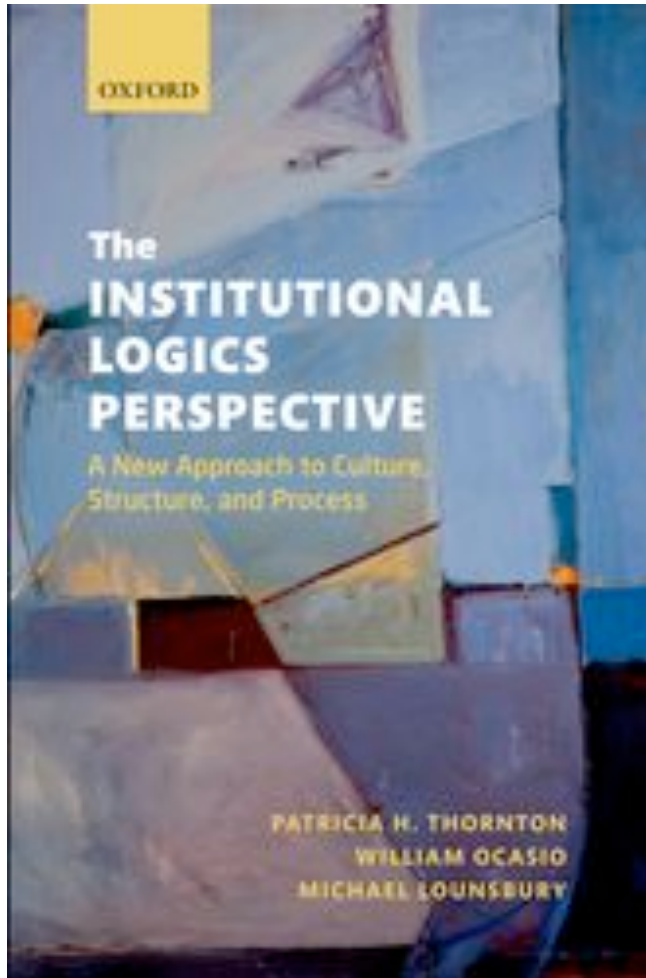
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# **BUSINESS MODEL INNOVATION**



# Institutional Logics

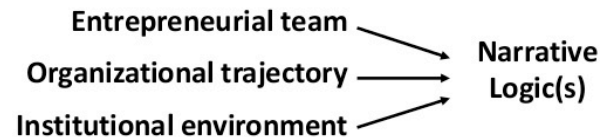
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## Reframing Organizational Institutionalization

“socially constructed, historical patterns of cultural symbols and material practices, including assumptions, values, and beliefs, by which individuals and organizations provide meaning to their daily activity, organize time and space, and reproduce their lives and experiences”

### Working model



# Common Themes in Business Model Thinking

(Zott, Amitt, and Massa 2011)



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Emerging as a **new unit of analysis**

Emphasize a **systems-level, holistic approach**

**Firm activities play important role**

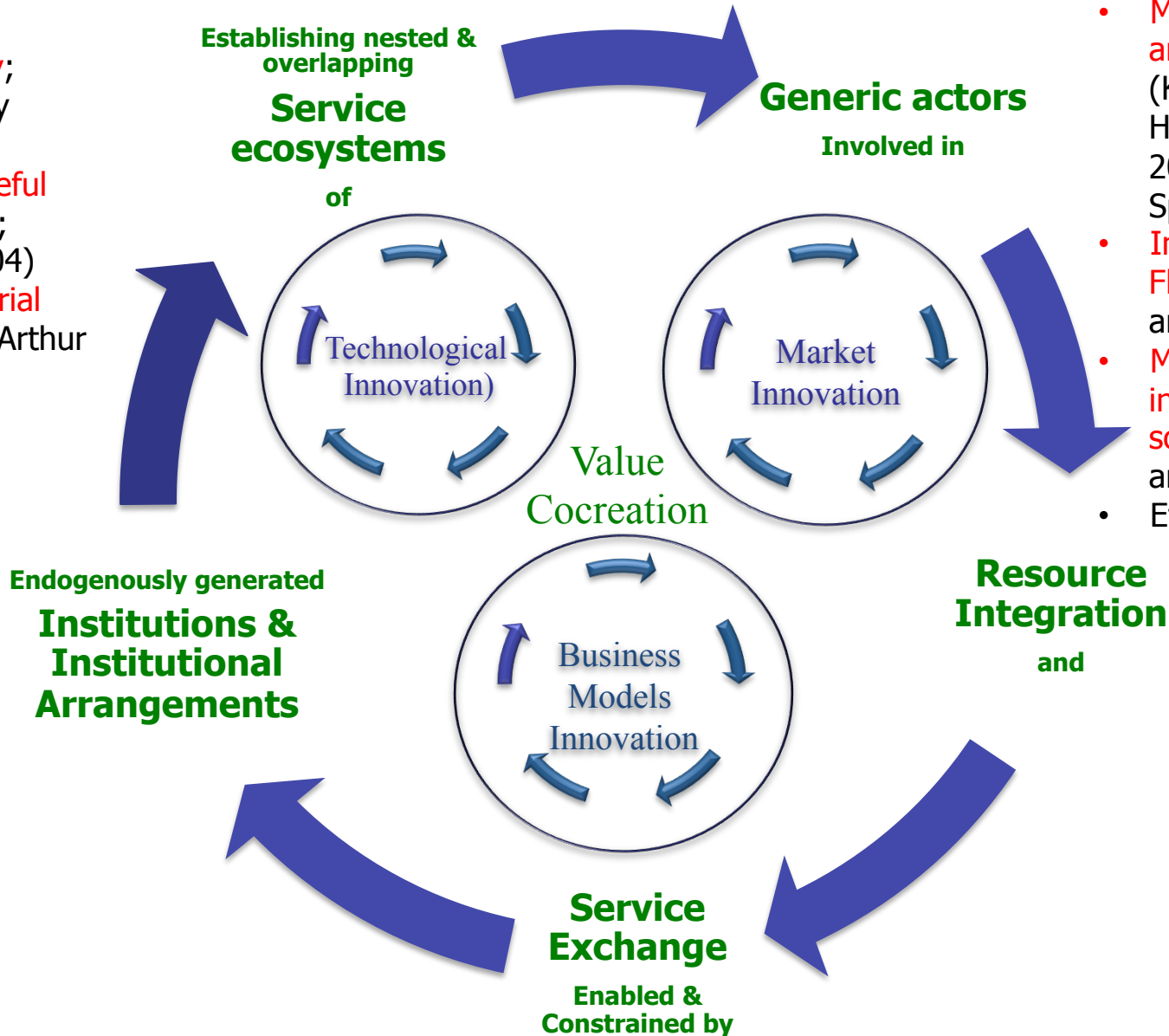
Seek to explain **how value is created (i.e., cocreated)**

# Technology, Market Innovation & Business Models: A Partial Reconciliation

Technology	Market Innovation	Business Models	S-D Logic
Tech as useful knowledge; (Mokyer 2002)	Market practices and performativity (Kjellberg and Helgesson 2006; 2007; Araujo and Spring 2006)	seek to explain how value is created (not just how captured (Zott et al. 2011)	<b>Service Exchange</b>
Duality of Technology; (Orlikowsky 1992) Social Construction of technology (Pinch & Bijker 1984)	Markets as institutionalized solutions (Vargo and Lusch 2014)	The "institutional logic" of the firm (e.g., et al. 2012)	<b>Institutionalization</b>
Combinatorial Evolution (Arthur 2011)	Interpretive Flexibility; (Pinch and Bijker 1984)	Business model innovation (Chesbrough 2007) Emphasize a system-level, holistic approach (Zott et al. 2011)	<b>Resource Integration/ ecosystems</b>
Enables increased density within value constellations (Normann, 2001)	Facilitation of exchange through "institutional arrangements" (Loasby, 2000)	Cocreation through firm and partner(s) activities (Zott et al. 2011)	<b>Value cocreation</b>

# A Fractal Model of Value Creation

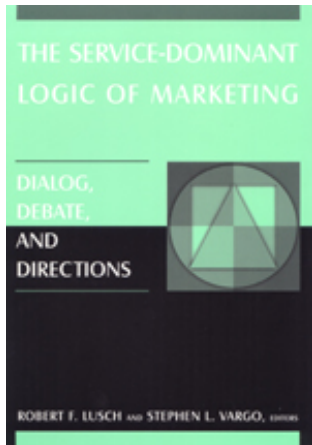
- Duality of Technology; (Orlikowsky 1992)
- Tech as useful knowledge; (Mokyer 204)
- Combinatorial Evolution (Arthur 2011)
- Etc.



- Market practices and performativity (Kjellberg and Helgesson 2006; 2007; Araujo and Spring 2006)
- Interpretive Flexibility; (Pinch and Bijker 1984)
- Markets as institutionalized solutions (Vargo and Lusch 2014)
- Etc.



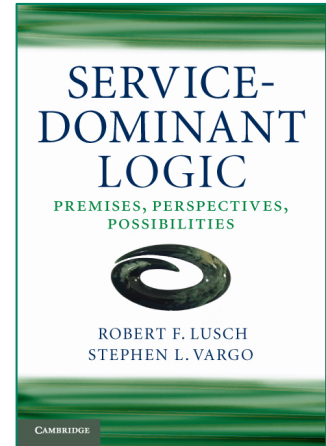
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# Thank You!

For More Information on S-D Logic visit:

[sdlogic.net](http://sdlogic.net)



We encourage your comments and input. Will also post:

- Working papers
- Teaching material
- Related Links

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