



S-D  
Logic

# Value Cocreation in Service Ecosystems: The Service-Dominant Logic View

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**Professor of Marketing,**  
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# The Importance of the Right Logic

- Without changing our pattern of thought, we will not be able to solve the problems we created with our current pattern of thought
  - Albert Einstein
- The greatest danger in times of turbulence is not the turbulence: it is to act with yesterday's logic.
  - Peter F. Drucker
- The main power base of paradigms may be in the fact that they are taken for granted and not explicitly questioned
  - Johan Arndt
- What is needed is not an interpretation of the utility created by marketing, but a marketing interpretation of the whole process creating utility.
  - Wroe Alderson





# *Suddenly, Service(s) is Everywhere*

## Apparent transitions

- From **manufacturing economy** to **"services" economy**
- From **goods-oriented firms** to **"services" firms**

## Manifestations

- Services marketing
- Services operations
- Service factories
- Servitization
- Service Engineering
- Service-oriented architecture
- Software-as-a-service
- Service systems
- Services science
- Service Innovation



# The Message

The “transitions” are **mythical and misleading**

The apparent transitions are driven by an ***inadequate logic of the market***

- “arm-flapping” logic?

The **real transition** is in the **foundational logic of economic exchange** and markets

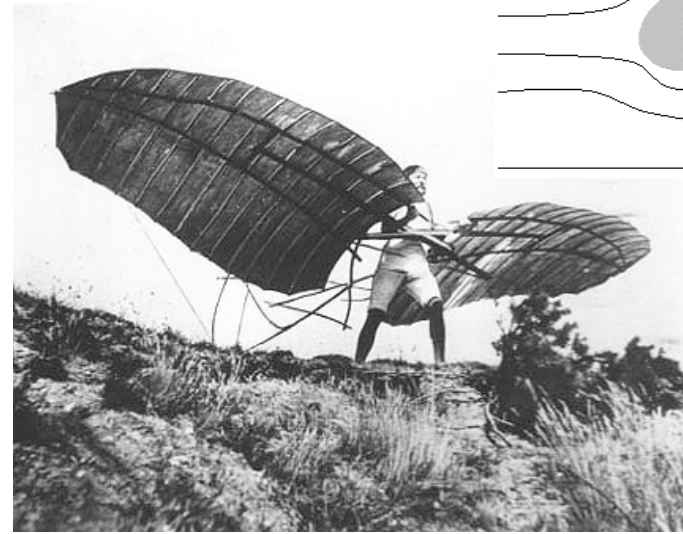
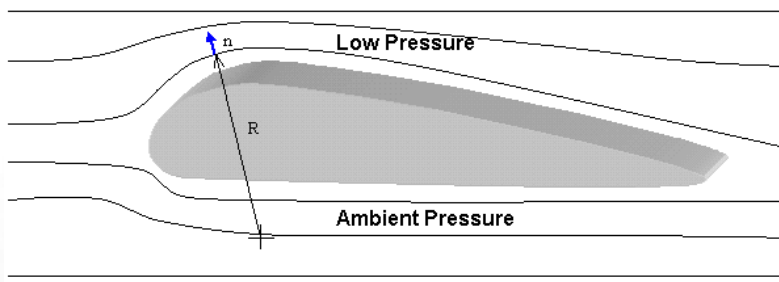
- Emerging from diverse disciplines & sub-disciplines
- Pointing to a **more robust logic of economic exchange based on service**

A service revelation, not a services revolution

# From Arm-Flapping to Airfoil Logic



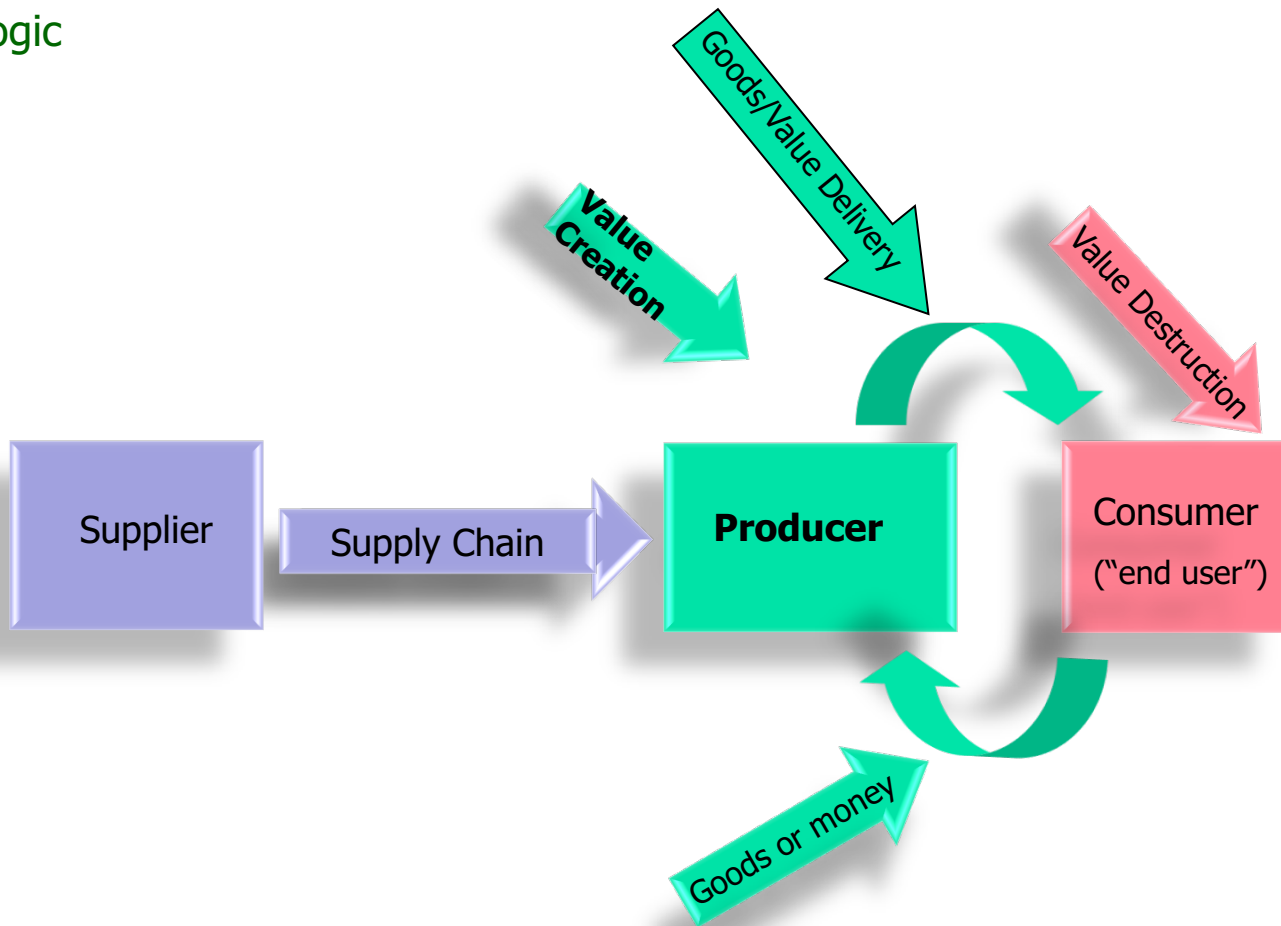
Ambient Pressure



# Goods-Dominant Logic Model: Value Creation and Delivery



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**Firms exist to make and sell/deliver value-laden goods**

# Wrong Thinking about Service(s): The G-D Logic Perspective



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Value-enhancing add-ons for goods, or

A particular (somewhat inferior) type good, characterized by (IHIP):

- Intangibility
- Heterogeneity (non-standardization)
- Inseparability (of production and consumption)
- Perishability

Services Economy = Post Industrial = Less-than-desirable economic activity



# Rethinking Goods and Service(s)

Wrong thinking about Goods: “Goods-ness” is not why we buy goods

- **Service** (benefits) they provide, “jobs to be done”
- **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**

- 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”
  - **All actors** (e.g., employees, parents, CEOs, etc.) are service providers **involved in value cocreation**.



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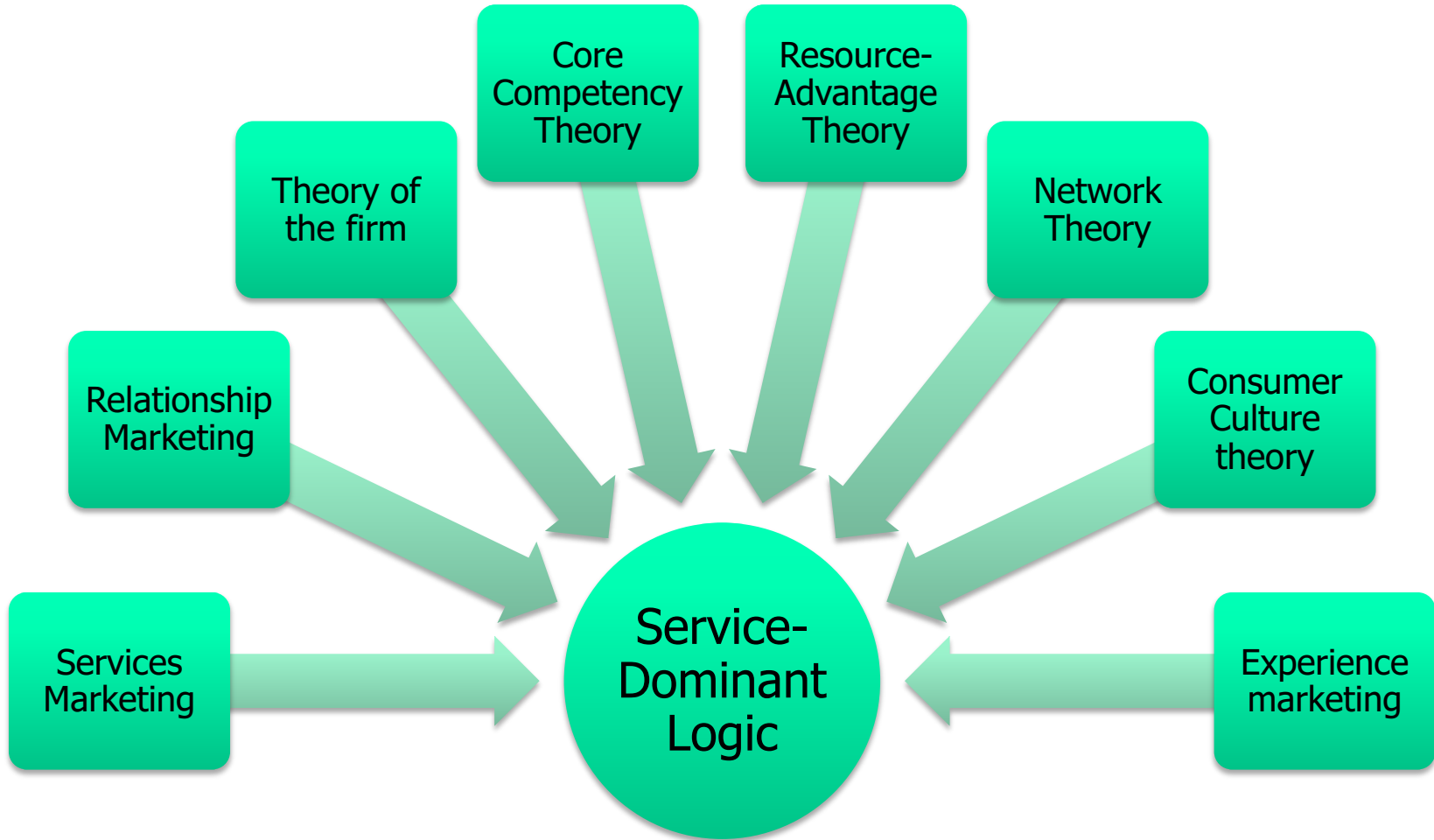
An Alternative Logic

# **THE SERVICE-DOMINANT LOGIC OF VALUE COCREATION**



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# A Partial Pedigree For S-D Logic

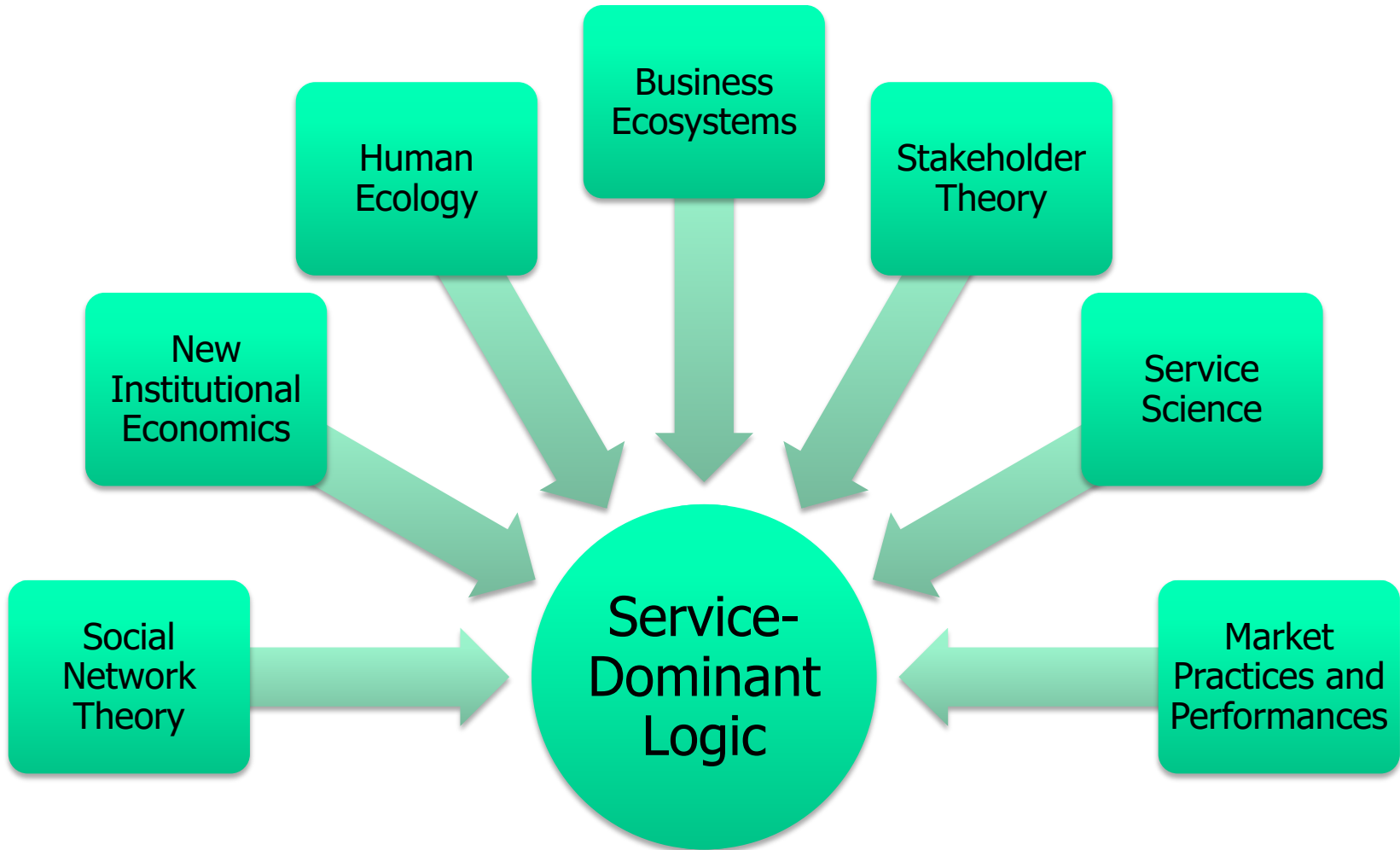






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# An Extended Pedigree for S-D Logic



# Evolving to a New Dominant Logic for Marketing

Marketing inherited a model of exchange from economics, which had a dominant logic based on the exchange of "goods," which was... value, and it focused on... as goods in the future in perspective

The form... distribute... economics (Mar... marketing so... modifies ex... tions that ma... (Nystrom 19... to be perform... marketing ins... By the e... morph into... characterized... the marketin... customer (D... McCarthy (1... as a decisio... tomer at a p... mal decisio... dominant fo... model contin... agement text... sis in origina... determine th... variables that... the light of... demand varia... Beginnin... that were no... dent of the... emerge. Wh...

## Achievements

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Enabling... Many trib... services in... ship man... and interac... of the mark... converged... on informa... access to k... difficult to re...

# Invited Commentaries on "Evolving to a New Dominant Logic for Marketing"

In the preceding article, Vargo and Lusch (V&L, 2004) proposed that an evolution is underway toward a new dominant logic for marketing. The new dominant logic has important implications for marketing theory, practice, and education.

## The Four Service Marketing Myths: Remnants of a Goods-Based, Manufacturing Model

Stephen L. Vargo  
University of Maryland

Robert F. Lusch  
Texas Christian University

Marketing was original... manufacturing-based mo... developed during the Indus... marketing has been broa... the exchange of more th... discipline of service mar... much of this broadened... same goods and manufa... of this model is evide... itics that have been ide... from goods—intangibili... and perishability. The aut... itics (a) do not disting... have meaning from a ma... imply inappropriate no... that advances made by a... foundation for a more s... change from which more... can be developed for all d...

Keywords: service; goods; heterogeneity

Early marketing thought... goods marketing, essentially... exchange of manuf...

Correspondence regarding... land, College Park, MD 207... Journal of Service Research, W... DOI: 10.1177/004700030229... © 2004 Sage Publications

J. of the Acad. Mark. Sci. (2008) 36:1–10  
DOI: 10.1007/s11747-007-9109-4

### CONCEPTUAL/THEORETICAL PAPER

## Service-dominant logic: continuing the evolution

Stephen L. Vargo · Robert F. Lusch



Industrial Marketing Management

Received: 3 July 2007 / Accepted: 6 July 2007  
© Academy of Marketing Science 2007

**Abstract** Since the introductory... become known as the "service-d... marketing," "Evolving to a New... Marketing" was published in the... (Vargo, S. L., & Lusch, R. F. (200... considerable discussion and elab... This article highlights and clarif... associated with S-D logic and a... foundational premises (FPs) and a... for future work are also discuss...

**Keywords** Service-dominant logic · Service

### Introduction

In the few years since we published it... has become known as "service-do... "Evolving to a New Dominant Logic... and Lusch 2004a), there has been s...

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## It's all B2B...and beyond: Toward a systems perspective of the market

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### ARTICLE INFO

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### ABSTRACT

The delineation of B2B from "business" marketing reflects the limitations of the traditional, goods-dominant (G-D) model of exchange and a reconceptualization of value creation based on the "producer vs. consumer" divide. Service-dominant (S-D) logic broadens the perspective of exchange and value creation to include all social and economic actors engaged in exchange (e.g., firms, customers, etc.) in a service-providing value-creating context; that is, in this sense, all exchange can be considered B2B. Then this perspective, the conditions of B2B marketing (and other sub-disciplines) can be seen as applicable to "business" marketing. This provides a more (A2A) orientation, in many ways, toward a dynamic, context-based systems orientation to value creation. This article discusses this systems-oriented framework and elaborates the implications for marketing and other disciplines of the market, including the marketing sub-disciplines, marketing practices, and disciplines external to marketing.

### 1. Introduction

As time arises, as I conceive, out of the needs of mankind, no one is self-sufficing, but all of us have many wants... Then, as we have many wants... and many persons are needed to supply them, one takes a helper for one's purpose and another for another; and when these parties and helpers are gathered together in one habitation, the body of inhabitants is termed a state, and they exchange with one another, and one gives and another receives under the idea that exchange will be for their good.

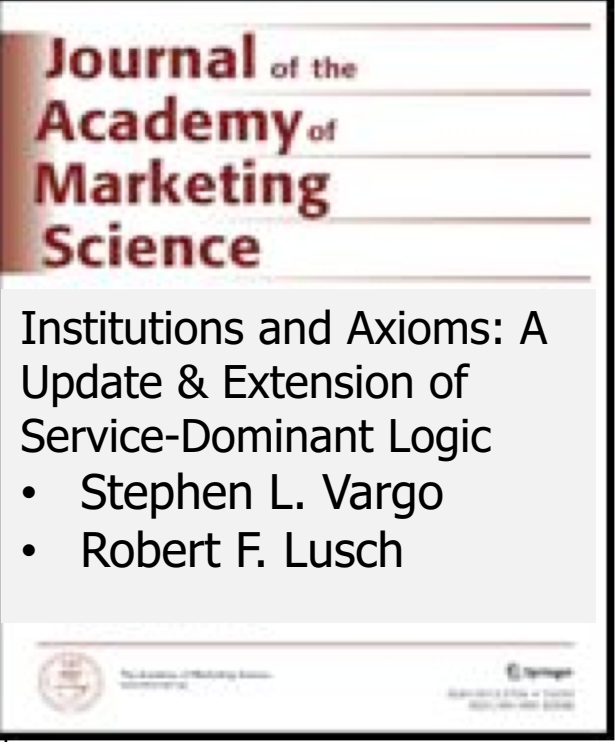
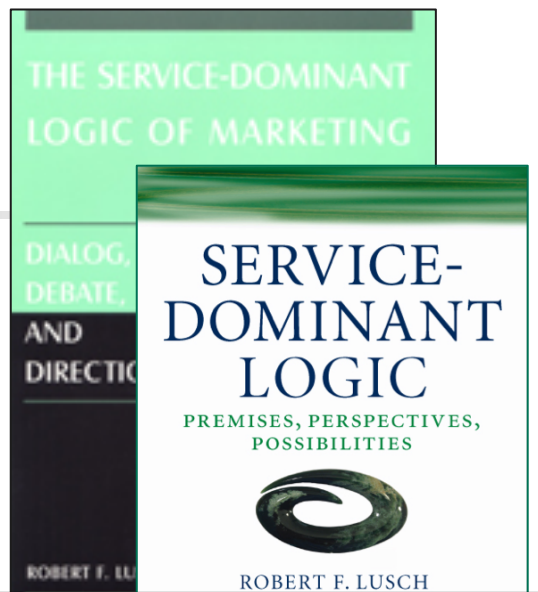
As the global, networked economy becomes more pervasive and its nature more compelling, it is (should be) becoming increasingly clear that we rely on one another through the voluntary exchange of applied skills and competences (Vargo & Lusch, 2000a, 2000a). Consequently, one might think that the above quotation is contemporary; it is, however, from Plato's *The Republic* (360 B.C./1980), published over 2000 years ago.

In spite of a globally interdependent world, the simple truth behind Plato's words often seems to be missed: we are all similarly human beings serving each other, through exchange for mutual wellbeing. Perhaps his statement therefore punctuates our (Vargo & Lusch, 2000a, 2000a; see also Vargo, 2007) contention that it is important to develop a logic of and for the market (and society) and marketing that transcends time, geography, and the sometimes myopic, conceptual, fixations of academics. It was in the spirit of this contention that we previously used a linguistic telescope to zoom out to a broader, more transcending view of economic exchange and suggested (Vargo & Lusch, 2000b) "It's all B2B."

Since our early collaborative work on what has become known as service-dominant (S-D) logic, we have tried to judge marketing thought away from fragmentation and toward a more unified theoretical conceptualization and framework. A first step was to suggest transcending the "goods" versus "services" divide with "it's all about service." More specifically and more recently, we recognized a need to overcome (mis)conceptions associated with the notion of a "producer," as a creator of value, versus a "consumer," as a destroyer of value, and have reflected this in one of the newer central tenets of S-D logic: all social and economic actors are resource integrators (Vargo & Lusch, 2000a) as captured in foundational premise (FP) 5). That is, all parties (e.g., businesses, individual customers, households, etc.) engaged in economic exchange are similarly resource-integrating, service-providing enterprises that have the common purpose of value (co)creation—what we mean by "it's all B2B."

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# Key S-D Logic Publications



## Institutions and Axioms: A Update & Extension of Service-Dominant Logic

- Stephen L. Vargo
- Robert F. Lusch



# S-D logic: Vectors of Diffusion

## Diffusion within marketing

- Branding
- Customer engagement
- Customer perceived value
- Consumer Culture Theory
- International marketing
- Logistics and supply chain
- Marketing communications
- Marketing strategy
- Social marketing
- Value propositions
- Business models
- Sales and sales management
- Etc.

## Transdisciplinary diffusion

- Arts & philosophy
- Design thinking/service design
- Ecosystem services
- Education
- Engineering
- Healthcare
- Information systems/CIS
- Innovation studies
- Human resources
- Public administration
- Public administration
- Service Science
- Hospitality/Tourism
- Etc.



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# **FOUNDATIONS: THE S-D LOGIC CORE**



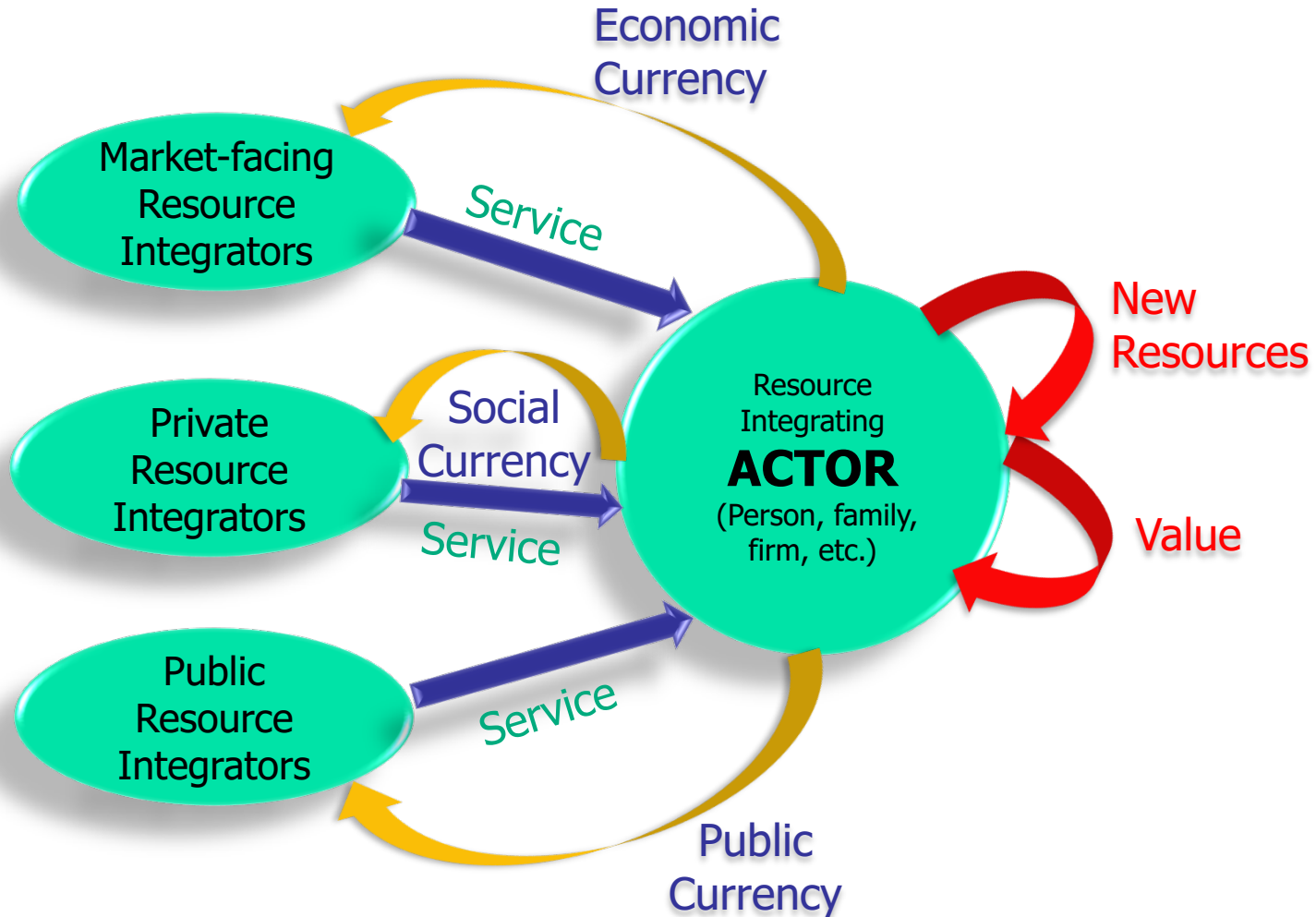
# Axioms of Service-Dominant Logic

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

# Value Co-creation through Resource Integration & Service Exchange



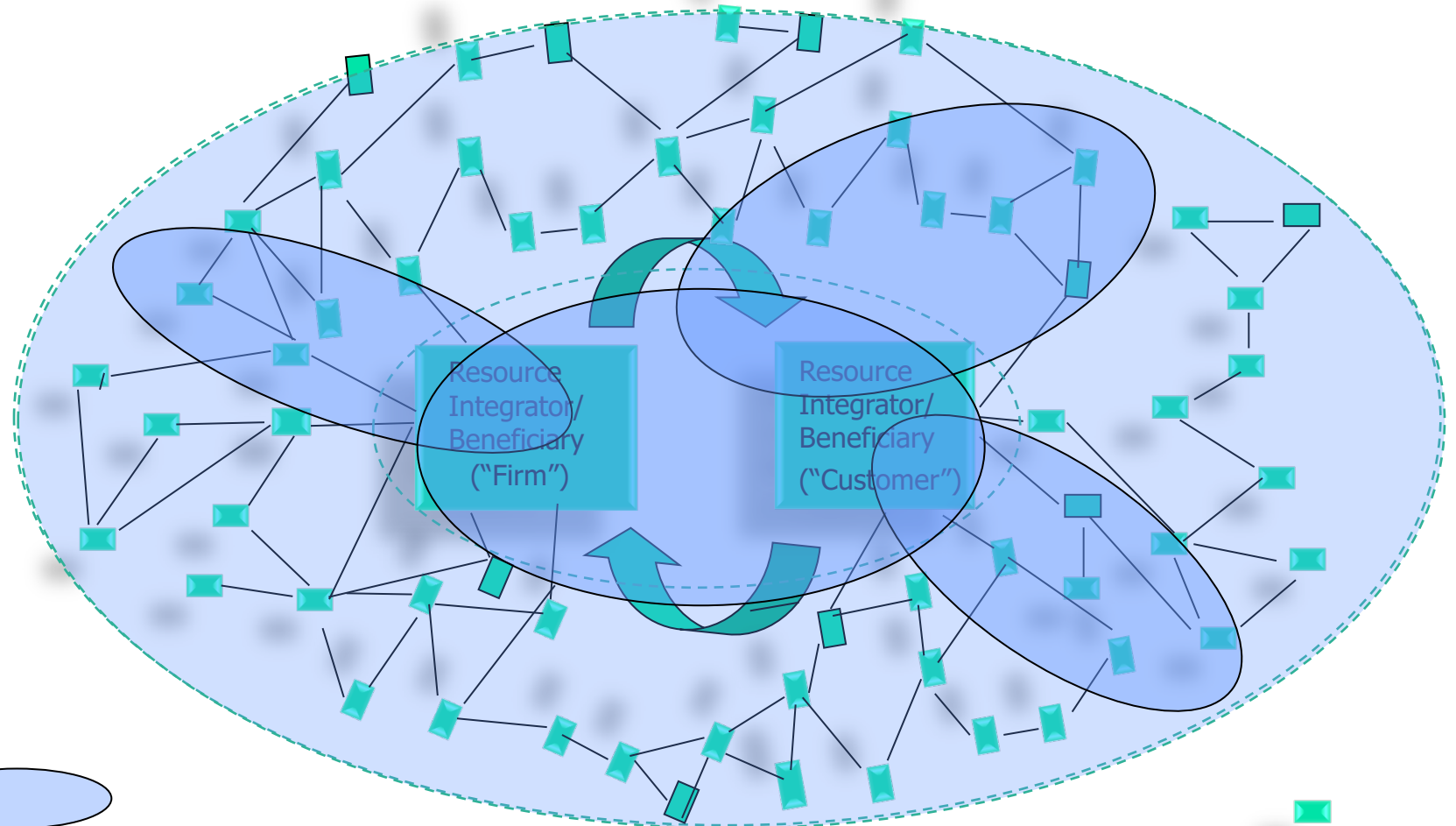
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# Resource Integration & Service-for-service Exchange within Service-ecosystems



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Institutions & Institutional  
arrangements/logics

Resource Integrators

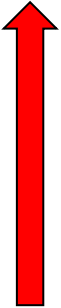


# Resource Integration & and the Structuration of Service Ecosystems



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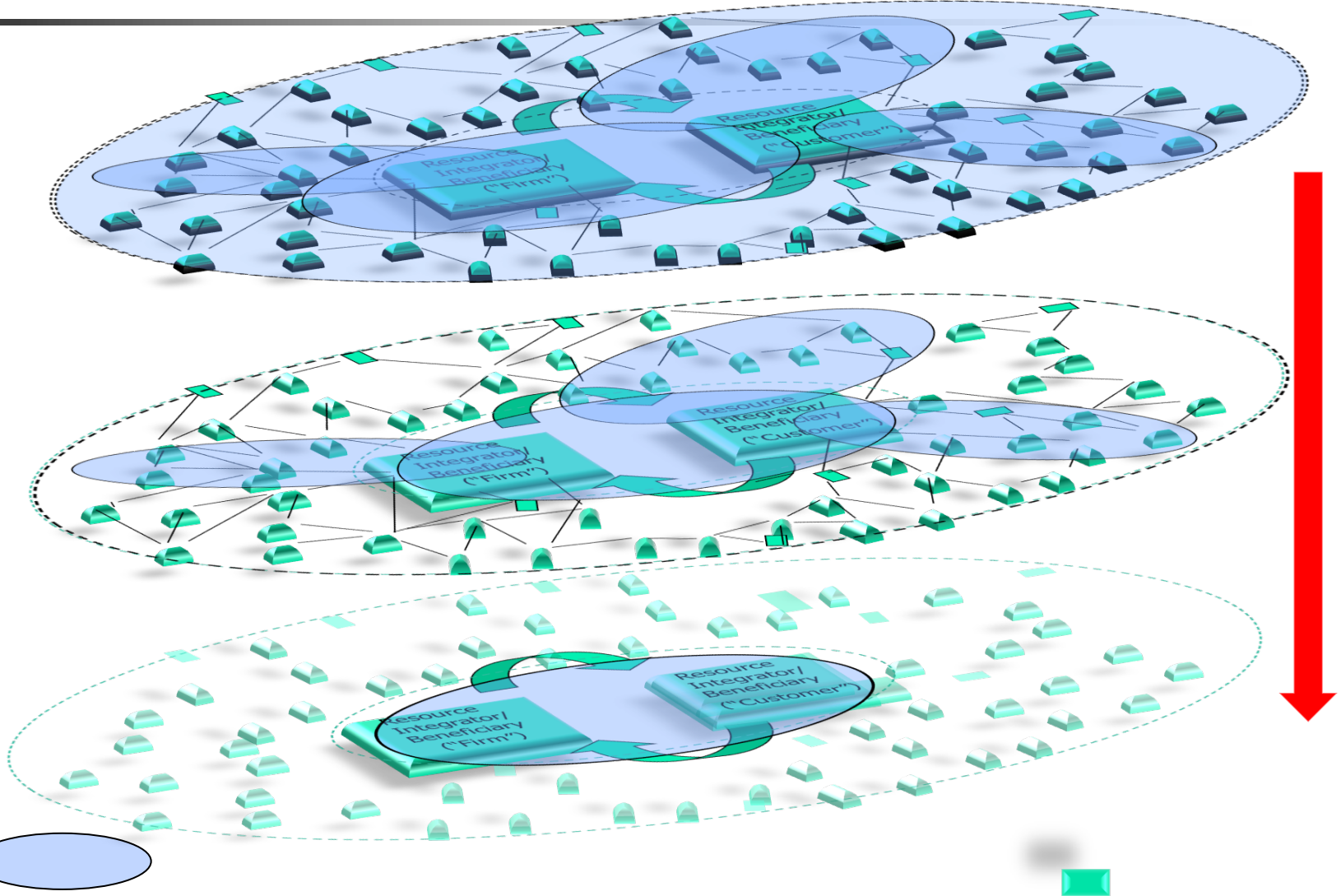
Macro



Meso



Micro



Institutions

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)

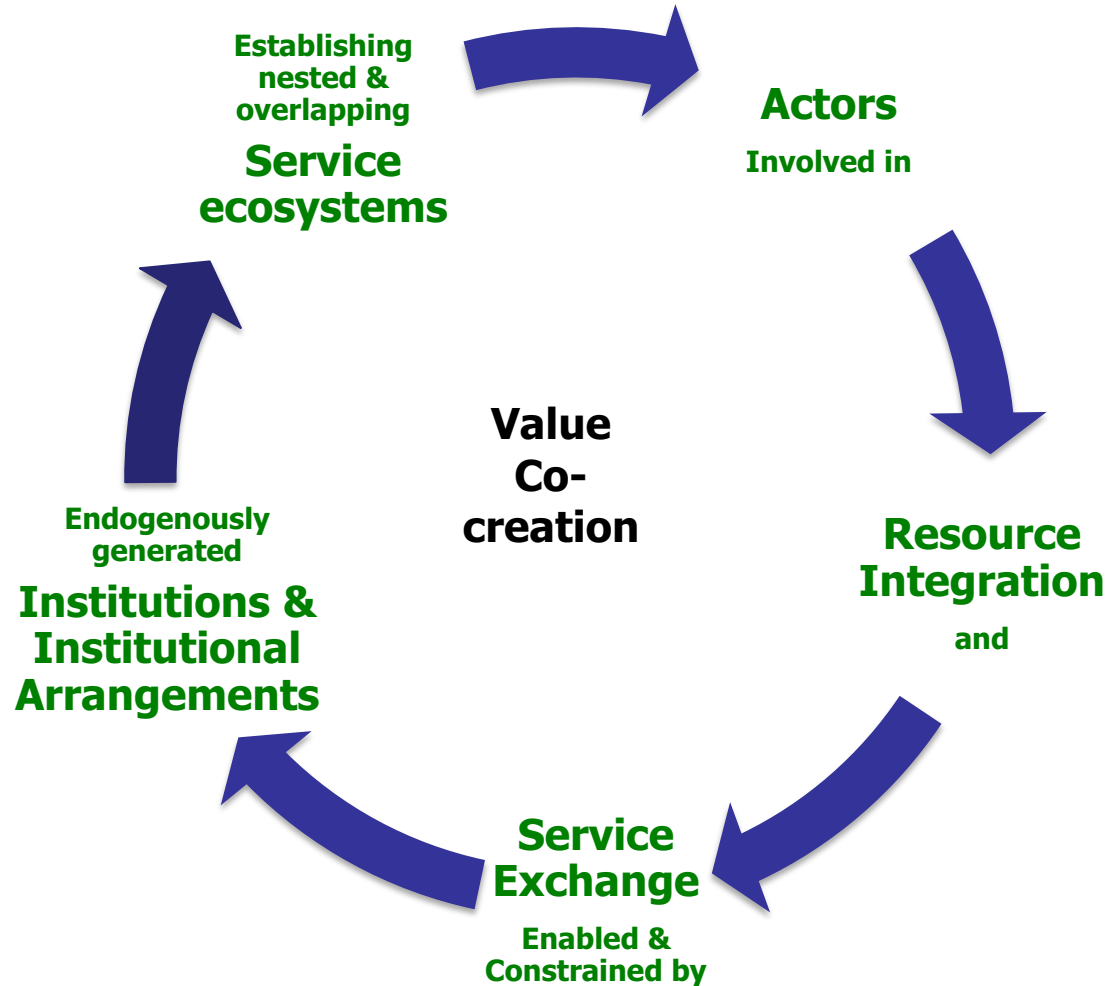
## Service Ecosystem (S-D logic)

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

# The Core Narrative & Processes of Service-Dominant Logic



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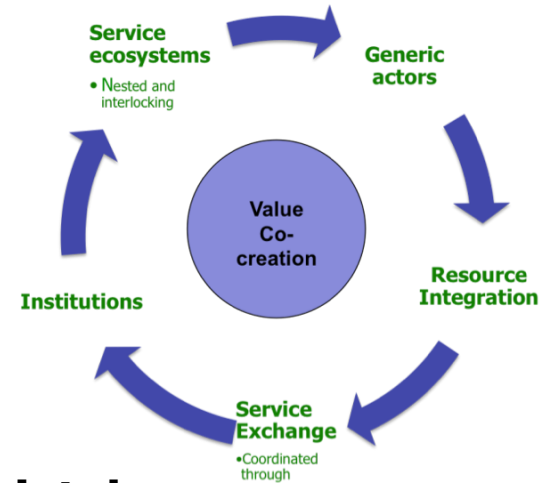


# "Hip-Pocket" S-D Logic



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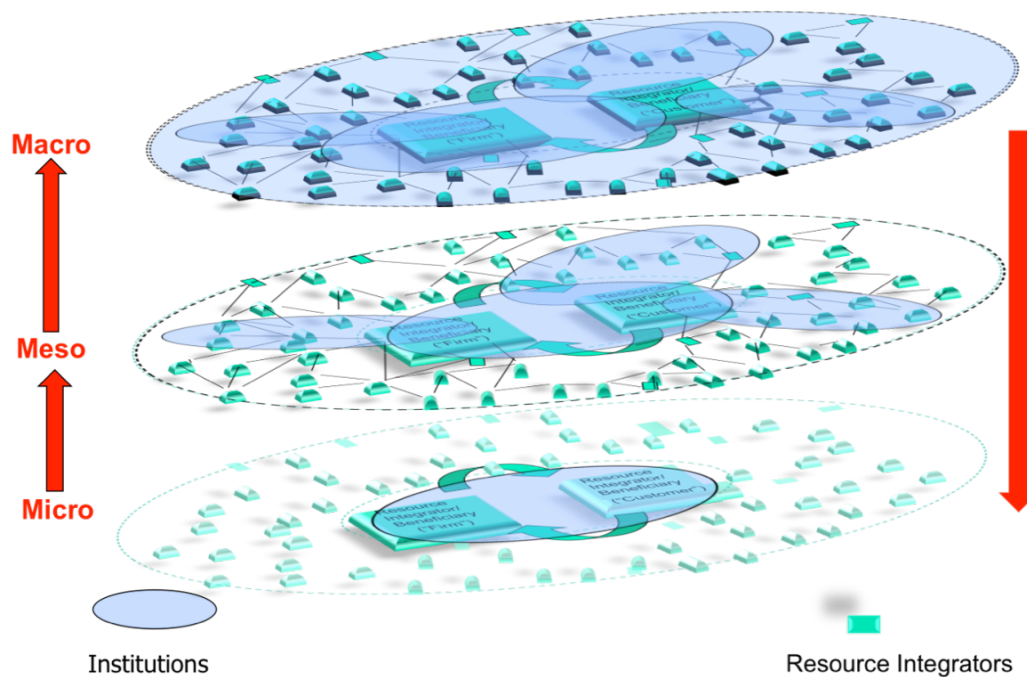
Components  
& Structural Perspectives



**Societal:**  
National, Global, etc

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

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



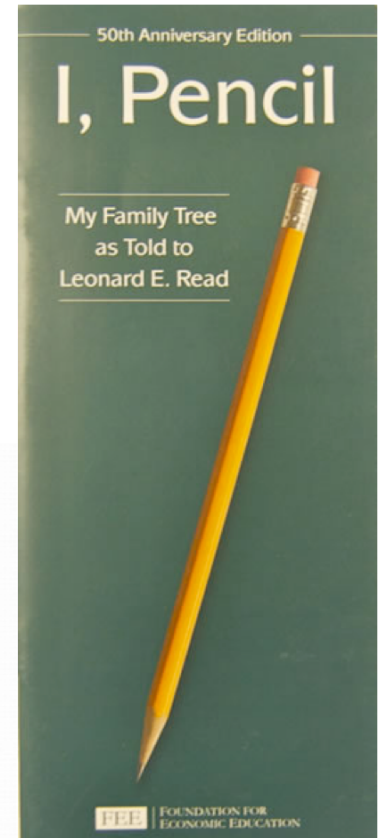
# From the Individual to Market-Based Co-Creation



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Source: Ridley 2010





# Clarifications: Cocreation vs. Coproduction



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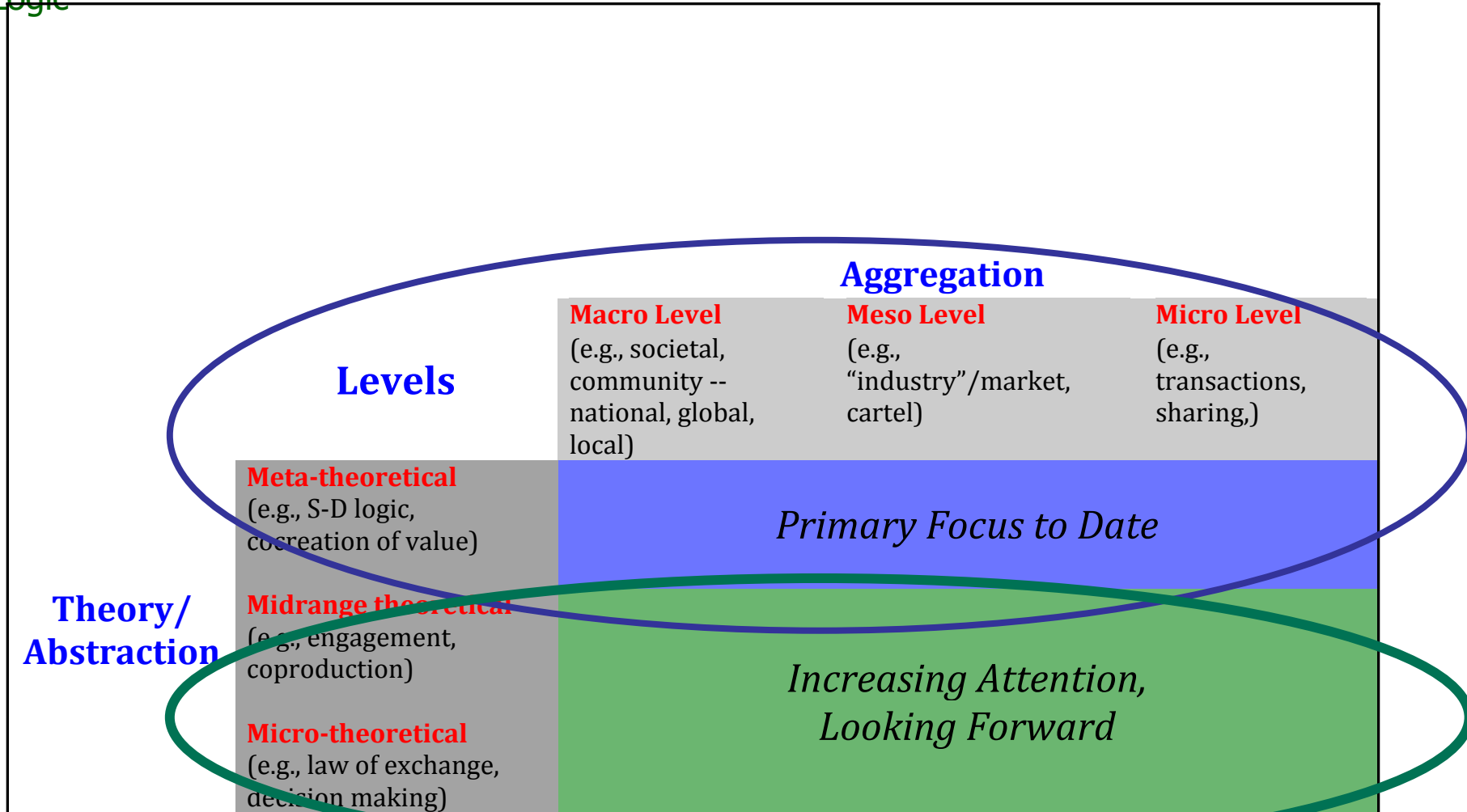
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# WHAT NOW?



# The S-D logic Landscape

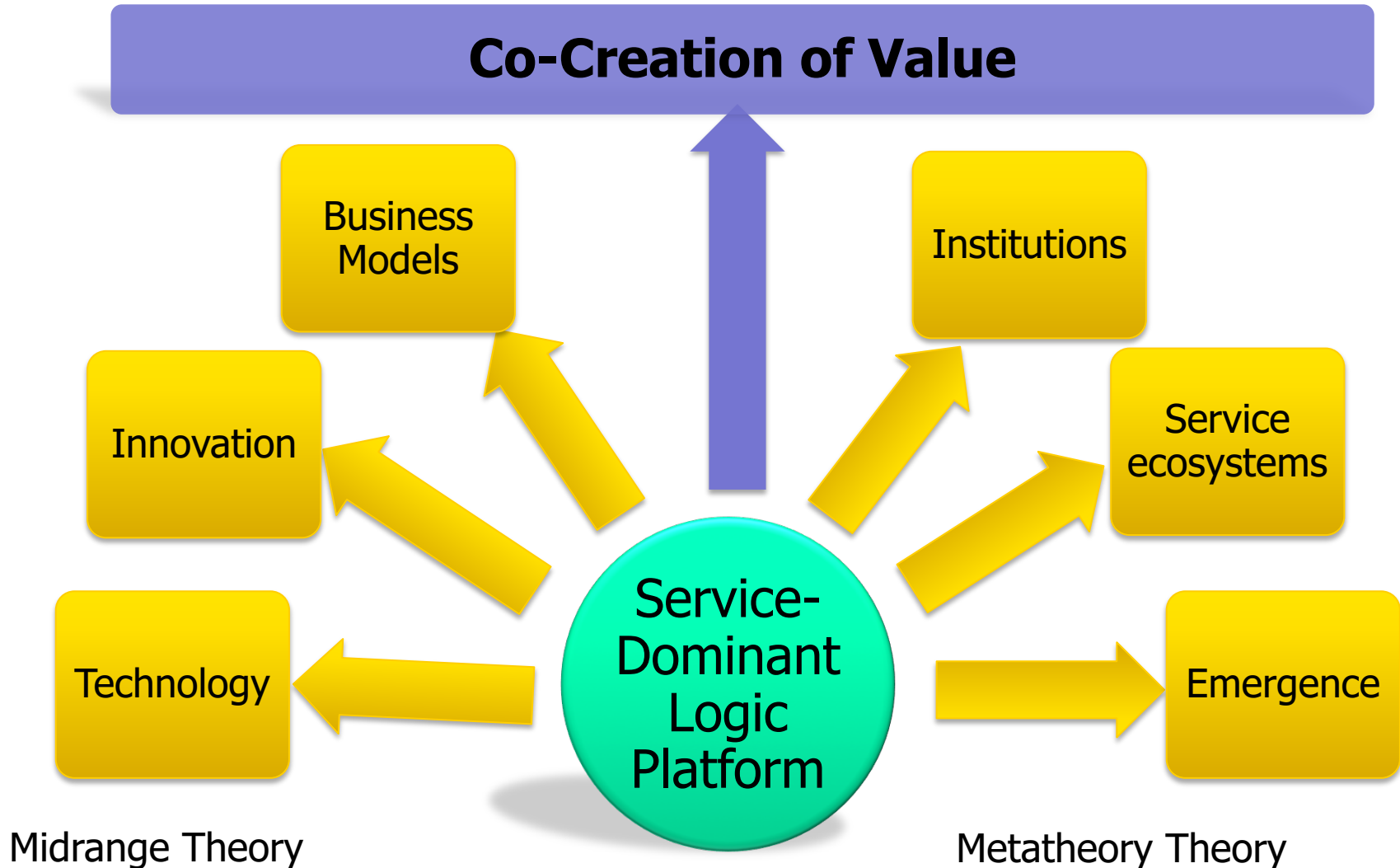
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# Building from the S-D Logic Platform







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# Reframing, and Reconciling from an S-D Logic Perspective

## Innovation

- From **invention** to **designing** ecosystems for **value co-creation** through **institutional work**

## Economic (and social) Actors

- From **Bs and Cs** to generic **A(ctor)s**

## Markets

- From **a priori** to **imagined, codesigned, institutionalized, and performed**

## Market-ing

- From **functional area** to **essential function of the firm (actor)**
- From **marketing mix** to **value co-creation**

## Value

- From a **property of output** to a **co-created outcome** – viability (wellbeing) & coviability

## Strategy

- From **prediction and control** to **entrepreneurial practices**

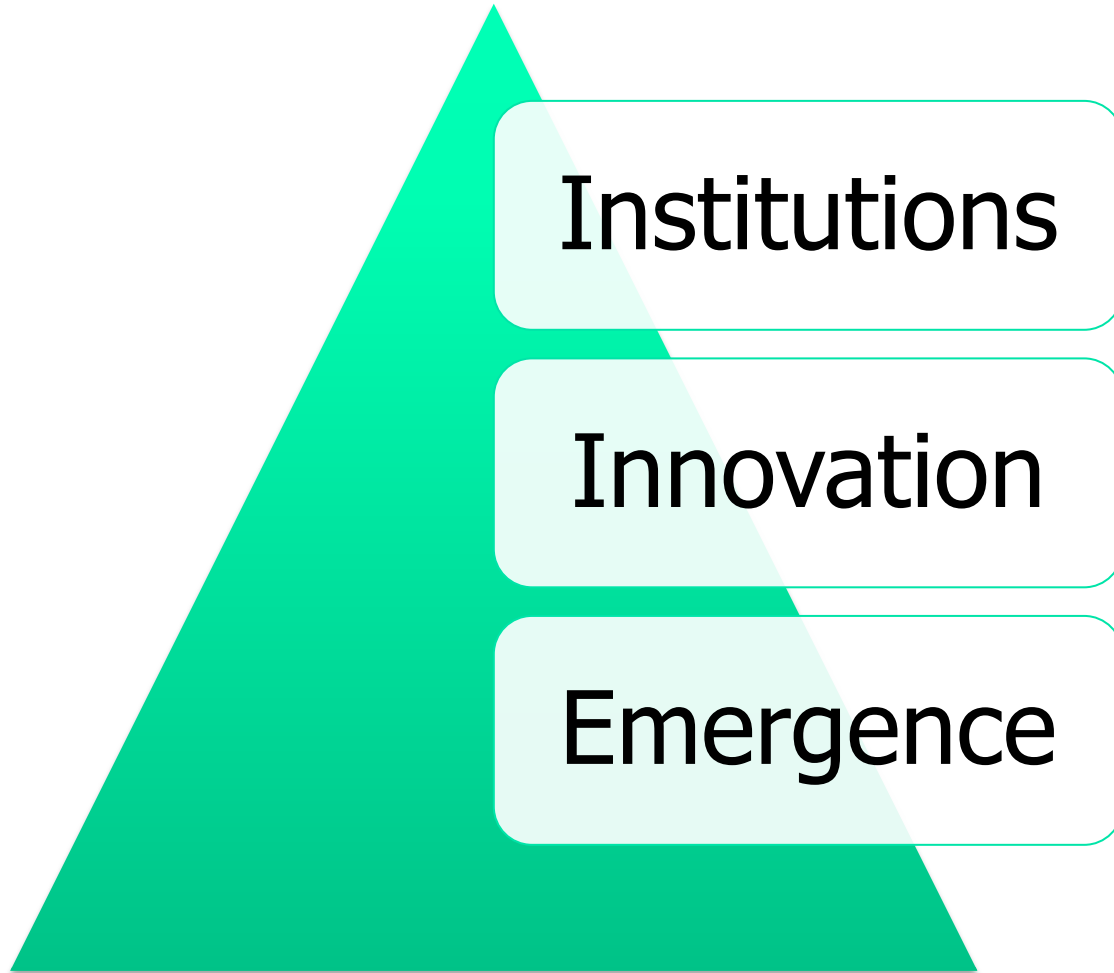
## Technology

- From **exogenous variable** to **service-provision mechanism**



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# Major Focal Topics Moving Forward



**Institutions**

**Innovation**

**Emergence**



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Value Cocreation

# **INNOVATION AS INSTITUTIONALIZATION**

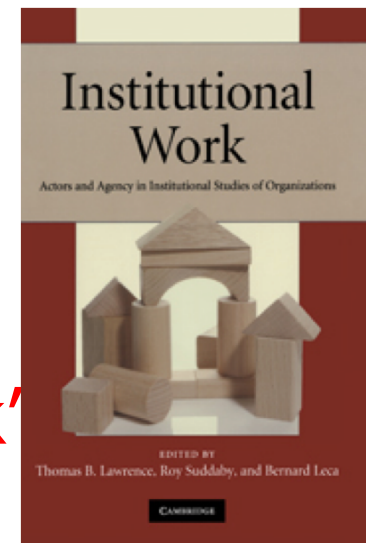
# Innovation: The S-D Logic Perspective



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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

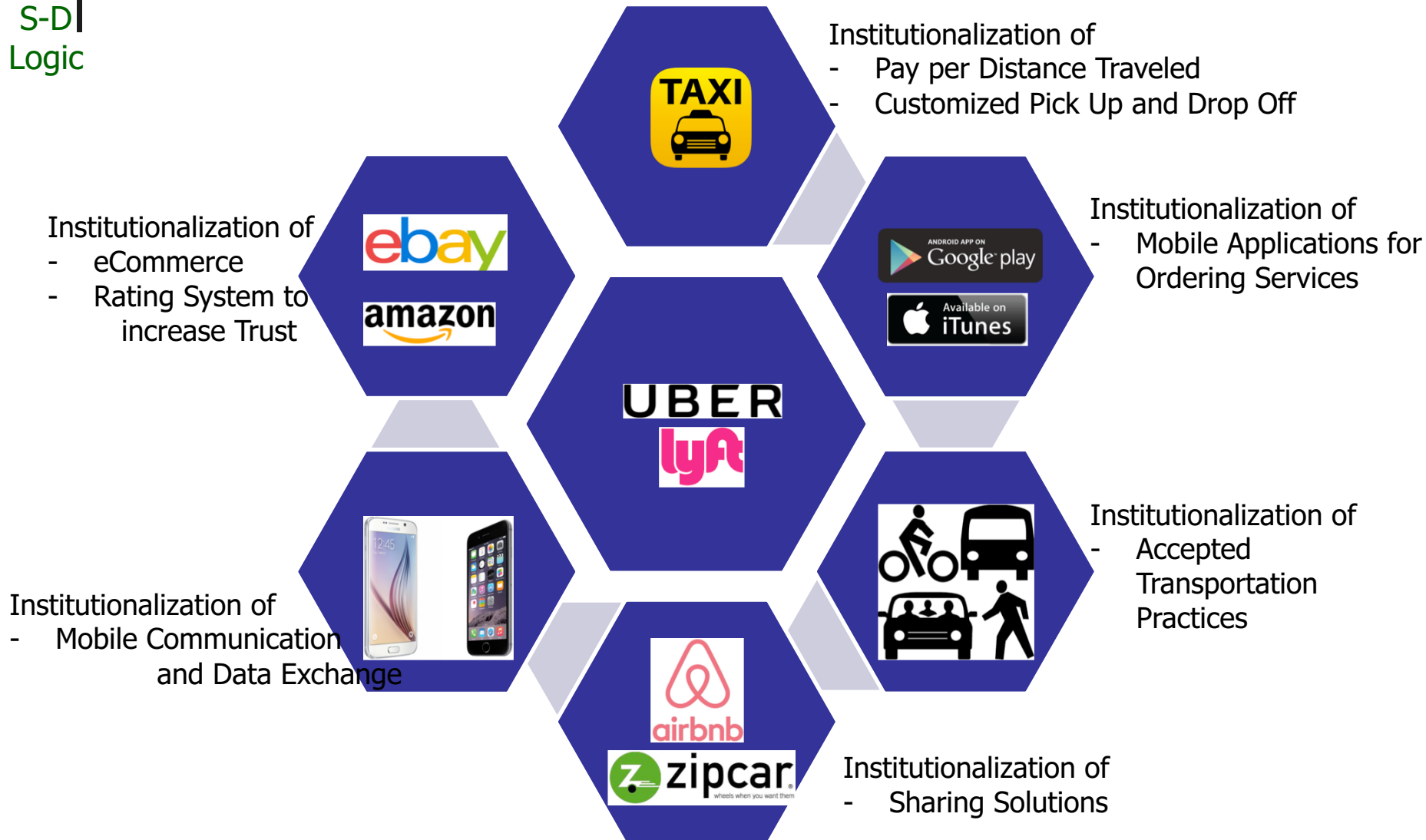
Institutional work = intentional form of structuration

- **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 :**

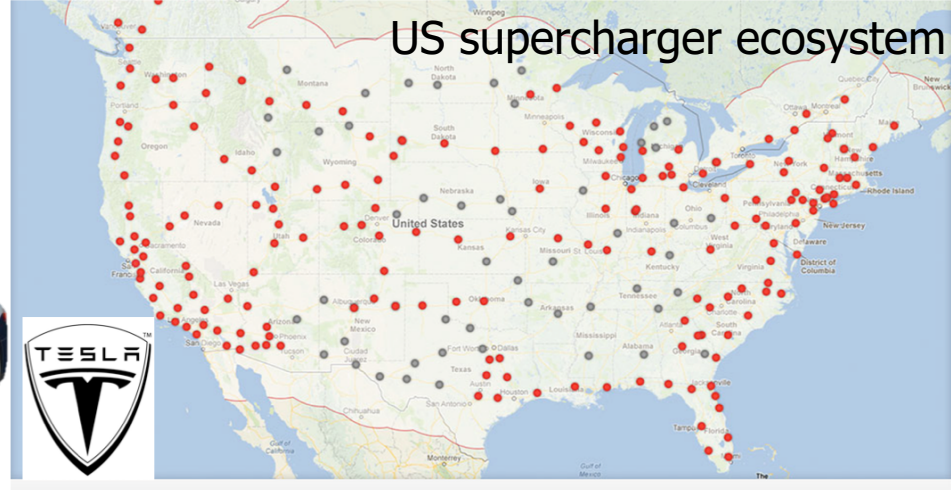
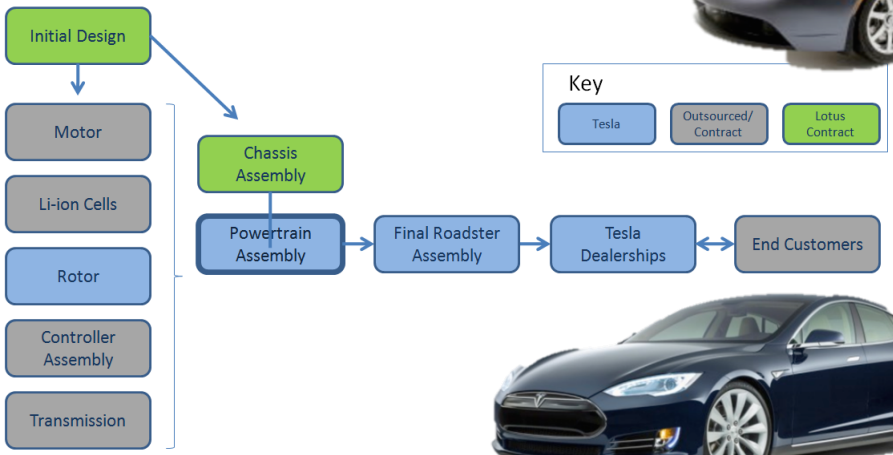
- Professional Drivers
- Cash Payments
- Flagging Down
- Regulated Industry
- Etc.

## **Institutions changed :**

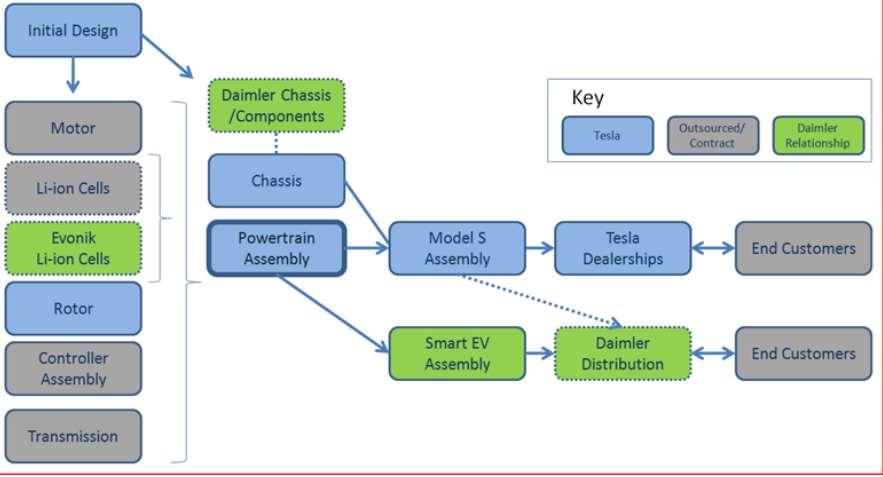
- Rating System of Driver and Passenger
- Payment in Cloud
- Etc.

# The Tesla Ecosystem Innovations

## Roadster Ecosystem



## Model S/Powertrain Ecosystem



## Other institutional Design Elements

- Laws (e.g., non-dealer sales)
- Habits (e.g., "fueling": more often, while parking)
- Regulations (e.g., preferred parking spots)
- Business model: Open patents to cocreation





# Actor-Centric (Market) Ecosystem

THE NEW MARKETING ECOSYSTEM





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# Some Practical, Counter-intuitive Strategic Implications of S-D Logic

A competitive focus is inherently non-competitive

- Competition is a motivator, not a goal

If you are not losing market share, you are not being innovative

- "Market share" is the most meaningless metric in business.

The customer does not want to own your "product"

- Seeking service flows
- Seeking inputs to life experience

Innovation is not a managerial process but an effectual, entrepreneurial process

- Design for "interpretive flexibility" – platforms – with feedback

"Best practices" can be a sure road to failure



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# **SOME ACADEMIC FRONTIERS**

# Toward A Systems and Institutional Orientation



Industrial Marketing Management 40 (2011) 181–187

Contents lists available at ScienceDirect

**Industrial Marketing Management**

ELSEVIER

It's all B2B...and beyond: Toward a systems perspective of the market

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Journal of Business Research xxx (2016) xxx–xxx

Contents lists available at ScienceDirect

**Journal of Business Research**

ELSEVIER

Fostering a trans-disciplinary perspectives of service ecosystems

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**1. Introduction**

A state arises, as self-sufficing, but many wants – it takes a helper for these parties and the body of fitful one another, and that exchange will be as the global, not its nature more clear that we rely on applied skills and consequently, one n ratory; it is, howev published over 2000 Despite a globally Plato's words often beings serving each Perhaps his statement 2008); see also Va develop a logic of an

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0019-8501/\$ – see front doi:10.1016/j.jbusres.2016.02.028

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Journal of Business Research xxx (2017) xxx–xxx

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**Journal of Business Research**

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A systems perspective on markets – Toward a research agenda

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The current issue and full text archive of this journal is available on Emerald Insight [www.emeraldinsight.com/2053-6225.htm](http://www.emeraldinsight.com/2053-6225.htm)

**Institutions as resource context**

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**Abstract**

**Purpose** – The purpose of this paper is to examine the role of institutions and institutional complexity in the process through which resources-in-context get their “resourcefulness.”

**Design/methodology/approach** – To shed light on the process of potential resources gaining their “resourcefulness,” the authors draw from two streams of literature: the service ecosystems perspective and institutional theory.

**Findings** – The authors combine the process of resources “becoming” with the concept of institutions and conceptualize institutional arrangements, and the unique sets of practices, symbols and organizing principles they carry, as the sense-making frames of the “resourcefulness” of potential resources. In service ecosystems, numerous partially conflicting institutional arrangements co-exist and provide actors with alternative frames of sense-making and action, enabling the emergence of new instances of “resourcefulness.”

**Research limitations/implications** – The paper suggests that “resourcefulness” is inseparable from the complex institutional context in which it arises. This conceptualization reveals the need for more holistic, systemic and multidisciplinary perspectives on understanding the implications of the process of resources “becoming” in value co-creation, innovation and market formation.

**Practical implications** – As the “resourcefulness” of potential resources arises due to the influence of institutions, managers need a more profound understanding of the complementary and inhibiting institutional arrangements and the related practices, symbols and organizing principles that comprise the multidimensional context in which they operate.

**Originality/value** – This paper is one of the first to focus specifically on the process of resources “becoming,” using a systemic and institutional perspective to grasp the complexity of the phenomenon.

**Keywords** Institutional complexity, Institutions, Resources-in-context, Service ecosystems, Value co-creation

**Paper type** Conceptual paper

**Introduction**

Since the publication of the initial work focusing on the collaborative, customer-centric nature of value creation at the turn of the millennium (Normann, 2001; Prahalad and Ramaswamy, 2002, 2004; Vargo and Lusch, 2004), the phenomenological and contextual view on value has received increasing attention (see, e.g. Helkkula *et al.*, 2012; Ng and Smith, 2012; Schau *et al.*, 2009; Vargo *et al.*, 2008). Service-dominant (S-D) logic (Vargo and Lusch, 2004) and its service ecosystems perspective (Lusch and Vargo, 2014; Vargo and Lusch, 2011) build on and extend this collaborative and contextual view of value creation by highlighting the systemic nature of value: value is co-created by multiple actors connected through the exchange, integration, and application of resources (Lusch and Vargo, 2014). The collaborative, contextual and systemic nature of value creation implies that resources are always integrated in the

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CONCEPTUAL/THEORETICAL PAPER

**Institutions and axioms: an extension and update of service-dominant logic**

Stephen L. Vargo <sup>1</sup> · Robert F. Lusch <sup>2</sup>

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**Abstract** Service-dominant logic continues its evolution, facilitated by an active community of scholars throughout the world. Along its evolutionary path, there has been increased recognition of the need for a crispier and more precise delineation of the foundational premises and specification of the axioms of S-D logic. It also has become apparent that a limitation of the current foundational premises/axioms is the absence of a clearly articulated specification of the mechanisms of (often massive-scale) coordination and cooperation involved in the cocreation of value through markets and, more broadly, in society. This is especially important because markets are even more about cooperation than about the competition that is more frequently discussed. To alleviate this limitation and facilitate a better understanding of cooperation (and coordination), an eleventh foundational premise (fifth axiom) is introduced, focusing on the role of institutions and institutional arrangements in systems of value cocreation: service ecosystems. Literature on institutions across multiple social disciplines, including marketing, is briefly reviewed and offered as further support for this fifth axiom.

**Introduction**

It has been a little more than a decade since our initial collaboration offered a perspective on how marketing thought and practice was evolving to a new dominant logic (Vargo and Lusch 2004)—now widely known as “service-dominant (S-D) logic”—and over half that time since we further documented the evolution of the core framework (Vargo and Lusch 2008). During that period, through the participation of countless contributing scholars from around the world and from an ever-growing array of disciplines, S-D logic has been, and continues to be, further consolidated, extended, and elaborated. An example of this consolidation is the reduction of the ten foundational premises (FPs) (Vargo and Lusch 2004, 2008) to four axioms (Lusch and Vargo 2014), from which the remaining six FPs could be derived, and more parsimonious framework. Elaborations have been extensive and have ranged from the modification of “value-in-use” to “value-in-context” (Chandler and Vargo 2011) and its amplification, in turn, to include “value-in-social-context” (Edvardsson *et al.* 2011), to the exploration and further explication of the cocreation of value (e.g., Payne *et al.* 2008), value propositions (Chandler and Lusch 2015), and brands (e.g., Merz *et al.* 2009; Payne *et al.* 2009), to exploring the implications of a broader ecosystems perspective (Vargo and Lusch 2011), to the use of S-D logic as a foundation for service science (e.g., Sphorer and Maglio 2008), and its application in logistics (e.g., Randall *et al.* 2010), information technology (e.g., Yan *et al.* 2010), and hospitality management (e.g., Shaw *et al.* 2011), among endless other elaborations, applications, and amplifications.

**Keywords** S-D logic · Theory · Institutions · Service-dominant logic · Ecosystems

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# INNOVATION IN TECHNOLOGY, MARKETS AND BUSINESS MODELS



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Logic

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## Innovation through institutionalization: A service ecosystems perspective<sup>☆</sup>

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### ABSTRACT

This article explores the role of institutions in innovation from a service-ecosystems perspective, which helps to unify diverging views on innovation and extend the research regarding innovation systems. Drawing on institutional theories, this approach broadens the scope of innovation beyond firm-centered production activities and collaboration networks, and emphasizes the social practices and processes that drive value creation and, more specifically, *innovation* – the combinatorial evolution of new, useful knowledge. Based on this ecosystems view, we argue for *institutionalization* – the maintenance, disruption and change of institutions – as a central process of innovation for both technology and markets. In this view, *technology* is conceptualized as potentially useful knowledge, or a value proposition, which is both an outcome and a medium of value co-creation and innovation. *Market innovation*, then, is driven by the combinatorial evolution of value propositions and the emergence and institutionalization of new solutions.

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### 1. Introduction

The ongoing study of innovation is driven by a need to develop more compelling value propositions (Lusch & Vargo, 2006) in an increasingly interconnected and dynamic world. However, the diversity of disciplines within which innovation is studied, and the fragmented nature of this body of literature (Hauser, Tellis, & Griffin, 2006), make it difficult to understand the central processes by which innovation occurs and, more specifically, how new markets form (Bower & Christensen, 1995; Kim & Mauborgne, 2005). Furthermore, the study of innovation in general has been developed from a view of value creation that separates firms as producers (e.g., innovators) and customers as consumers (e.g., adopters) of market offerings (Vargo & Lusch, 2011). This conventional view has limited the understanding of how multiple participants (e.g., firms, customers and other stakeholders) contribute to value creation, as well as innovation.

Recent research regarding networked (e.g., Corsaro, Cantu, & Tunisini, 2012) and systemic (e.g., Geels, 2004; Sundbo & Gallouj, 2000) views on innovation, provide a more dynamic view of market interactions, which has helped to bring together different components of innovation (e.g., product development and customer adoption) and broaden the scope of innovation from a focus on technology to an

emphasis on market relationships (Coombs & Miles, 2000). In particular, the study of innovation has begun to extend beyond firm-centric development activities and provides evidence of multiple participants in innovation (Corsaro et al., 2012; Dhanaraj & Parkhe, 2006). This expanded view has drawn attention toward the interrelated processes and interconnected relationships through which innovation occurs.

While much of this literature remains “production”-centric, and maintains a distinction between those who “develop” and those who “adopt” innovations, the realization that users have the capacity to drive innovative efforts (Oudshoorn & Pinch, 2003; von Hippel, 2007) points to a more interactive and systemic view of innovation. This movement toward a more dynamic approach raises issues with innovation models that center on unidirectional processes, such as the linear model of innovation,<sup>3</sup> and emphasize firms as innovators and customers as adopters. It underscores the need for a more unified and comprehensive framework that can provide a deeper understanding of the various participants and underlying processes from which new technologies and, ultimately, markets emerge.

In this paper, we propose an ecosystems approach for considering different “types” of innovation (i.e., technological and market innovation) as driven by a common process – i.e., *institutionalization* (e.g., Barley & Tolbert, 1997). In particular, we apply service-dominant logic (Vargo & Lusch, 2004, 2008), and its institutional, service ecosystems

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CONCEPTUAL/THEORETICAL PAPER

## Business models as service strategy

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**Abstract** It is widely recognized that business models can serve as important strategic tools in innovation and market formation processes. Consequently, business models should have a prominent position in the marketing literature. However, marketing scholars have, so far, paid little attention to the business model concept, perhaps because it lacks an established definition and clear theoretical foundation. This article offers a definition for the business model concept that, using a fractal approach, connects business models to technological and market innovation. Furthermore, the article questions several cornerstone strategic concepts by reconceptualizing business model development from a firm-centric activity that promotes owning key resources and altering sets of decision variables to one that highlights the facilitation of broad institutional change processes. As such, it takes the potentially controversial position of advocating a service-strategy-based understanding of business models for all of marketing strategy.

**Keywords** Business models · Institutions · Ecosystems · Service-dominant logic · Value Co-creation

### Introduction

Despite increased scholarly attention and consensus regarding the importance of business models, the literature has yet to arrive at a clear conceptualization of what business models are (Chesbrough and Rosenbloom 2002; Zott et al. 2011) and, perhaps more importantly, what business models do (Doganova and Eyquem-Renault 2009). Somewhat surprisingly, marketing researchers, with some notable exceptions, have not participated in developing the theoretical foundation needed to advance an understanding of business models. We believe that this participation is important though, since, as we show, understanding business models has important implications for marketing strategy.

Our emphasis on service strategy is partially motivated by the appearance of a *service revolution*. Clearly, there is a re-orientation toward service in individual companies, economies, and research; however, there are two ways of understanding this reorientation. The first is based on a traditional perspective, which categorizes “services” by contradistinction to goods—i.e., “what goods are not” (Vargo and Lusch 2004b). Most classifications of economic activity reflect this divide, in which processes directly involved in the production of goods (e.g., manufacturing) are seen as primary, and all other processes are categorized as service(s). From this perspective, the marketing strategy for services is usually based on adjusting a marketing strategy for goods. That is, such service marketing strategies are often grounded on some variation of the IHIP characteristics (intangibility, heterogeneity, inseparability of production and consumption, and perishability; Zeithaml et al. 1985)—generally, problems

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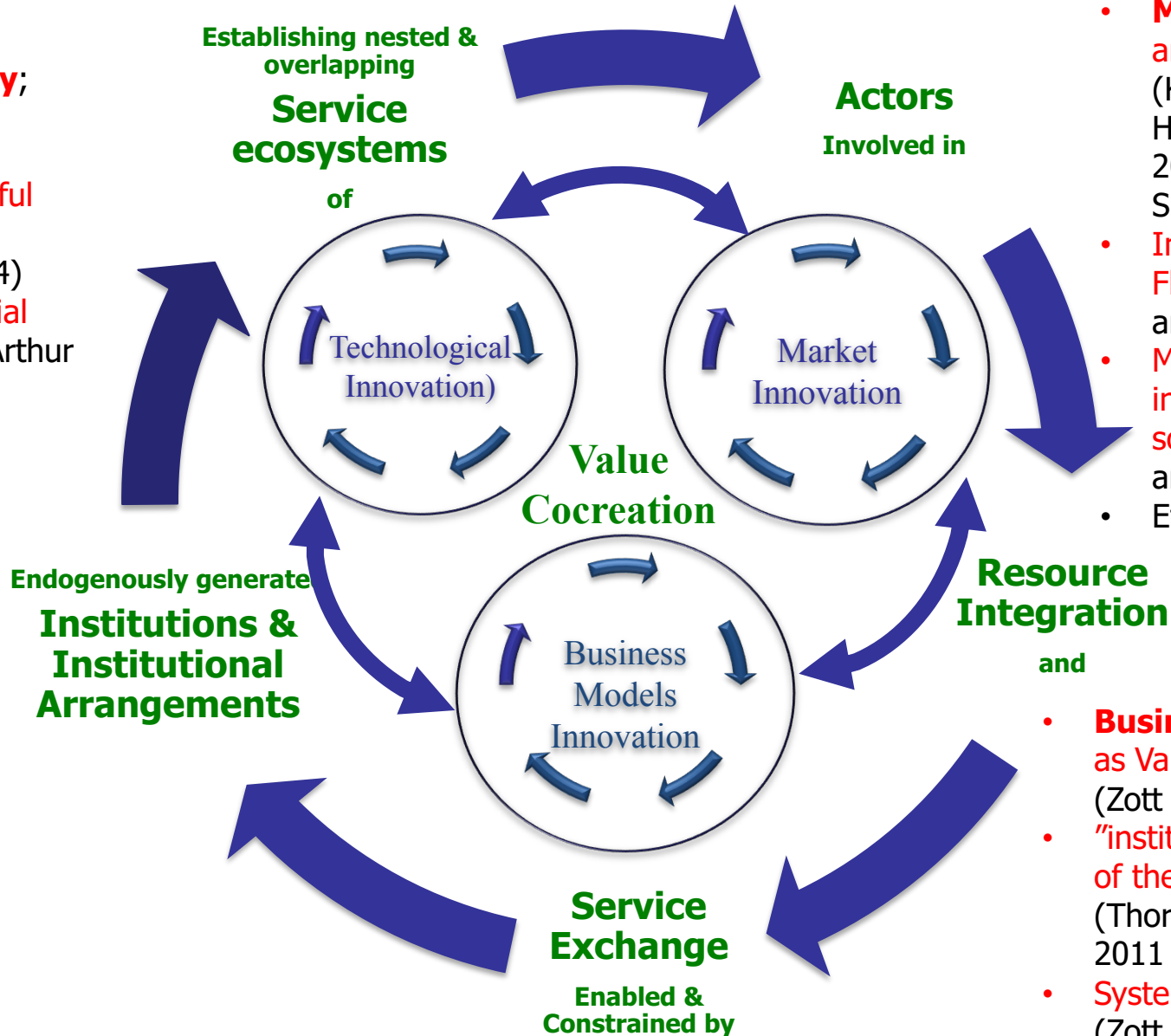
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# Technology, Market Innovation & Business Models: A Partial Reconciliation

<b>Technological Innovation</b>	<b>Market Innovation</b>	<b>Business Models Innovation</b>	<b>S-D Logic</b>
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., Thornton 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/eco-systems</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.

- **Business Models as Value cocreation** (Zott et al. 2011)
- **"institutional logics" of the firm** (Thornton et al. 2011)
- **Systemic approach** (Zott et al. 2011)



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Metatheoretical Directions

**EMERGENCE**

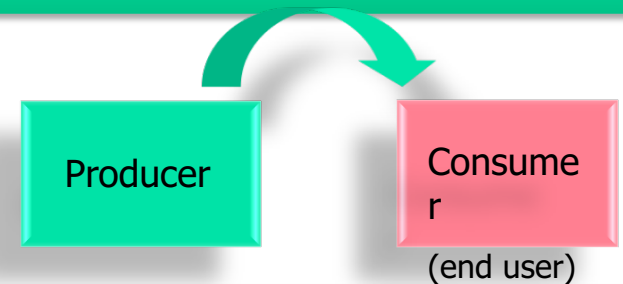




# The Problem and the Need

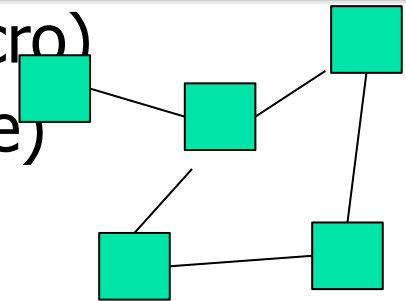
## Current foundational model

- **Micro** level
- **Firm** centric
- **Mechanistic/linear**



## Value-creation processes are:

- **Multi level** (e.g., micro, meso, macro)
- **Relational** (reciprocal, collaborative)
- **Systemic**
  - **Dynamic & Emergent**

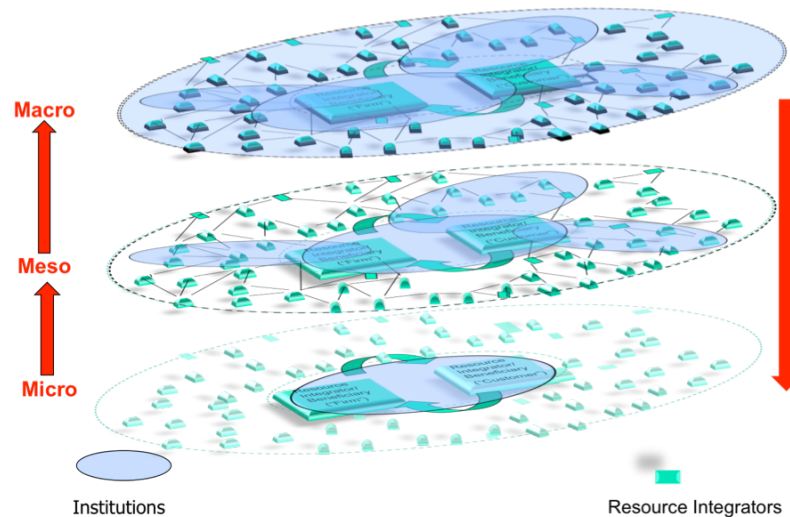




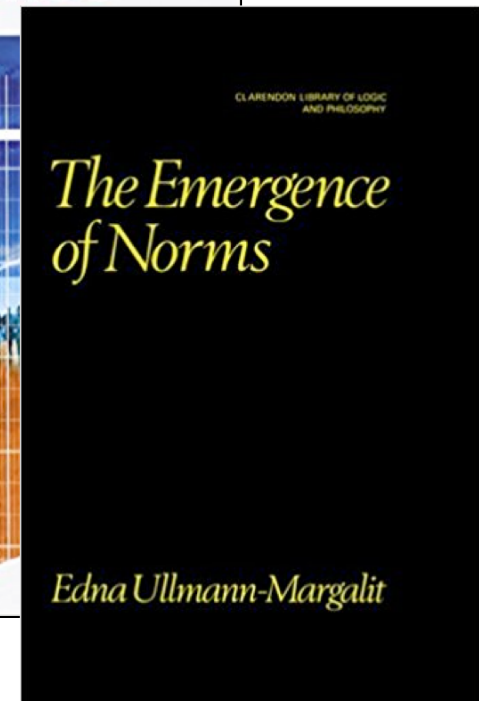
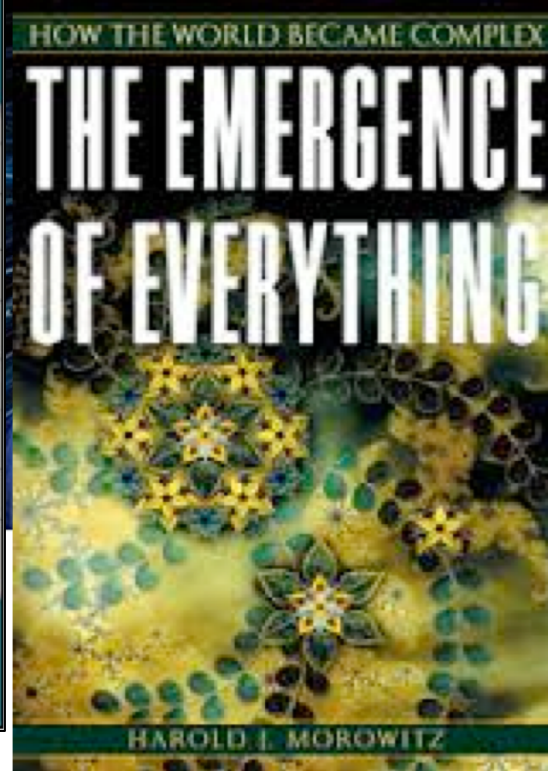
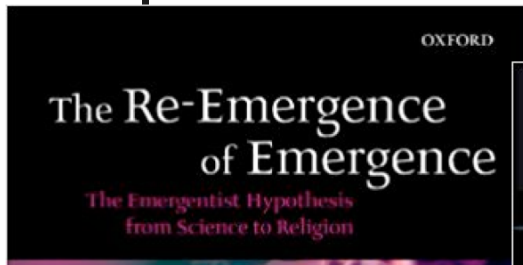
# Emergence

- ... a property of a system that is **not present in its parts**, but that **arises** from their **interaction** (serendipity, unexpected consequences, etc.)

“...a subset of the vast (and still expanding) universe of **cooperative interactions** that produce **synergistic effects** of various kinds.” (Corning 2002, p.10)



# The Emergence of Emergence





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# Characteristics of Emergence

Radical novelty

- At each level of complexity, **entirely new phenomena appear**

Upward emergence

- **Stemming from micro-level interactions**

Wholeness

- **Not just the sum of the parts but different and from its parts and irreducible**

Coherence

- A stable, **self-organizing** system of interactions

Dynamic

- Always in process, **continuing to evolve**

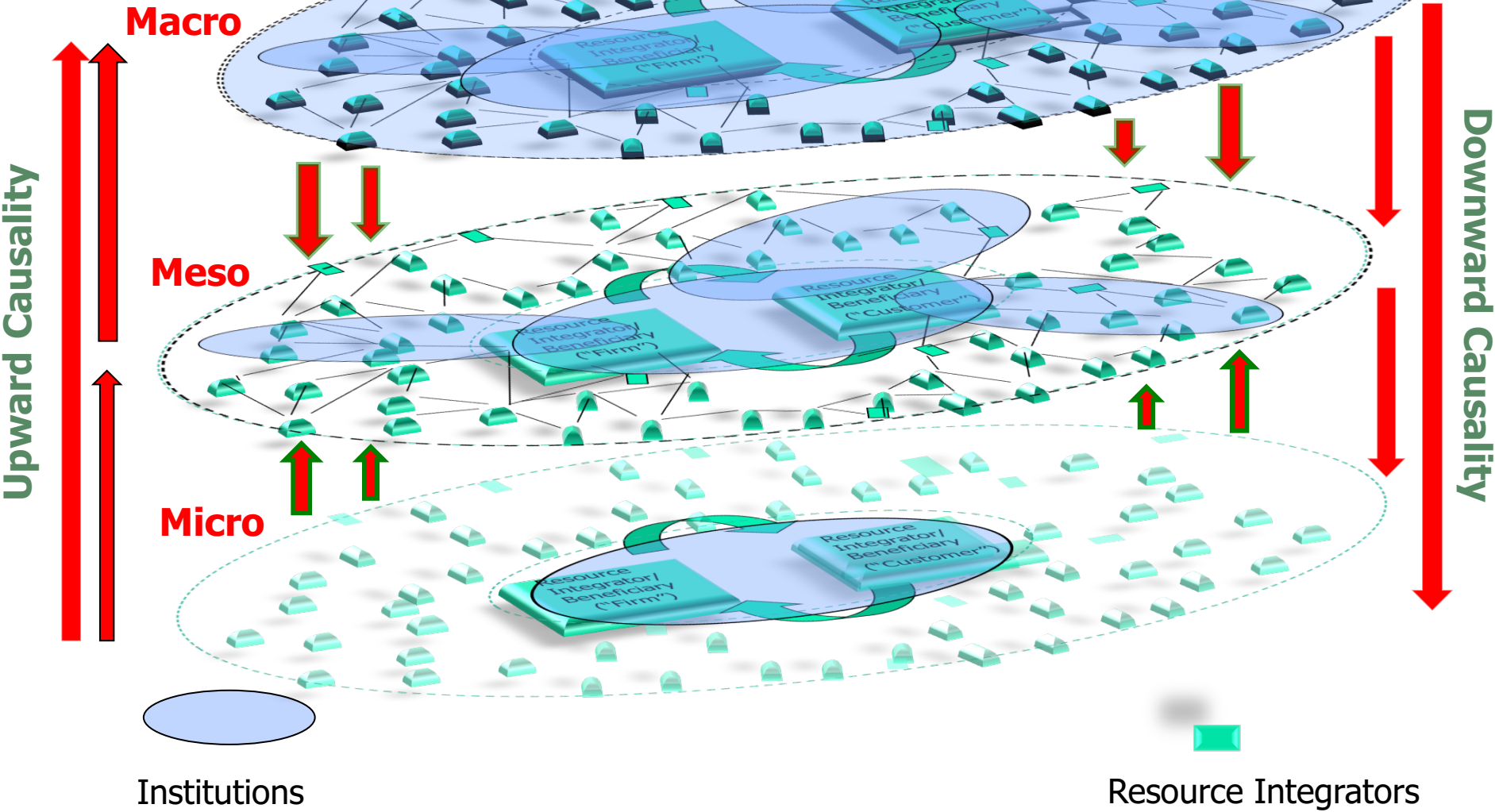
Downward causation

- The **system shapes the behavior of the parts**

# Emergence through Upward and Downward Causality



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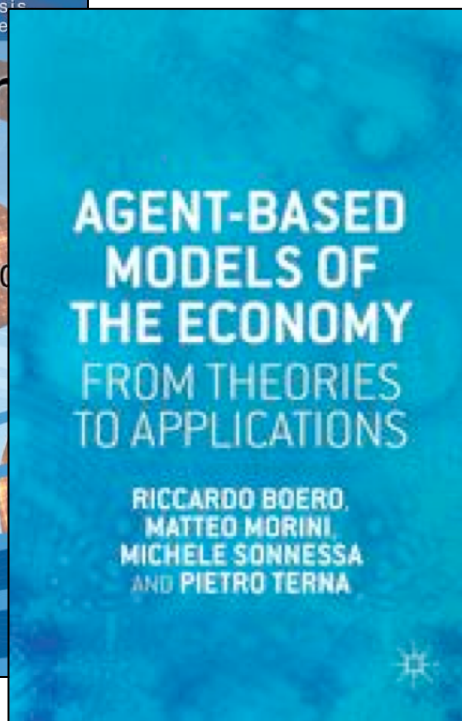
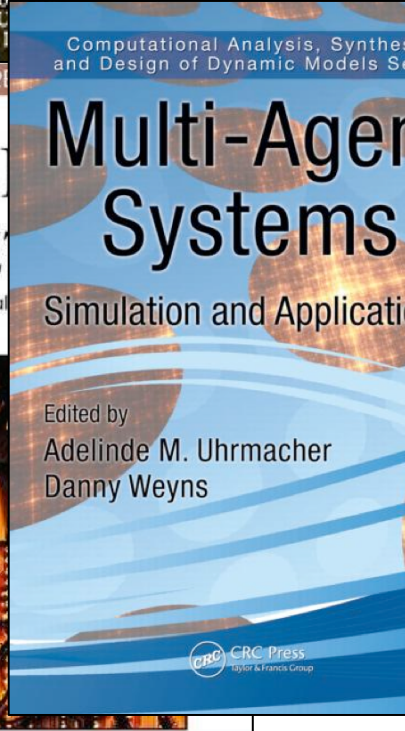
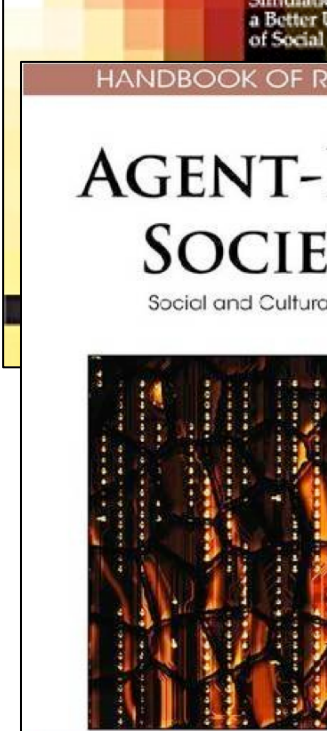
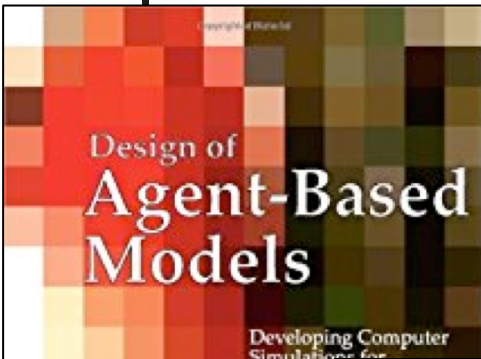




# Agent Based Modeling



...a **computational** method enabling the analysis of **emergent structures** resulting from the interaction of **virtual actors** according to **simple rules**, within an environment

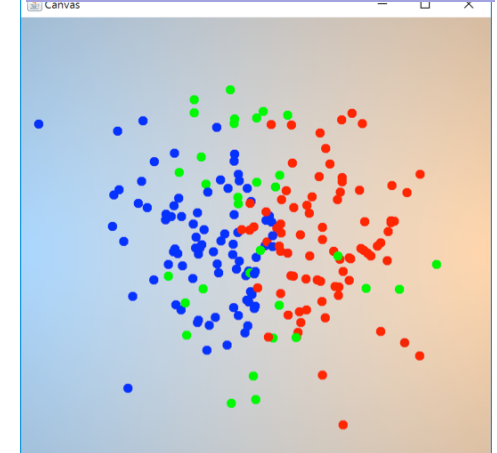
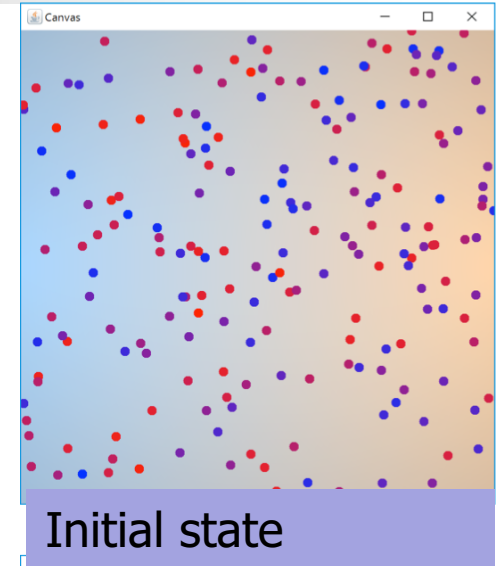
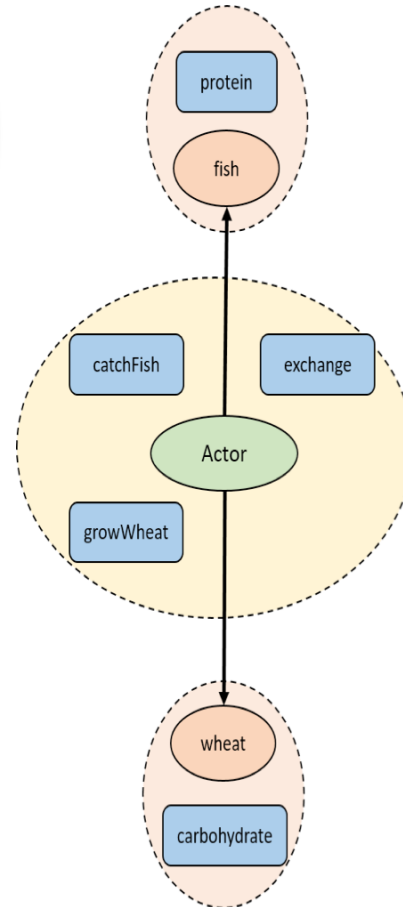
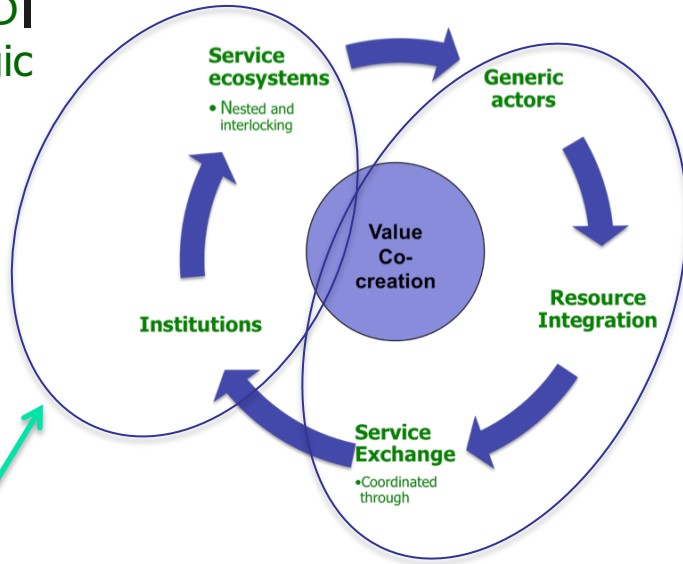


An agent in an agent-based model is its own properties and behaviors; to a researcher writes a description for the agent's behaviors, properties, and all other agents and the environment. None of these descriptions requires; instead, the researcher encodes then measures the emergent macro-level phenomena. This is due to the fact that the agent-based modeling approach is a new way of thinking about the world, and it is not a simple extension of existing methods. The spirit of the other methodological approaches in marketing literature that attempt to address this need by proposing a set of development and analysis of agent-based models is to address this need by proposing a set of development and analysis of agent-based models. This is due to the fact that the agent-based modeling approach is a new way of thinking about the world, and it is not a simple extension of existing methods.

# An S-D Logic, Agent-based Model of Emergence

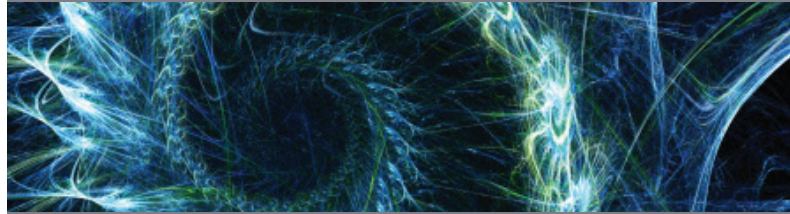


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Logic



Time + Exchange = Specialization + Markets

The SAGE Handbook of  
Service-Dominant Logic



Edited by  
Stephen L. Vargo  
and Robert F. Lusch

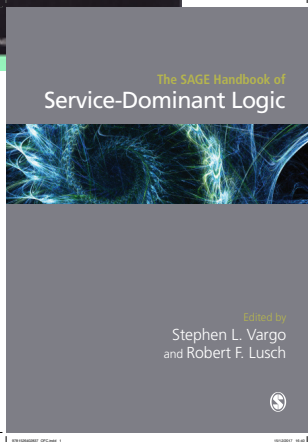
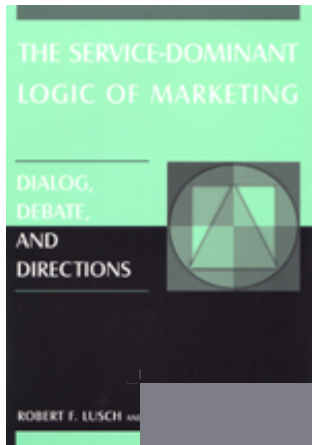


**Late 2018 or early 2019**





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