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Proceedings of
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Editorial

The annual ANZMAC conference hosted by the School of Advertising, Marketing & Public Relations at Queensland University of Technology in Brisbane in December 2006 brought together some diverse and challenging commentary on the field of marketing research. This is perfectly evident in the scholarly production of the BigMAC3 Research Symposium.

This joint research symposium was planned with two important objectives. The purpose of bringing together prominent members of EMAC and ANZMAC is to stimulate awareness of new marketing knowledge, methodologies and metrics advanced by recent research in marketing. A further important objective of the BigMAC initiative, of which this was the third event, is to foster research networking and interaction between members of ANZMAC and EMAC, and to encourage scholars and researchers from the Asia-Pacific region who join these networks to promote new ideas and insights arising from their own research.

The BigMAC3 Research Symposium was organised in three sequential sessions by Professor John Rossiter (Wollongong, Australia), Professor Kristian Möller (Helsinki, Finland), and Professor Rod Brodie (Auckland, New Zealand). Professor Stephen Vargo was an important guest as both presenter and commentator. Each session co-ordinator was tasked with raising a set of pertinent questions about the kind of research being done, the reasons why, and the significance of this for the EMAC-ANZMAC research community. The papers collected in this special issue will stimulate new research by departing from traditional academic research

approaches, taking stock of the state of theory in the mature phase of the discipline's development, and in reflecting on applications of the theoretical developments centred on a service-dominant logic for marketing.

The contributors to this forum are senior academics and experienced researchers. Many are distinguished as leading lights in the development of the discipline. I am delighted to recognise that many are members of the amj Editorial Review Board and ad hoc reviewers for the journal. The articles published in this special issue of the amj are an important record of the proceedings of the joint EMAC-ANZMAC Research Symposium, and will go some way towards enlightening, inspiring, and perhaps provoking, members of the marketing research community, including those marketing researchers who were not able to participate on the day.

Due to the success of the three BigMACs, the ANZMAC and EMAC Executives have agreed to continue with further events every 18 months, alternating between the two organisations' conferences. Thus, BigMAC4 will take place at the 37th EMAC Annual Conference which will be hosted by the University of Brighton, England, in May 2008. The respective Executives are keen that the tradition of publishing this leading-edge thinking from the two research communities continues. As Editor, I am fully supportive of the amj serving the research community in this way.

Richard J Varey
Professor of Marketing
Editor

SESSION 1

Consumer Behaviour as a Field of Inquiry – What Are Academic Researchers Missing?

Consumer behaviour as a field of academic inquiry is suffering from inadequately valid research measures and research methods for studying major consumer behaviour phenomena that are vitally important today. The series of articles by leading researchers in consumer behaviour from the ANZMAC 2006 “BIGMAC 3” research symposium outlines new measures and methods for researching four “hot topics” in consumer behaviour: values, emotions, word-of-mouth communications, and consumers’ reactions to companies’ corporate social responsibility efforts.

In the first article, John Rossiter, University of Wollongong, representing ANZMAC, offers a personal analysis of what constitutes “real Australian values.” This topic is extremely current with the proposed introduction by the Australian Government, later this year, of a “values” test within its proposed new citizenship test required of future applicants for Australian citizenship.

In the second article, Steve Bellman, Murdoch University, also representing ANZMAC, proposes a radical approach to the conceptualisation and measurement (binary yes-no measures) of complex human emotions, called type 2 emotions, after first distinguishing them from the more primitive type 1 emotions. Steve presents some supporting data from a forthcoming study by Rossiter and Bellman showing that

discrete type 2 emotions form a stepwise continuum of emotional attachment to the brand that is a strong predictor of behavioural brand loyalty, as measured by share of requirements, and heavy usage of the brand.

In the third article, Robert East, Kingston University, England, representing EMAC, advocates a new approach to measuring and estimating the effects of positive and negative word-of-mouth communication. Robert presents analyses based on his new approach that challenge conventional wisdom about the incidences and relative effects of positive and negative word-of-mouth on the acquisition and retention of customers.

In the fourth article, Suzanne Beckman, Copenhagen Business School, also representing EMAC, examines what consumers think of companies’ efforts to project an image of corporate social responsibility. This is the perceived view rather than the received view and, to summarise, the recent push by major companies to be seen as “doing the right thing by society” is met with widespread skepticism.

Taken together, the four articles offer methods and measures that depart from the traditional academic approaches to these consumer behaviour topics and it is likely that they will stimulate valuable new research.

John Rossiter
University of Wollongong

Identifying and Measuring "Australian Values"

John Rossiter

Abstract

This article criticizes the "values" component of the proposed Australian citizenship test. A comparison is made with Rokeach's values and with existing Australian School Values (from DEST) and the author identifies a set of "Real Aussie Values" that in his view represent normative Australian beliefs about how our citizens should behave. He argues, however, that it should be an unconstitutional restriction of free speech (which includes freedom of beliefs) to require prospective citizens to endorse values and that ideal Australian values can only be acquired by voluntary socialization.

Keywords: Rokeach values, Australian Schooling Values, Real Aussie Values, Australian citizenship test

Introduction

Values are a very important topic of debate in Australia at present because of the proposed introduction of an Australian citizenship test for prospective migrants to this country (Australian Government, 2006). The citizenship test will include knowledge of "Australian values." "Knowledge of" may be the attribute that is settled for in the test, but the Australian Government is further considering whether to require migrants to "abide by" these values. Requiring new citizens to abide by – "accept and live by" in the words of Parliamentary Secretary for Immigration and Multicultural Affairs, Mr Andrew Robb – would appear to be a move against multiculturalism (a word dropped from the Department's name recently, which is now Immigration and Citizenship) and toward integration and thus monoculturalism as the national ideal. There is a high probability that such a test will be implemented given a Newspoll survey (Newspoll, September 22-24, 2006) revealing that 77% of Australians aged 18 and older are in favor of it. The test is due to go to a parliamentary vote as this article goes to press.

Some countries already have citizenship tests – the U.S.A., Canada, Great Britain (actually for the whole of the U.K.), and The Netherlands among them. However, what they cover is the applicant's knowledge of the

national language, basic constitutional law, some national history, and facts useful for living in the country. *None* of the tests covers national *values* beyond the few basic ones in the nation's constitutional law. Australia would be the first nation to test explicitly for prospective immigrants' knowledge of values.

The debate over Australian values has been raging over the past year and a half in the national newspapers and on several websites operated by politically aligned commentators. But where are the views of Australia's social scientists in this debate, not the least the views of Australia's consumer behaviour theorists and researchers? The solitary Australian social scientist whom I could locate with a Web search who has spoken on the topic of Australian values is Robert Spillane of Macquarie University (Spillane, 2006) and he was talking about the values of Australian managers rather than of Australian citizens in general.

My article is the first on Australian values from a consumer behaviour theorist. The issues that I want to cover are fundamental: What is the essential set of Australian values? How can they be defined (as attitude objects – I'll leave aside the question of which is the appropriate attitude attribute for later) for measurement purposes such as on a test? How should the test be scored?

Table 1. Rokeach's (1973) instrumental-moral values and terminal-social values. [M = missing from Australian Schooling Values, 2005.]

Instrumental-moral values
1. Clean (i.e., neat, tidy) [M]
2. Forgiving (i.e., willing to pardon others)
3. Helpful (i.e., working for the welfare of others)
4. Honest (i.e., sincere, truthful)
5. Loving (i.e., affectionate, tender) [M]
6. Obedient (i.e., dutiful, respectful) [M]
7. Polite (i.e., courteous, well-mannered)
8. Responsible (i.e., dependable, reliable)
Terminal-social values
1. Equality (i.e., brotherhood, equal opportunity for all)
2. Family Security (i.e., preservation and happiness of the family unit*) [M]
3. Freedom (i.e., independence, free choice)
4. Mature Love (i.e., between husband and wife*) [M]
5. National Security (i.e., protection from attack) [M]
6. Social Recognition (i.e., respect, admiration by others) [M]
7. True Friendship (i.e., close companionship) [M]

* Explanations modified by author. Rokeach's original explanations were, for Family Security, "taking care of loved ones," which is off the focus on the family unit, and for Mature Love, "sexual and spiritual intimacy," which mixes classically (back to Plato) lower and higher moral states.

What is the Set of Essential Australian Values?

First we need to agree on the concept of a value – that is, what is a value? Milton Rokeach, an American rather than an Australian, but let's be value-free and open-minded here, has provided the most widely accepted definition of a *value* as "an enduring belief that a specific mode of conduct [an "instrumental" value] or end-state of existence [a "terminal" value] is... preferable" (Rokeach 1973, p. 5). Instrumental values (how we should behave) and terminal values (what we should aspire to as goals for daily life) fit in *general* the sorts of abstract objects that Australian values are, as we shall see.

Parliamentary Secretary for Immigration, Andrew Robb, who was charged with designing the citizenship test and released the September 2006 discussion paper on behalf of the Australian Government, which has not been updated by the new Minister Kevin Andrews, refers colloquially to values as "what makes Australia

[Australians] tick" (Shanahan and McGarry 2006, p. 1). What the Australian Government and Mr Robb may not have realized, and what has not been widely publicized, is that an Australian Government department (the Department of Education, Science and Training, DEST had, a year before, *already identified* a list of nine values for "education in Australian schools" (Department of Education, Science and Training, 2005). If these values, which I shall refer to as Australian Schooling Values, or ASVs, have been approved by the Australian Government for instilling in our school children, how could the values that we want prospective migrants to learn be any different?

But there are two problems with the ASVs. Firstly, the nine values are admirable but they are not specific to Australia. Secondly, as I will argue, they are not "what makes Australians tick." To identify the real Australian values, I argue, following the view put forward by the patriotic Australian organization, the Eureka Council

(2006), we have to look back to the first 80 years or so of rule of Australia by England – the so-called Convict Era – from whence came most of our "Real Aussie Values," with just a few modern additions.

Rokeach's Values compared with Australian Schooling Values. Rokeach (1973) identified and defined 18 instrumental values and 18 terminal values but what is little known is that he divided these theoretically into

sub-classes (1973, p. 7-8). The sub-classes most relevant for comparison with the proposed Australian Schooling Values (2005) are the instrumental-moral values (as distinct from instrumental-competence values) and the terminal-social values (as distinct from the terminal-personal values). Instrumental-moral values are those that make you feel guilty if you behave counter to them. Terminal-social values are goals that affect other people,

Table 2. Australian Schooling Values (2005), relation to Rokeach's values, and relation to "Real Aussie" values.a

Australian Schooling Value	Closest Rokeach Values	"Real Aussie Values" interpretation
1. Compassion (Act With)	<ul style="list-style-type: none"> Helpful (Instrumental) 	<ul style="list-style-type: none"> More so to own family, own mates
2. Do Your Best	<ul style="list-style-type: none"> None (neither a moral nor a social Instrumental value) 	<ul style="list-style-type: none"> Many qualifications: <ul style="list-style-type: none"> – don't bludge – average work is acceptable – if you overperform, don't boast about it
3. Fair Go To All (Always Give A)	<ul style="list-style-type: none"> Equality (of opportunity, so it's Instrumental not Terminal) 	<ul style="list-style-type: none"> Actively equalize opportunity (e.g., majority support for Government or private charity assistance for deserving "battlers")
4. Freedom	<ul style="list-style-type: none"> Freedom (Terminal) 	<ul style="list-style-type: none"> Freedom of expression for sex and swearing, yes, but not for public speech the Australian Constitution, unlike the U.S. one, offers no protection on free speech; (cf. refusal of a visitor's visa for Holocaust denier David Irving; demanding a public retraction from the Australian Muslim Sheik Hilali who opined that Australian women's immodest dress made them "meat for cats") the Australian Constitution, unlike the U. S. one, offers no protection of free speech;
5. Honest and Trustworthy (Be)	<ul style="list-style-type: none"> Honest (Instrumental) Responsible (Instrumental) 	<ul style="list-style-type: none"> To your mates but not necessarily to authority
6. Integrity (Act With)	<ul style="list-style-type: none"> None (neither a moral value, strangely, nor a social Instrumental value) 	<ul style="list-style-type: none"> Belief that "white" lying is okay and "Robin Hood" cheating is admirable
7. Respectful of Others (Be)	<ul style="list-style-type: none"> Polite (Instrumental) 	<ul style="list-style-type: none"> Okay to disrespect certain authority figures such as politicians and academics
8. Responsible and Accountable (Be)	<ul style="list-style-type: none"> No equivalents in Rokeach values 	<ul style="list-style-type: none"> Tempered by external control beliefs that the government is ultimately responsible and that "fate" makes you less accountable
9. Tolerant of Others (Be)	<ul style="list-style-type: none"> Forgiving (Instrumental) 	<ul style="list-style-type: none"> Bounded: majority believes we should be intolerant of those who deviate from Aussie norms (i.e., of multiculturalists)

not just you. In Table 1, I've listed Rokeach's eight instrumental-moral values and seven terminal-social values. I have also noted in the table which of these values are missing from the Australian Schooling Values list, which is given in Table 2 subsequently.

Missing from the Australian Schooling Values list are the Rokeach instrumental-moral values of:

- Clean (neat, tidy), an omission which won't make parents or city and neighbourhood residents too pleased;
- Loving (affectionate, tender), which is a privately okay but publicly "wimpy" value for Australians – except, apparently, on the sporting field;
- Obedient (dutiful, respectful), which, as we will see, is far too simplistic and unqualified to serve as a "Real Aussie Value" because we value disrespect of certain occupations.

The following Rokeach terminal-social values are missing from the Australian Schooling Values list:

- Family Security (preservation and happiness of the family unit), which is a value that is widely shared by Australians, although it is not distinctly an "Aussie" value;
- Mature Love (between husband and wife), which is pretty much a universal value despite the legal recognition of gay marriages in some countries;
- National Security (protection from attack), which is a universal value and has become more so in the current world climate of fear of terrorism;
- Social Recognition (respect, admiration by others), which I would say is not an Australian value and is actually contradictory to one of the "Real Aussie Values" of discouraging "tall poppies";
- True Friendship (close companionship), which is the basis, albeit a simple one, of the "Real Aussie Value" of Mateship.

It may be noted that the Rokeach Values have explanatory components (the words in brackets – see Table 1 previously) but these explanatory components of the object (Rossiter, 2002) don't actually serve any purpose because the importance ratings of the Rokeach Values are the same with or without the qualifying explanations (see the data in Rokeach, 1973, p. 32, on the re-test stability of values). The theoretical problem is

that human values are far more abstract and complex than can be captured with one or two brief qualifying explanations.

The Australian Schooling Values, as spelled out by the Department of Education, Science and Training, have the "opposite" problem. As shown in Table 3, in which the list of Australian Schooling Values is reproduced together with their "explanatory" accompaniments, the ASVs' author(s) at DEST have put their own particular "spin" on most of the values such that the explanations invoke *other* values in the Rokeach sense. Three obvious examples of this are:

- "*Fair Go*": Pursue and protect the common good (which is Collectivism, a Hofstede cultural value, see Hofstede 1991, rather than one of Rokeach's) where all people are treated fairly for a just society (Rokeach's terminal-social value of Equality – of opportunity, which is indeed what "fair go" means).
- "*Freedom*": Enjoy (!) all the rights and privileges of Australian citizenship (whatever they are) free from unnecessary interference or control (what is "unnecessary" if not *unlawful* interference and control?) and stand up for the rights of others (which is an instrumental-moral value, though it does not appear in Rokeach's list, and which goes well beyond Freedom, which is a terminal-social value).
- "*Responsibility*": Be accountable for one's own actions (which seems to overlap with the explanation of the ASV of Integrity in Table 3); resolve differences in constructive, non-violent and peaceful ways (a complex mixture of three different Rokeach-type instrumental-moral values indicating how to act); contribute to society and to civic life (Collectivism again); take care of the environment (a vague, so-called "ecological" instrumental value which, incidentally, is not on any social scientist's list of *cultural* values).

Obviously, understanding of, let alone adherence to, the Australian Schooling Values cannot be validly measured until these problems with their conceptual components are cleaned up.

Real Aussie Values. In Table 4, I have attempted to identify and articulate a tentative set of "Real Aussie Values," or RAVs, that I, as an Australian social scientist

Table 3. Australian Schooling Values with their explanatory components (DEST, 2005).

-
1. Care and Compassion (care for self and others)
 2. Doing Your Best (seek to accomplish something worthy and admirable, try hard, pursue excellence)
 3. Fair Go (pursue and protect the common good where all people are treated fairly for a just society)
 4. Freedom (enjoy all the rights and privileges of Australian citizenship free from unnecessary interference or control, and stand up for the rights of others)
 5. Honesty and Trustworthiness (be honest, sincere and seek the truth)
 6. Integrity (act in accordance with principles of moral and ethical conduct, ensure consistency between words and deeds)
 7. Respect (treat others with consideration and regard, respect another person's point of view)
 8. Responsibility (be accountable for one's own actions, resolve differences in constructive, non-violent and peaceful ways, contribute to society and to civic life, take care of the environment)
 9. Understanding, Tolerance and Inclusion (be aware of others and their cultures, accept diversity within a democratic society, being included and including others)
-

and older Australian citizen, believe "really make Australians tick," which is the criterion sought by (then) Immigration Secretary Mr Andrew Robb. Most, but not all, were drawn from my interpretations of the values identified by the Eureka Council (2006) and by the informative Web article on "convict era" values (authored as Convict Creations, 2006) as well as lots of readers' comments and columnists' opinions in our daily newspapers (see especially Evans, 2006). I propose these for your subjective evaluation here. The tentative RAVs are categorized in terms of Rokeach's four types of values (instrumental-moral, instrumental-competence, terminal-social, and terminal-individual) and, thereunder, are listed alphabetically.

How can they be defined for measurement purposes such as on a test?

The Real Aussie Values are complex and subtle, as I think the descriptions in Table 4 demonstrate. They cannot be measured directly but can be measured in the form of *situational behavioural scenarios* representing several manifestations of each of the values. It has been reported by Australian newspaper columnists (e.g., Devine, 2006) that this approach has been employed in the citizenship test used by The Netherlands, which describes scenarios such as a topless young lady running out from the surf and two men kissing and then gives several multiple-choice alternatives as to what the

"typical Dutch person's" reaction would be. This is not true; such scenarios (and these are the two most extreme ones) are in fact on a DVD received by applicants to give them an overview of Dutch customs, or life in The Netherlands, and nothing in this DVD is covered in the actual test (see www.ind.nl/EN/verblijfwijzer, a posting current from January 2004). However, the Australian test, presumably, would ask "what most Australians would do" in these situations.

How should the test be scored?

Good question! Does one qualify as a suitable migrant if one understands (gets the "correct" answer on) 50% of the values items? Or does it require 100%, allowing for a couple of misses, to claim that one fully understands what it means to be a "Real Aussie"? This is an extremely important practical question that Mr Robb's successor (Mr Peter Vardos, First Assistant Secretary, Citizenship Test and Values Statements Taskforce, Department of Immigration and Citizenship) will have to answer. Ironically, it implies values in deciding the criterion: if you "Try your hardest" (a RAV) or "Try your best" (an ASV), then presumably any score would qualify one as long as one testified to "trying hard"!

The right to free speech should scuttle the test

I close with a reason why the Australian Government should not adopt any form of values test for prospective citizens (or current citizens, for that matter). Institution

Table 4. Tentative "Real Aussie Values" (listed alphabetically under Rokeach's headings)

Instrumental-moral	Instrumental-competence
<ul style="list-style-type: none"> • Defiant non-conformity (rebel, lovable larrikin) • Disrespect academics • Disrespect politicians • Don't be self-righteous (a wowser) • Encourage those less able (underdogs, battlers) • Help all others always (lend a hand, pitch in) • Honesty (but "white" lying and "Robin Hood" cheating, such as tax evasion by little people or small businesses but not the rich or big businesses, are acceptable) • Mateship ("mates" are close friends, other than family: be undyingly loyal in support, never betray them) • Modesty in clothing is unimportant • Religious privacy is important • Respect the police • Respect schoolteachers 	<ul style="list-style-type: none"> • Don't overworship symbols or monuments (though overworship is acceptable in the sporting arena) • Laugh at yourself publicly (self-deprecating humor) • Laugh at the misfortunes of others (sledging) • Laugh at tragedies (gallows humor) • Show fortitude and courage (ANZAC spirit) • Show initiative • Try your hardest at most things (but see Work) • Work: (a) don't work below the average expectation (don't "bludge"); (b) average work is acceptable ("a fair day's work for a fair day's pay"); (c) if you do work harder than average and achieve more, don't boast about it (don't be a "tall poppy")
Terminal-social	Terminal-individual
<ul style="list-style-type: none"> • Censorship of "socio-politically incorrect" speech • Equal opportunity ("fair go") • Equal outcomes (egalitarianism, no social prestige hierarchy) • Freedom of assembly • Freedom of scatological, sexual, and blasphemous speech • Humanitarianism ("love thy neighbour, even if he's thine enemy, as thyself" – metaphorically, of course) • Justice (equal punishment for crimes judged identical regardless of who commits them and equal compensation for those absolved of crimes regardless of who is absolved) • National pride (patriotism) • Not multiculturalism (most Australian citizens believe that no citizens should be "culture dualists" or "hyphenated Australians") 	<ul style="list-style-type: none"> • Be an optimist ("she'll be right," "no worries," and believe that Australia is the "lucky" country) • Openly enjoy leisure (Australian psychologist Ronald Conway's "land of the long weekend")

of a values test or even a pledge to uphold certain values amounts to telling people what they can and cannot believe and is contrary to the *ideally* universal right to free speech. The Australian Constitution does not protect free speech (the U.S.A. is the only major nation that does so) but it should. An Amendment to our Constitution should be introduced immediately. This would make the "values" test unconstitutional.

Here's a final personal opinion. I'm sure many older Aussies like myself privately wish to see the more admirable of the Real Aussie Values perpetuated. To acquire them requires a lifetime of socialization in Australia; they cannot be studied in a short time and understood and internalized, which is what the originators of the citizenship test naively hope will happen. Moreover, the values won't really be believed in unless they are adopted voluntarily by individuals. If Real Australian Values are to survive, they must live on by natural, not governmental, means.

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Biography

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Theory and Measurement of Type 1 and Type 2 Emotions

Steven Bellman

Abstract

Rossiter and Bellman (2005) define two types of emotions, and this article describes how they should be measured. Type 1 emotions (e_1) are automatically elicited “basal” emotions that do not require cognitive appraisal—pleasure, arousal, and possibly dominance—which should be measured on a continuous scale. Self-reports are valid although arousal is more reliably measured by skin conductance (GSR). Type 2 emotions (e_2) consist of complex, differentiated emotions that do require cognitive appraisal (e.g. love, anger, contempt, empathy, nostalgia, and desire). Since cognitive labelling can show considerable variation, cross-culturally, and individually, type 2 emotions should be measured as binary (present: yes, no), using self-report ratings. A new study by Rossiter and Bellman (2007) demonstrates that binary type 2 emotions reflecting steps of attachment to the brand are important predictors of brand buying and brand loyalty.

Keywords: Emotions, Cognitive appraisals, Measurement, Brand loyalty

Introduction

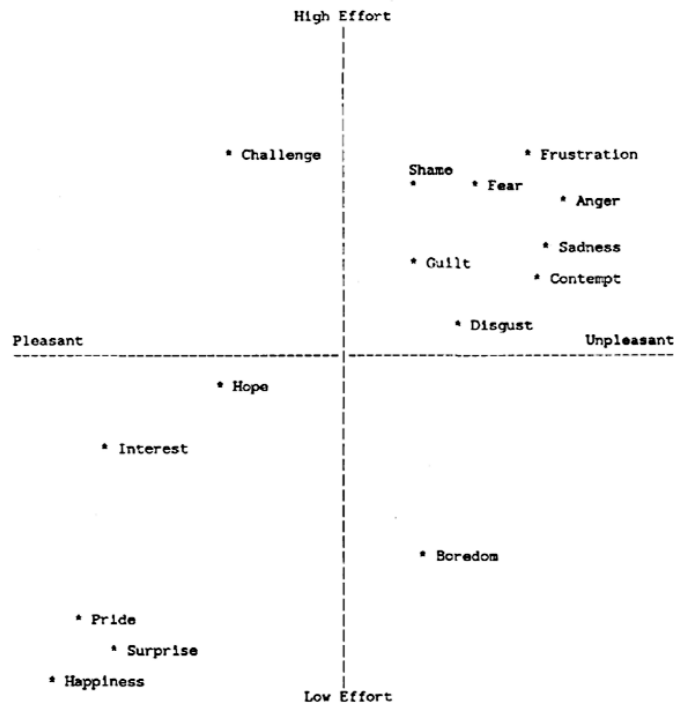
The role of emotions in consumer behaviour has received great interest lately, especially since Fournier (1998) revealed the intensity of consumers’ emotional attachment to their favourite brands. Emotions in consumer behaviour and advertising research have been conceptualized as all of the same type—namely, as state variables that vary in intensity in a continuous manner (e.g. Burke and Edell 1989; Holbrook and Batra 1987). Accordingly, emotions have almost always been measured in one way, using the continuous, typically 7-point bipolar, “semantic differential” type of scale (e.g. sad_ _ _ _ _ happy; interesting_ _ _ _ _ boring). However, Rossiter (2001 in an unpublished discussant’s paper, and in a published paper in 2005) and Rossiter and Bellman in their marketing communications textbook (2005) theorized that there are two very different types of emotions. The two types function differently—one type operates in a continuous and sometimes non-linear manner, and the other in a discrete “all-or-none” manner. Rossiter and Bellman further argued (2007) that, to be validly studied in consumer behaviour and advertising, the two types of emotions have to be measured differently.

Type 1 Emotions

Type 1 emotions (or e_1), are primitive emotions, experienced by higher animals as well as humans, and there are just three of these: *pleasure* (bipolar: unpleasant...pleasant), *arousal* (unipolar: no arousal...high arousal) and, probably, *dominance*, which is relative potency (bipolar: object felt to be more powerful than perceiver...perceiver feels more powerful than object). For the origins of these type 1 emotions, see Osgood, Suci and Tannenbaum (1957) and subsequently Mehrabian’s (1980) P-A-D variables and Russell and Feldman Barrett’s (1999) “core affect.” Some theorists, notably the early behaviorist John B. Watson (1919), have argued that anger, fear, and lust are primitive emotions but these are more correctly classified as type 2 emotions because they require cognitive labeling; unlabeled, that is, cognitively unrecognized, anger and fear cannot be distinguished from arousal, nor unlabeled lust distinguished from pleasure.

Figure 1 (from Smith and Ellsworth 1985) illustrates the problem. It shows the typical circumplex structure that type 2 emotions form when they are rated in terms of the type 1 dimensions of emotion: pleasure and arousal. Fear

Figure 1: Locations of type 2 emotions in type 1 emotional space defined by two dimensions, pleasure (pleasant-unpleasant) and arousal (low effort-high effort). Fear and anger have almost identical levels of arousal, and are very close on the pleasure dimension as well (from Smith and Ellsworth 1985, figure 1).



and anger have almost identical levels of arousal, and therefore would be impossible to distinguish if only arousal were measured (e.g. using GSR alone). They are also very close on the pleasure dimension. Even if a finely-graduated 9-point or summated scale were used for pleasure, no significant difference might be observed between these two emotions on the pleasure dimension. Yet clearly, they are two very different emotions, with, for example, opposite consequences for approach versus withdrawal behaviour. Because continuous rating scales have difficulty distinguishing these type 2 emotions, Rossiter and Bellman (2007) recommend that they be measured differently. I will return to this point in the next section on measuring type 2 emotions.

Type 1 emotions are most validly measured with continuous, or multiple answer-category quasi-continuous, rating scales. Type 1 emotions can also be measured using continuous psychophysiological measures such as galvanometric skin response (GSR), for arousal, and, for example, heart-rate acceleration-deceleration for unpleasantness-pleasantness. But while

GSR can be confidently recommended as a measure of arousal, the psychophysiological measures of pleasure have been less consistent. For example, P. Lang, Greenwald, Bradley, and Hamm (1993) found that EMG (electromyography) activity in the left corrugator (frowning) muscle was a highly reliable *negative* indicator of pleasure ($r = -.90$). On the other hand, while they found that heart rate acceleration (Δ beats per minute) was a positive indicator of pleasure only slightly less reliable than EMG ($r = .76$), A. Lang, Newhagen, and Reeves (1996) found no significant changes in heart rate when they compared negative and positive videos. Fortunately, self-reports of pleasure tend to be highly reliable, unlike self-reports of arousal. A large segment of the population can be characterized as pleasure- or valence-focused rather than arousal-focused, and for this reason, these people find it difficult to distinguish fine gradations of arousal (Feldman Barrett 1998, 2004). For these individuals, GSR is a more reliable measure of arousal. But even arousal-focused individuals, who in contrast to valence-focused individuals are very accurate

at detecting their changes in arousal, can have trouble attributing the correct source of their arousal. In excitation transfer studies (e.g. Mattes and Cantor 1982; Zillman 1971), viewers can misattribute the residual arousal from a highly exciting program, seen two and a half minutes previously, to a neutral ad currently showing on the screen. Again, GSR would be more useful than self-reports for measuring the level of long-term residual arousal and its source.

For recent evidence supporting the classic continuous but “inverted-U” effect of *arousal* (first reported by Yerkes and Dodson 1908), see Shapiro, MacInnis and Park (2002), who used six 9-point semantic differential scales (Mehrabian and Russell 1974) to measure the effects of arousal on the depth of processing of TV ads. Baumgartner, Sujan and Padgett (1997) showed that deviations from neutral in dynamically (moment-to-moment) rated *pleasure* are a strong predictor of ad-cued brand recall and also brand attitude for “transformational” TV commercials. Their findings are summarized in Table 1. For example, the intensity of pleasure felt in the last second of the ad had a high correlation with brand attitude and brand recall, suggesting that an always-increasing trajectory for pleasure ratings is key for transformational TV ads (informational TV ads have a different [roller-coaster] recommended trajectory: see Rossiter and Bellman 2005). For a classic study of retail store atmosphere demonstrating that pleasure and arousal interact in a “Hullian” multiplicative manner such that arousal increases approach behaviours in pleasant stores and

increases avoidance behaviours in unpleasant stores, see Donovan and Rossiter (1982) and Donovan, Rossiter, Marcolyn, and Nesdale (1994). Referring to Figure 1, increasing arousal would turn a type 1 pleasant emotion similar to “happiness” into “interest,” or an unpleasant emotion such as “boredom” into “disgust.” Donovan and Rossiter (1982) found their dominance scale had low reliability and insignificant relationships with any of their dependent variables, and Donovan et al. (1994) did not examine dominance in their study. As Donovan and Rossiter (1982) noted, the effects of dominance were low even in Mehrabian and Russell’s (1974) original studies. Dominance is probably best thought of as the most reliable of the many unstable factors that researchers have found in their attempts to explain differences between type 2 emotions, beyond the well-validated dimensions of pleasure and arousal (Smith and Ellsworth 1985).

Type 2 Emotions

During a typical day, an individual will experience a range of type 1 emotions (Russell and Feldman Barrett 1999). Most of these fall inside the circular space defined by the two dimensions, pleasure and arousal, that is, a moderate level of arousal, neither pleasant nor unpleasant. It is only when the trajectories of these emotions reach the edge of this circular space that a cognitive appraisal is needed, as there is no further room to drift unconsciously. These cognitive appraisals answer the questions: “what emotion am I feeling?”; “why am I feeling this emotion?”; and “what should I do next?” In other words, these cognitive appraisals identify the

Table 1: Summary of Baumgartner et al.’s (1997) findings relating to moment-to-moment rated pleasantness of the ad and to brand communication effects for “transformational” TV commercials (correlations).

Pleasant-unpleasant moment-to-moment ratings	Ad-cued brand recall	Brand attitude
Linear	.03	.29
Sum of deviations from neutral (nonlinear)	.42*	.49**
Time to peak	.30	.56**
Height of peak	.40*	.53**
Height in last second	.41*	.54**

* p < .05

** p < .01

emotion, justify or rationalize it, and suggest scripts or plans for what to do next to maintain the emotion, or change it. Type 2 emotions, or e_2 , consist of these more complex human emotions, or what Russell and Feldman Barrett (1999) called “prototypical emotional episodes,” that definitely require cognitive appraisal to distinguish them from un-named type 1 emotions with nearly equivalent levels of arousal and pleasure. For instance, emotions such as *desire* (Berridge 1999), *joy*, and *love* go beyond the basal emotion of pleasure and are associated with specific cognitions (appraisals). On the negative side, emotions such as *contempt*, *sadness*, and *anger* go well beyond displeasure and require specific cognitions to distinguish them as they are very close in terms of arousal and pleasure (see Figure 1). Indeed, levels of arousal and pleasure are so similar for many negative type 2 emotions that they are not much use for distinguishing them, which has prompted the search for additional continuous dimensions that might separate these emotions (Smith and Ellsworth 1985). These searches have proved fruitless because, as Rossiter and Bellman (2007) argue, type 2 emotions are either present or absent, they are not continuous. *Sympathy*, *empathy*, *nostalgia*, and *pride* are some others of these more complex, type 2 emotions. Quite obviously, as even a cursory inspection of TV commercials from any country will reveal, advertisers frequently attempt to generate these more complex emotions in their ads. See, for instance, Pascal, Sprott and Muehling (2002) for a study of ads designed to evoke *nostalgia* as an emotion.

Type 2 emotions cannot be measured by psychophysiological recording or even by the newer methods of brain imaging, such as fMRI. Lane et al. (1997) found some differences in blood flow in the brain associated with pleasant versus unpleasant pictures (i.e. differences in type 1 pleasure), but their general comment was how similar pleasant (approach) emotion was to unpleasant (withdrawal) emotion. Another example is the type 2 emotion of *fear*; which Watson (1919) called a basic emotion, as mentioned earlier (similarly, Darwin [1965/1872] used the examples of terror and rage as emotions that were symptomatic of “direct action of the sensorium on the body,” p. 38). Psychophysiological GSR recording cannot distinguish fear, which is high arousal coupled with negative affect, from general arousal (Thornton and Rossiter 2004 and see Thayer 1989; see also Figure 1).

To measure type 2 emotions, researchers have to rely on self-reports, or self-report ratings (see especially

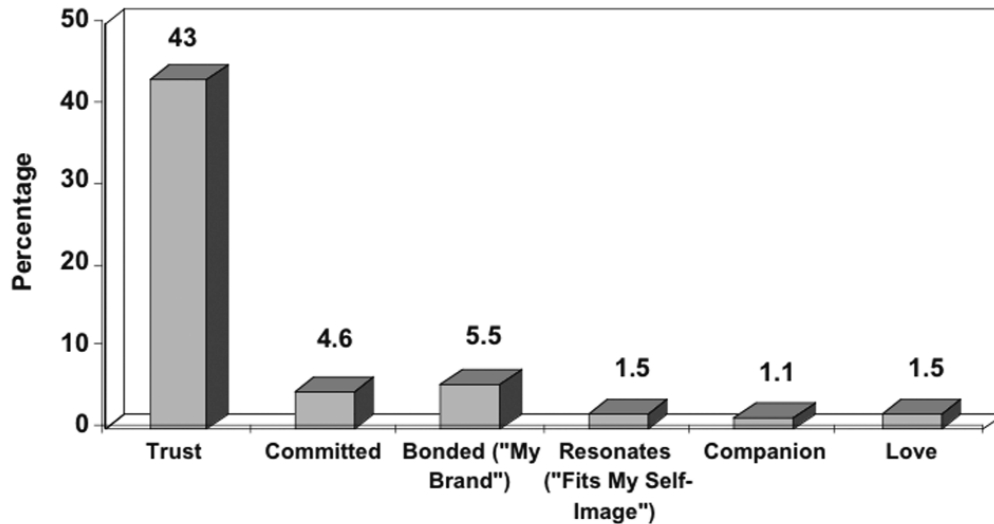
Feldman Barrett 2004). Russell, Bachorowski and Fernando-Dols (2003) present evidence that the interpretation of type 2 emotions varies considerably across cultures, which means that these self-report measures have to be customized for different countries. For example, non-Western cultures are less likely to be taken in by a fake smile. Most importantly of all, if the purpose of measuring emotion is to predict future behaviour, then that behaviour will be in line with what the individual appraises as their current emotional state, rather than what the average person would feel at those coordinates for arousal and pleasure (Russell and Feldman Barrett 1999).

Previous theorists of discrete emotions (e.g. Izard 1977; Smith and Ellsworth 1985) nevertheless measured them using continuous ratings. In a recent example, Darbyshire, Bell, and McDonald (2006) measured type 2 emotions experienced while reading a magazine, using a continuous 5-point rating scale. In all these cases, the object was to map the locations of type 2 emotions on the type 1 dimensions of arousal and pleasure, to verify the circumplex model of type 2 emotions (e.g. see Figure 1). Darbyshire et al. (2006) did not test the effects of these emotions, measured in this way, on individual behaviour, which was fortunate, as such aggregate averages of type 2 emotional responses may not be very accurate at the individual level (Russell and Feldman Barrett 1999). In other studies, researchers such as Carroll and Ahuvia (2006) and Thomson, MacInnis and Park (2005) have tried to capture consumers’ type 2 emotional attachment to brands with a continuous rating in the form of, I hate it _____ I love it. Rossiter and Bellman (2007) argue that this continuous type of rating is simply picking up *degrees of attitude* and not the discrete emotion of, in this case, *love* felt for the brand.

In their theoretical introduction to a new study, Rossiter and Bellman (2007) argue that type 2 emotions, unlike type 1 emotions, are not continuous but rather are discrete (all-or-none) and therefore must be measured *binary*. Instead of the “semantic differential” type of measure used to map location, Rossiter and Bellman used the “adjective checklist” type of measure pioneered by psychologist Harrison Gough (1960) in which only a “yes” answer is required. Such a measure is highly accurate because it reflects an individual’s own interpretation of their emotional state, rather than an average imputed from aggregated responses.

It might be argued that a simple binary measure throws away a lot of the information that would be measured in

Figure 2: Percentage of brand recognizers agreeing (“yes” on a binary scale) that they have discrete attachment emotions toward brands in four categories: laundry detergent, instant coffee, petrol, and beer.



NOTE: N = 1,025 (669 women [65%], 356 men [35%], ages 18 to 85).

a continuous scale. However, Rossiter and Bellman (2007) argue that there is no useful additional information that can be communicated about type 2 emotions, other than their presence or absence. Firstly, all previous uses of continuous scales to measure type 2 emotions have used them to identify an individual’s location in type 1 emotional space. But while a type 1 emotional state might tend towards the typical location of a type 2 emotion on the dimensions of arousal and pleasure, until an individual cognitively appraises that a type 2 emotion has come into existence, it remains a type 1 emotional state. Secondly, it might be argued that there are degrees of type 2 emotions. For example, colloquial language distinguishes between “angry” and “really angry.” But again, continuous scales in the past have been used to identify location (is the individual feeling *anger* or *fear*?), not intensity. While it may be possible to think of a vertical Z-axis of intensity that builds up from the locations of type 2 emotions in type 1 space (e.g. in Figure 1), no previous emotional theorist has conceived of such a dimension of intensity. What differentiates “angry” from “really angry” is most likely mixed emotions: the plan associated with *anger* conflicts with the plan associated with another type 2 emotion, such as *respect*, *pride*, or *love*. The binary adjective checklist allows respondents to identify many type 2 emotions as

present, whether conflicting or consonant, so that the effects of different combinations of emotions on behaviour can be examined.

Rossiter and Bellman (2007) took binary measures of six related type 2 emotions – *trust*, *committed*, *bonded*, *resonate*, *companion*, and *love*. From binary ratings on these emotions, they formed a Guttman-type overall measure of increasing steps of “attachment” to the brand. Figure 2 demonstrates that this was a reasonable interpretation of the data. It shows the percentage of people endorsing each level of emotional attachment, based on the total number of people who recognized each brand. The percentages drop in a fairly orderly fashion from two fifths (43%) for the first level of emotional attachment, *trust*, down to between one and two percent (1.5%) for the highest level of attachment, *love*. Rossiter and Bellman (2007) studied brands in two product categories for women, laundry detergents and instant coffee, and two for men, petrol and beer. They expected that women would be more likely to form higher levels of attachment with instant coffee compared to laundry detergent, and that men would be more attached to beer than petrol. While they did find some differences across categories, they were not as substantial as the differences across levels of attachment. Figure 2 combines the results for the four categories, laundry detergent, instant

coffee, petrol, and beer, as the aggregated percentages were a good representation of the results for the individual categories.

The interesting question for marketers posed by Figure 2 is whether the tiny percentage of consumers who “love” certain brands is worth much in terms of repeat buying. Rossiter and Bellman calculated a measure of brand attachment based on the highest level of the stepped attachment emotions that an individual endorsed. They then compared the predictive ability of this new attachment measure against traditional measures of brand awareness (recognition and recall, augmented by brand salience) and brand preference (using the single item 5-point scale from Rossiter and Bellman 2005).

Table 2 lists the percentage of total variance in the dependent variable (percentage of R^2) predicted by the new variable compared to the older variables. This percentage is based on a new measure of predictor importance for regression models, epsilon (ϵ), which can be interpreted as the zero order correlation between a predictor and the dependent variable, adjusted for multicollinearity (Johnson 2000). This measure of

importance gauges the practical utility of a predictor: a very important predictor can stand in for less important predictors in a reduced model. Table 2 lists the results for each of the four categories separately. For brand purchase (1 = non-zero share of category requirements, 0 = otherwise), the new measure of attachment was more important than preference for both of the categories that women answered questions about: laundry detergent and instant coffee. On the other hand, when the dependent variable was brand loyalty (% share of category requirements x category usage [frequency per week]), attachment was less important than preference for all four categories.

Table 3 lists the results of a series of hierarchical regression analyses, which tested the additional variance explained by the new attachment measure, when added to a regression model that already included the traditional measures of awareness and preference. Since the results were, like those listed in Table 2, fairly similar across the four categories, Table 3 lists only the aggregated results combining these categories. The results show that attachment, when added to (entered

Table 2: Predictors (percent of R^2 [based on ϵ]) of brand purchase, brand loyalty, and brand volume in Rossiter and Bellman’s (2007) study, for four categories.

	Laundry detergents (women)	Instant coffee (women)	Petrol (men)	Beer (men)
Purchase (1, 0) (<i>base = all</i>)				
Awareness	47%	39%	55%	29%
Preference	20	27	32	37
Attachment	33	34	13	33
Loyalty (% share) (<i>base = recognizers</i>)				
Awareness	26	22	18	35
Preference	50	52	52	53
Attachment	23	24	28	10
Volume (% share x usage) (<i>base = recognizers</i>)				
Awareness	26	23	9	36
Preference	49	36	50	30
Attachment	24	26	36	28

Table 3: Predictors (cumulative R^2 and change in $[\Delta] R^2$) of brand purchase, brand loyalty, and brand volume in Rossiter and Bellman's (2007) study (aggregated across four categories: laundry detergent, instant coffee, petrol, and beer).

	PURCHASE		LOYALTY		VOLUME	
	(1, 0)		(% share)		(% share _ usage)	
	(Base = All)		(Base = Recognizers)			
	Cum. R^2	ΔR^2	Cum. R^2	ΔR^2	Cum. R^2	ΔR^2
Brand Awareness	.40	.33***	.18	.16***	.17	.14***
Brand Preference	.58	.17***	.28	.10***	.26	.09***
Brand Attachment	.60	.02***	.33	.05***	.32	.06***
R^2	.60		.33		.32	

NOTES: Significance of ΔR^2 change for Buying (logistic regression) is based on significance of regression parameter, whereas significance of ΔR^2 change for Loyalty and Volume is based on an F -test

into the regression after) awareness and preference, contributes little to the prediction of purchase per se of the brand. However, attachment contributes substantially beyond preference (about half as much again, i.e., .05 vs. .10) to brand loyalty, and substantially beyond preference (about two-thirds as much again, i.e., .6 vs. .09) to brand volume.

Overall, our results suggest that cultivating emotions, such as “love” for the brand, would significantly increase brand loyalty and brand volume, but marketers need to concentrate on the basics of brand awareness and brand preference first. If a marketer wanted to generate more emotional attachment to a specific brand, the six binary measures Rossiter and Bellman used could be used to track the progress of a campaign.

In summary, Rossiter and Bellman's (2007) study suggests that attachment can be usefully measured in large-scale surveys, using simple binary measures of related type 2 emotions. These binary measures are more accurate indicators of the type 2 emotions people feel in relation to brands than rating scales. It is much better to directly ask the consumer whether a type 2 emotion is being felt or not than to infer its presence from the relative “strength” of emotions. Although each type 2 emotion must be measured on a binary scale, these emotions can form theoretical or empirically-derived

scales of increasing emotional reaction towards or away from an object. Such scales of type 2 emotions can be as important as more traditional measures of awareness and attitude in regression models, and add significantly to the prediction of behaviour. While this research tested the effects of related type 2 emotions, future studies should investigate the effects of conflicting type 2 emotions on consumer behaviour.

Conclusion

In summary, this article argued that the distinction Rossiter and Bellman (2005) have made between two types of emotions is valid conceptually and has important implications for the measurement of emotions as causes of consumer behaviour. Increasingly, emotions are being investigated as influences on purchase and loyalty beyond the traditional measures of awareness and attitude. Researchers need to be careful that they do not repeat these existing measures when they try to measure the independent contribution of emotions.

Rossiter and Bellman (2005) defined two levels of emotion, which need to be measured in two different ways. Type 1 emotions (e_1) are instinctive reactions that vary continuously and can be measured on continuous scales. There are basically two dimensions of type 1 emotions, pleasure (pleasantness-unpleasantness) and arousal. Arousal measures are more reliable if made

using GSR, as some people have low arousal focus, which means they are less accurate at monitoring their levels of arousal. In contrast, type 2 emotions (e_2) are extreme states of type 1 emotions that individuals have learned to associate with different cognitive appraisals. These appraisals identify the emotion, justify it, and plan future action in relation to it. What these appraisals are varies by culture but more importantly by individual; the same individuals could label identical type 1 states differently in terms of type 2 emotions. Because it is the individual's labelling that counts if you want to predict that person's behaviour, the best measure of type 2 emotions is a simple binary question: are you feeling this emotion ("yes" or "no")? A study of brand emotions by Rossiter and Bellman (2007) provides an example of how the binary approach to measuring type 2 emotions can be used to form scales of emotion that add significantly to the prediction of consumer behaviour such as brand purchase and brand loyalty.

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Biography

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Researching Word of Mouth

Robert East

Abstract

In the social sciences there are a number of important topics that do not lend themselves to experimentation or direct observation. The socialisation of children and the formation of delinquent gangs are examples. In consumer behaviour, word of mouth (WOM) is of this type. We know that WOM is the medium whereby much change comes about but research on this topic is limited by the methods available. Ideally, we would observe WOM as it occurs and monitor the consequences. In practice, WOM occurs too infrequently and any effect may be delayed so that direct observation is impossible. In this paper, I criticise the other methods and present some findings using two different methods.

Keywords: Word of mouth

Methods of Researching Word of Mouth

Text Mining on the Internet. WOM is not hard to find in consumer-generated media but there are two problems. Websites, given the purpose for which they are created, may encourage mostly negative or mostly positive word of mouth (NWOM, PWOM) and those who advise on the Internet may be different from those who give face-to-face advice. One study that sought to predict TV programme popularity from the scale of Internet comment was not successful (Godes and Mayzlin 2005).

Focus Groups present similar problems. The moderator, working for the client, may direct the emphasis toward PWOM. In an analysis of focus group transcripts, I found 200 items of PWOM and one NWOM item and this seems implausible as an accurate depiction of everyday behaviour.

Laboratory Experiments. A number of studies have examined the impact of positive and negative information presented in an experimental design (e.g., Ahluwalia et al. 2000) and Ahluwalia (2002). The main problem here is that the artificiality of the experimental situation restricts generalisation to naturally occurring behavior:

- (i) Real WOM is often solicited, and sought WOM has more impact than unsought (East *et al.* 2005).
- (ii) Experiments (e.g., Cowley and Rossiter 2005) may use symmetrically expressed PWOM and NWOM, but this may not represent the everyday pattern.
- (iii) Experiments rush the procedure. In real settings, people may receive WOM and not act on it for months.
- (iv) Ahluwalia uses attitude and cognitive items to measure impact but it would be more useful to measure the change in the probability of purchase since this relates to sales if it is accurately measured. It is not helpful to detect increases in commitment to a brand that have little impact on sales.

Role-Play Experiments. What would you do if? These are useful but they do not measure real behaviour (and may measure consumers' lay theories of influence).

Field Experiments. These permit measurement of sales effect but the measurement of any WOM may require recall (e.g., Arndt 1967).

Retrospective Surveys. Recall error is the main hazard. Ratio measures resolve this if the recall error is the same

but this is an assumption. For example, the recalled impact of NWOM might be raised by bias compared with PWOM so that measures exaggerate it. Retrieval bias (Tversky and Kahneman 1973) and prior expectations (Craik and Lockhart 1972) are both likely to skew the results. Academic surveys often use convenience samples and reviewers often comment that this is a problem but a solution to this problem is rarely offered. Interestingly, experiments use convenience samples but this is rarely seen as a problem. Authors need to detail the population from which a sample is obtained so that judgements may be made about the typicality of results and the study can be replicated. An example might be the use of students when investigating WOM about mobile phones and airtime. We find that young people produce more WOM than older people on this topic so a student sample might produce untypical rates.

My Approach to WOM Research and Some Findings

I used two different methods in my research on the impact of WOM: role-play experiments and retrospective surveys. In the case of the role-play experiments, we asked people to imagine the impact on their decision of two symmetrically phrased forms of advice, one positive and the other negative, about an unspecified brand in a category that they used. They were asked to respond on a 7-point scale of impact. We covered 15 different categories.

Negative vs. Positive WOM. The results slightly favoured of PWOM when the data were analysed at the category level ($p < 0.1$ using a Wilcoxon exact test) but, in some categories, NWOM had more effect than PWOM.

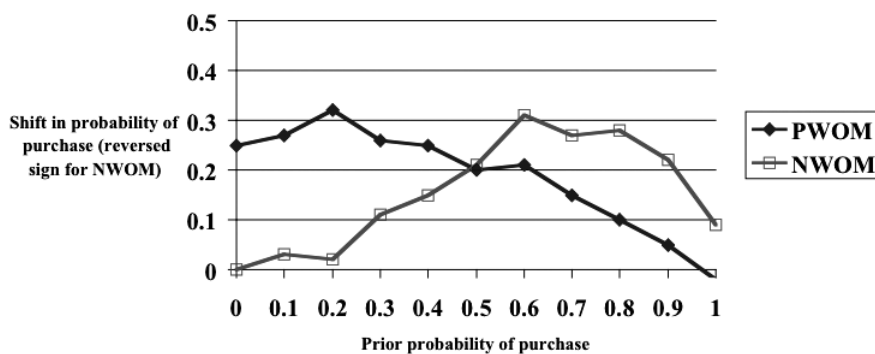
When the data were pooled across categories and analysed at an individual level, the dominance of PWOM was clear statistically ($p < 0.001$) but this did not alter the fact that the difference in the impact of the two forms of WOM was not large.

In the surveys, we asked respondents if they had received either positive or negative WOM. If they had received either, we asked whether the last instance had affected their decision. This time we used 12 categories. For each category we could report the percentage of those who stated that they had been influenced by the two forms of WOM. In some categories NWOM had more effect but, overall across categories, PWOM had more effect ($p < 0.02$). On average, PWOM influenced the most recent decisions of 66% of individuals, and NWOM, 51%.

WOM and Purchase Probability. We also used a more sensitive measure of purchase intention (Juster 1966). We asked people to state how likely they were to buy the brand before receiving WOM and then again after receiving WOM. The purpose was quite transparent – to measure the shift in the probability of purchase. When we did this we found that PWOM resulted in an average shift of 0.22, and NWOM of -0.16 , and this difference was significant ($p < 0.02$). So, yet again, we find that positive WOM has rather more impact than negative WOM, but the difference was not large and varied across categories.

There is a surprisingly simple explanation for the way in which the impacts of the two forms of WOM differ across categories. If the probability of purchase before WOM is less than 0.5, there is more room for PWOM to increase this probability than for NWOM to reduce it. If

Figure 1: Shift in Probability of purchase as a function of prior probability of purchase (data from 12 studies)



most categories have an average prior probability of purchase of less than 0.5, this would explain the overall superiority of PWOM, but variation in prior probability across categories could explain why sometimes NWOM has more impact than PWOM. This was quite well supported.

The association between prior probability and the shift in purchase probability becomes even clearer when plotted (Figure 1). Prior probability averaged about 0.4 for both PWOM and NWOM conditions. There is a fairly linear association except at low levels of prior probability in the case of PWOM and high levels of prior probability in the case of NWOM. Both of these departures from the linear can be explained as an effect of brand commitment – to some other brand in the case of positive WOM and to the focal brand in the case of negative WOM.

Subscription vs. Repertoire Categories. Also, we reasoned that brand commitment would be stronger for subscription categories (where consumers choose one brand for the subscription period) than for repertoire categories (where consumers can choose from several brands on multiple occasions) since gaining or losing a brand is of less consequence when you can have several. So we separated the data into repertoire and subscription and plotted it (Figures 2 and 3). These graphs show little difference between the plots for most of the range but, in the commitment area, repertoire brands are less deflected.

This story has a number of strengths. The theory was generated before the data were gathered and thus our approach has been hypothetico-deductive. The theory is

Figure 2: Positive word of mouth (PWOM): Shifts in the probability of purchase for repertoire and subscription categories

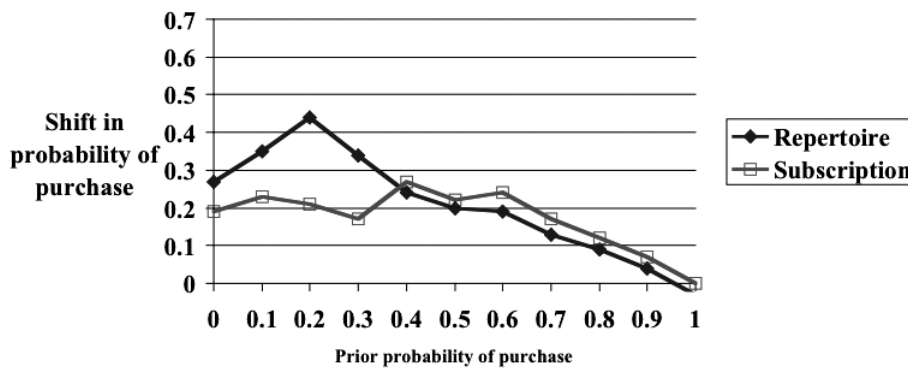
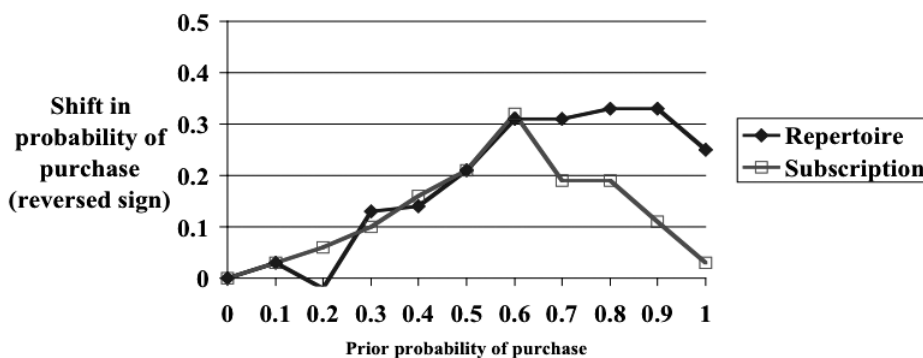


Figure 3: Negative word of mouth (NWOM): Shifts in the probability of purchase for repertoire and subscription categories



general and can be applied to other influences than WOM, and this leads to a number of applications.

However, our main finding on the relative impact of positive and negative WOM rests on an assumption that our subjective measures are biased to the same degree so that a ratio removes this bias. There is likely to be some residual bias favouring either PWOM or NWOM. This bias may be based on the availability heuristic: that knowledge that is more retrievable from memory is assigned more weight in subjective judgments (Tversky and Kahneman 1973). This suggests that research should be conducted on the relative availability of positive versus negative WOM content. Experiments might be used to estimate the extent of such bias. Another explanation for bias is that existing knowledge acts as a frame of reference for interpreting new stimuli (Craik and Lockhart 1972). It would therefore be useful to find out what people believe about the relative impact of positive and negative WOM (i.e., their lay theories). We can manipulate the salience of such beliefs experimentally and see whether they affect participants' reports more when they are made more salient.

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Biography

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Consumers and Corporate Social Responsibility: Matching the Unmatchable?

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Abstract

Research addressing the relationships between corporate social responsibility (CSR) activities and consumers-as-stakeholders' perceptions, attitudes and behaviours is dispersed over a range of topics, subsumed under different marketing concepts, and in general surprisingly under-researched given the centrality of CSR in both the normative management literature and public discourse. This paper gives an overview of the past two decades of research on consumers, marketing and CSR, taking the classical consumer decision-making model as frame of classification. The analysis reveals a significant methodology factor and a serious lack of knowledge concerning the consequences of strategic CSR activities.

Keywords: Corporate social responsibility, Consumers as stakeholders, Marketing and consumer research

Introduction

Why do consumers perform altruistic acts such as financial contributions to charitable organizations, paying more for environmentally responsible products or even donating organs? One of the explanations is the desire to experience a "warm glow" (Andreoni, 1990), which contradicts the traditional economists' view of people as selfish utility maximisers. But do consumers also experience a "warm glow" vis-à-vis companies that perform altruistic acts and reward them, thus leading to enhanced corporate reputation, brand image and customer loyalty?

One of the central arguments in favour of corporate commitment to, and engagement in, social responsibilities is the "stakeholder" argument: a socially responsible company is supposed to address the concerns and satisfy the demands of its main stakeholders (e.g., Donaldson & Preston, 1995; Jones, 1995; Maignan, Ferrell & Hult, 1999; Waddock, 2000). Stakeholders are those actors who can, directly or indirectly, affect, or be affected by, corporate activities such as customers, suppliers, employees, shareholders, the media, investors, regulators, and interest organizations (cf., Freeman, 1984).

Among the key stakeholders of companies in the

marketing exchange process are, of course, consumers (Folkes & Kamins, 1999; Hunt & Vitell, 1992). However, research addressing the relationships between CSR activities and consumers-as-stakeholders' perceptions, attitudes and behaviours is lacking. Moreover, as will be seen below, the few studies investigating consumers' responses to marketing management of CSR are concerned with a wide and not necessarily coherent range of issues. Studies explicitly investigating consumers' responses to the communication of CSR are scarce.

This paper addresses what we know so far as when, why, and how consumers respond to which CSR activities. This assessment is used to identify crucial research issues for organizations willing to engage in CSR activities and interested in communicating their engagement to their main stakeholders. A brief introduction to the history of CSR-related thinking in consumer and marketing management research provides the background necessary to understand the current state of research on CSR.

Old Wine in New Bottles?

Traditionally, and put very simply, marketing managers have conceptualised marketing performance in terms of sales, profit, or market share goals in relation to a

particular product or service within a particular time period, taking a *shareholder* perspective. However, the *stakeholder* perspective is increasingly gaining ground, and companies have been put under growing pressure to exhibit good corporate citizenship in each country in which they operate (Pinkston & Carroll, 1994), both in marketing and general managerial terms. Public discourse indicates that companies are today more than ever supposed to fulfil their economic, legal, ethical, and discretionary obligations not only vis-à-vis their shareholders but increasingly also towards employees, customers, other stakeholders, and the community at large (Sen & Bhattacharya, 2001). Corporate social responsibility has thus become a popular concept with practitioners as well as academics (Brown & Dacin, 1997; Handelman & Arnold, 1999; Osterhus, 1997) and many advocate that CSR activities should be regarded as the entry ticket to doing business in the 21st century (e.g., Altman, 1998).

However, this suggestion is by no means new. Both the management and marketing literatures have discussed social responsibility for many decades, dating back to at least the 1930s (in the USA, e.g., Berle & Means, 1932). In the management literature, the 1960s and 1970s witnessed a strong interest in CSR that has since surfaced at regular intervals. For instance, Austin (1965) argued that business leadership had to appraise the social effects of its strategic policy decisions and technological advances, not least to prevent too much governmental interference through regulations. Along similar lines, Grether (1969) suggested that social involvement of private business was necessary and should occur through the open competitive market system, thus meeting the requirements of both social performance and competitive market performance: "Inevitably, large, diversified national and multinational corporations interlinked so broadly and deeply at so many levels carry very heavy social responsibilities" (p. 41).

Similar concerns were raised in the marketing literature. For instance, Lazer (1969) called for a much broader understanding of the marketing concept that sees marketing responsibilities extending beyond the profit realm and as "an institution of social control instrumental in reorienting a culture from a producer's to a consumer's culture" (p. 3) – a perspective that later found resonance in the concept of market orientation (Jaworski & Kohli, 1993; Kohli & Jaworski, 1990). Similarly, Lavidge (1970) claimed that marketing not only had become broader in function and scope, but was

increasingly confronted with requests to redress irresponsibilities. He also underlined the dynamics of requirements: "History suggests that standards will be raised. Some practices which today are generally considered acceptable will gradually be viewed as unethical, then immoral, and will eventually be made illegal" (p. 25) – a statement that certainly holds true if one looks at the past three decades!

Another strand of the marketing literature is social marketing, i.e., the applicability of marketing concepts to the advancement of social causes (e.g., Kelley, 1971; Kotler & Zaltman, 1971). Along similar lines, cause-related marketing has become a popular topic, defined as the "the process of formulating and implementing marketing activities that are characterized by an offer from the firm to contribute a specified amount to a designated cause when customers engage in revenue-providing exchanges that satisfy organizational and individual objectives (Varadarajan & Menon, 1988, p. 60; see also Cornwell & Smith, 2001; Lafferty & Goldsmith, 2005; Strahilevitz, 1999). The 1980s and 1990s then heralded a more managerial approach to marketing, social responsibility and business ethics (e.g., Drumwright, 1994; Robin & Reidenbach, 1987; for a meta-analysis of the marketing and consumer research literature with a focus on environmental issues, see Kilbourne & Beckmann, 1998).

The marketing literature mainly uses the same understanding of the rationale of CSR as do other disciplines, namely the stakeholder approach. However, the elements that actually constitute CSR are less agreed upon, stretching from Carroll's (2000) "four faces of corporate citizenship," embracing economic, legal, ethical and philanthropic components, to Lantos (2001, 2002), who argues for rejecting altruistic (philanthropic) CSR, but including ethical and strategic objectives of CSR.

Mapping the Field of marketing and consumer research

Again, a brief historical overview assists in understanding the roots of the consumer perspective on CSR. Similar to the situations in the management and marketing literatures, consumer behaviour studies – in the Anglo-Saxon literature – can be traced back to the 1970s, most of them referring to Berkowitz's and Lutterman's (1968) profiling of the "traditional socially responsible personality." Typical of academic marketing research at that time, most studies focused first on

demographic and later on sociographic and psychographic criteria in order to pinpoint viable consumer segments for socially responsible marketing efforts (Anderson & Cunningham, 1972; Brooker, 1976; Kinnear & Taylor, 1973; Kinnear, Taylor & Ahmed, 1974; Mayer, 1976; Webster, 1975; Scherhorn & Grunert, 1988). The results of these studies were frequently inconclusive and sometimes contradictory. The “green consumer” research stream nonetheless precipitated, at least for a short period, a flurry of “green” products, “green” ads, and interest in energy conservation, waste handling and recycling. Another major stream of research, beginning in the early 1980s, investigated the antecedents of socially responsible behaviours such as recycling or buying of “green” products, sometimes with the objective of developing communication campaigns to encourage these behaviours. Again, results were inconclusive in developing the link between environmental attitudes and environmentally responsible behaviour (Balderjahn, 1988; Beckmann, 2005a, 2005b). This stream also introduced other concepts such as knowledge measurement, motivation, peer influence, cost-benefit analysis, and financial incentives as variables for research (see both Kilbourne & Beckmann, 1998, and Ölander & Thøgersen, 1995 for reviews).

Many consumer behaviour studies are grounded in the cognitive information-processing paradigm and assess the antecedents, correlates and consequences of various stages in the consumer decision-making process: need recognition - information search - evaluation of alternatives - purchase - post-purchase usage experiences - disposal. These stages can be interpreted as follows in the context of CSR:

- Need recognition refers to consumers’ awareness of and interest in companies’ CSR activities as an additional *product* attribute that may be grounded, for instance, in environmental attitudes or beliefs that purchase decisions have political implications.
- Both information search, actively and passively, and the evaluation of alternatives are influenced by attitudes and beliefs concerning product, brand and/or company. Attitudes and beliefs, in turn, are clearly influenced by personal, non-commercial and commercial sources of information.
- Purchase is most often measured as purchase intentions, in this case of products and services from companies engaging in CSR activities.

- Experiences with purchased products and services are insofar relevant, as negative experiences, for instance concerning quality expectations, might counterbalance attitudes and hence decrease consumer loyalty.
- Product disposal is relevant for some types of products and can form the final stage in the decision sequence.

Very few studies of consumer CSR, however, address this sequence explicitly. In most cases, one or two stages and a selection of their corresponding concepts are investigated – either by qualitative or quantitative methods. It is also important to point out that the stages can be iteratively linked and that some of the concepts are not necessarily related in a clear-cut cause-effect sequence. Table 1 reflects this somewhat muddy state of affairs (and thereby the complexity of human beings) in that the four main stages are only implicitly represented.

Some other limitations also apply: In many of the studies referred to in the table, only certain aspects of CSR activities are addressed, thus providing a limited picture of consumer responses to CSR. Rarely is the whole spectrum of activities addressed, which could either indicate that most companies do not engage in the full range of CSR activities or, from a methodological perspective, that the study design becomes too complicated to deliver valid and reliable results if the full range were to be investigated. Another important caution concerns the fact that most studies reviewed here have been conducted in the USA, which for cultural, political and historical reasons limits the generalisability of their findings (cf., Morsing & Beckmann, 2006 on explicit versus implicit CSR in Denmark, following the framework of Matten & Moon, 2004).

In terms of the above model of decision-making stages, the findings in Table 1 can be summarized as follows:

- “Need recognition” (awareness, knowledge and interest): The majority of consumers confess to interest in CSR issues, but there is considerable heterogeneity among consumers in terms of awareness and knowledge of companies’ CSR activities. The majority of consumers seem not to be aware that by and large many companies engage in at least some kind of CSR activities. And other consumers are sceptical or even cynical about companies’ CSR communication.
- Information search and evaluation of

Table 1: Overview of Main Findings concerning Consumers and CSR.

Main findings	Source
<i>Consumers are aware of and interested in CSR and say that CSR is a purchase criterion</i>	Creyer & Ross, 1997 Handelman & Arnold, 1999 Lewis, 2003
<i>CSR increases positive attitudes towards the company and/or the brand</i>	Brown & Dacin, 1997 Lichtenstein, Drumwright & Braig, 2004 Murray & Vogel, 1997
<i>CSR functions as “insurance policy” in crisis situations: the importance of pro-active CSR commitment</i>	Dawar & Pillutla, 2000 Klein & Dawar, 2004 Ricks, 2005
<i>CSR activities have positive spill-over effects to strategic alliances (sponsorships, co-branding, not-for profit)</i>	Cornwell & Smith, 2001 Lafferty & Goldsmith, 2005 Ross, Patterson & Stutts, 1992
<i>Consumers’ attitudes are more affected by unethical behaviour than by pro-CSR behaviour</i>	Elliott & Freeman, 2001 Folkes & Kamins, 1999
<i>Lack of knowledge, awareness and/or concern – and very little knowledge about which companies are CSR committed or not</i>	Auger et al., 2003 Belk, Devinney & Eckhardt, 2005 Boulstridge & Carrigan, 2000 Carrigan & Attalla, 2001
<i>Consumers’ support of the CSR domain chosen by the company matters</i>	Lichtenstein, Drumwright & Braig, 2004 Sen & Bhattacharya, 2001
<i>Trade-off effects in favour of traditional decision criteria (“Old habits die hard”)</i>	Andreu et al., 2004, 2005 Beckmann et al., 2001 Boulstridge & Carrigan, 2000 Carrigan & Attalla, 2001 Mohr, Webb & Harris, 2001
<i>Product category and/or price play a role</i>	Elliott & Freeman, 2001 Mohr & Webb, 2005 Strahilevitz, 1999 Strahilevitz & Myers, 1998
<i>Little willingness to pay more: the effect of personal cost-benefit analyses</i>	Creyer & Ross, 1997 Osterhus, 1997
<i>Scepticism and cynicism concerning corporate CSR (communication)</i>	Mohr, Webb & Harris, 2001 Sen & Bhattacharya, 2001 Swaen & Vanhamme, 2004
<i>Consumers distinguish between personal and social consequences of ethical/unethical company behaviour</i>	Baron, 1999 Pitts, Wong & Whalen, 1991
<i>Pro CSR consumers do exist, but profiling them is difficult</i>	Auger et al., 2003 Hustad & Pessemier, 1973 Mohr, Webb & Harris, 2001 Roberts, 1995, 1996
<i>National and cultural differences do exist</i>	Andreu et al., 2004, 2005 Maignan & Ferrell, 2003

alternatives/attitudes and beliefs: In general, consumers have a favourable attitude towards companies that engage in CSR. Several aspects however complicate the picture – overall company reputation, the fit between company and cause, personal connection to the cause that is represented by the company's CSR activity, distinction between proactive and reactive CSR initiatives, product quality and price. And it goes for almost all instances that the relationship between expressed attitudes and active consumer choice is weak.

- **Purchase (intentions):** Most consumers are unwilling to compromise on core product attributes such as price and quality. However, a pro-active stance towards CSR functions as an “insurance policy” in, for instance, product-harm crises. Similarly, consumers appear to be more resilient to negative information about a CSR committed company and stay loyal when there is an occasional lapse on its part. Additionally, consumers are obviously more sensitive to unethical than to responsible behaviour, i.e., “doing bad” hurts more than “doing good” helps.
- **Post-purchase experiences:** Since the majority of consumers, as stated above, trade off CSR features for “traditional” attributes, a negative experience with product or service quality will in most cases backfire and thus prevent re-purchase despite CSR activities.

All these findings are complicated by the fact that there are individual, social and national differences that cut across the stages and concepts associated with them. And unfortunately they do not relate in a simple, straightforward manner to, for instance, demographics such as gender and age or one's socio-economic position in society. Nor can they be predicted conclusively from situational factors such as the product, price or purchase environment. Moreover, individual differences also may involve selectively ethical interests: the same consumer choosing a brand because it is environmentally responsibly produced may be unaware of or disinterested in issues such as fair worker treatment and racial discrimination.

One of the few consistent results that has emerged in several studies, though, is that an important predictor of ethical consumer behaviour is past behaviour relating to social causes – in other words an anti-nuclear energy activist in the late 1970's becomes an organic produce

consumer in the 1980s and a CSR-rewarding customer in the 1990s.

The Methodology Factor

There is, however, another important issue that affects conclusions and recommendations on how to handle consumers and CSR. All the research studies listed in Table 1 were scrutinized for the methodology applied to data collection and analyses. Three different generic approaches were identified: questionnaires in survey studies often analysed by simple frequency and correlation analyses, experimental designs leading to multivariate analyses, and qualitative research using text and content analysis. The overall finding – regardless of respondent type, concepts studied or cultural factors - reveals a strong and consistent effect of methodology:

- Opinion poll or attitude surveys suggest high levels of consumer interest in CSR and usually positive effects on product evaluations and purchase intentions.
- (Quasi)experimental designs lead to either inconclusive or more complex results.
- Qualitative research (focus groups, depth interviews) mainly reveals disinterest, lack of knowledge and scepticism.

The cynical conclusion is therefore that the preferred outcome should determine the data collection method. If the board of directors is to be convinced of the necessity of a CSR policy, then present opinion poll results. If to choose which CSR activity fits which target group, combine surveys and experimental design. And if to refute attempts to introduce CSR activities, choose focus groups.

The constructive approach is, of course, to carefully choose the most appropriate method(s) for answering satisfactorily a given research question. Along similar lines, Bhattacharya and Sen (2004) state: “...[This] underscores the need for better measurement models of CSR that capture and estimate clearly the effects of a company's CSR actions on its stakeholders, including its consumers” (p. 22).

Conclusion

Reviewing the past decade of research into consumers, marketing and CSR, it can safely be stated that the effects of CSR initiatives are anything but straightforward and depend on a number of factors that are intertwined in a complex manner: consumers'

interest in some CSR and disinterest in other CSR activities (which in turn is grounded in values held by citizen-consumers); their information and knowledge level; consumer-company congruence; relevance of other product or brand attributes; evaluations of trade-offs between CA (corporate associations) and CSR; and the perceived credibility of various CSR information sources. Furthermore, there are cultural differences that suggest a strong influence of the economic, technological, political and social context within which any assessment of the (communication) effects of CSR activities on consumers' responses need to be analysed.

So the answer to the introductory question of whether consumers experience a "warm glow" vis-à-vis CSR committed companies is: yes, quite a few consumers feel positively, and yes, they will reward these companies, though much more in an intangible manner – enhanced corporate reputation and brand image – than a tangible manner that is directly reflected in the company's "bottom line." CSR's influence on consumers' behaviours is much more complex and tentative than its effects on their attitudes and beliefs. Moreover they are more sensitive to negative CSR information than to positive CSR information, thus increasing the risk of boycott of events of perceived social irresponsibility (Beckmann & Langer, 2003).

The contribution that consumer behaviour and marketing (communication) research can make towards a better understanding of consumers and their responses to CSR is suggested to consist of three sets of questions, listed below and admittedly not exhaustive:

Who are they?

- What do we know about our target group?
- What are their interests (CSR domain)?
- What is the context of their potential ethical purchase behaviour?
- Who are other influential stakeholders (e.g., media)?
- Which consumer segments are more likely to trade-off CSR for other product/service attributes?

What and how should be communicated?

- Which ethical issues are top-of-mind for a given target group?
- How are CSR issues ranked in importance by a given target group?

- Under which conditions does CSR communication have a positive, negative or neutral effect?
- Which media channels should be chosen once the above is known?

How well aligned are company performance, communication performance and CSR performance?

- Is the fit between company offering and chosen CSR cause logical, trustworthy and convincing?
- Is there a past negative history that can colour the perception of the present alignment or attempts for alignment?

Of paramount importance, though, to answer these - and other - questions satisfactorily is a rigorous and relevant methodology that avoids, among others, the pitfalls of social desirability, bias in rating scales and attitude-behaviour gaps.

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Biography

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SESSION 2

Major Marketing Traditions – Where Are We, Where Are We Going, and Where We Should Be Going and Why?

Marketing as a discipline is about 100 years old, or reaching its “vigorous 50s” if we regard the emergence of the “marketing management” school as the starting period in the 1950s. Even in the mature age of the discipline, marketing scholars are still debating the theoretical bases of marketing and its managerial and social relevance (see, for example, the *Journal of Marketing*, October 2005, and Vargo and Lusch, *Journal of Marketing*, January 2004). Three themes come through in this discourse that are addressed in these presentations:

- That there is a widening gap between marketing theory and its corporate applicability (“we are not in the boardroom”).
- That marketing is “not a science” (we as marketing scholars are more like “spin doctors”).
- That marketing needs a new dominant logic (in other words, a new theoretical paradigm).

The questions posed by the second session of the ANZMAC & EMAC Research Symposium at the 2006 ANZMAC Conference were highly challenging, reflecting the ongoing discussion about the theoretical bases of the discipline and its managerial and social relevance. These issues were addressed by (in alphabetical order) Kristian Möller (“Marketing Research Traditions – Towards Theoretical Unification or Pluralism”), Stephen L. Vargo (“On A Theory of Markets and Marketing: From Positively Normative to Normatively Positive”), and Ian F. Wilkinson and David M. Gray (“The Production and Consumption of Marketing”).

Kristian Möller suggested that we should conceive marketing as a multi-layered research domain involving the behaviors of actors and institutions representing no less than eight interrelated layers. This view is broader and more complex than traditionally embraced by the

managerially-oriented research into marketing. Moreover, each layer is often approached from different research perspectives resulting in a fragmented knowledge base. This is inevitable, argued Möller, as each school of thought is based on different assumptions. He supported this view by comparing the marketing management, services marketing, marketing channels, interaction and network approach in business marketing, and relationship marketing traditions. These were found to be based on distinctive and different assumptions about the (i) marketing exchange relationships (varying in the intensity of interaction), (ii) the assumed context of this exchange (market, relationship, or a network), and (iii) the actors carrying out the exchanges (individuals, organizations, networks); in addition to their epistemological and methodological bases. This suggests that marketing cannot be covered by any single “logic”. Möller advised marketing scholars to become “multilingual” in the theories in marketing. This would lead to better understanding of their strengths and limitations and thus to superior use of theories as sense making tools.

Stephen Vargo argued that marketing has inherited its theoretical foundation from the normative economic theory of Adam Smith. He saw this normative emphasis and the “good-dominant logic” as severe limitations in the endeavor of understanding the positive issues of how value is created and exchanged in the economy. This attempt to develop a positive theory of marketing on the normative foundation has led, Vargo contended, to the current fragmentation to such sub-disciplines as, e.g., business marketing, services marketing, consumer behavior, as well as to alternative approaches to research. Drawing on his work on the “service-dominant logic” (Vargo and Lusch, 2004) Vargo suggested that this approach, emphasizing the positive understanding of the value creation processes involving both the marketers and customers, is providing a unifying force for

integrated theory development in marketing and markets. The key is the adoption of value creation as the unit of analysis and focusing on how resources are used and integrated in value creation processes.

Ian Wilkinson, drawing on his paper with David M. Gray, explored the conditions influencing the production and consumption of marketing theory, focusing especially on the discrepancies between academic marketing theories and the 'practical' theories demanded by managers. By adopting two dimensions, the degree of awareness of both academics and practitioners of marketing theories, and the degree of application by both academics and practitioners of marketing theories within the context of their profession/industry, Wilkinson proposed two typologies describing the application of marketing theory by practitioners and academics. The practitioners

can be "theory driven" (high awareness, high application), "naïve" (low awareness and application), "pragmatic" (low awareness, high application), or "constrained" (high awareness, low application), and correspondingly the academics are either "reflective" (high awareness and application), "naïve" (low awareness and application), "pracademic" (low awareness, high application) or "constrained" (high awareness, low application). In discussing these types, Wilkinson made several conclusions for how to better match the demand and production of marketing theories. The Pracademics and Theory Driven Practitioners seem best placed to bridge the evident gap.

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The Production and Consumption of Marketing Theory

Ian F. Wilkinson & David M. Gray

Abstract

The production and consumption of marketing theories are subject to two different technologies and processes that are not always mutually compatible. This gives rise to various types of discrepancies between academic marketing theories and those demanded by managers. We identify the main types of discrepancies and link them to the nature of the marketing theory consumption process of managers, and draw parallels to the problems of matching demand and supply in the markets for products and services. Our analysis provides a different perspective and deeper understanding of the statement “it is all very well in theory but no good in practice” and offers ways of addressing the issues involved that draw on some aspects of marketing logic.

Keywords: Theory, Practice, Implementation, Management, Academic, Relevance

Introduction

During the furor of debate about the nature of science and marketing theory that took place in various marketing related journals in the 70s and 80s, Peter and Olson (1983) wrote a provocative article entitled “Is Science Marketing?” In this they portrayed science as a special case of marketing: “the marketing of ideas in the form of substantive and methodological theories” (p111). This article can be regarded as a further extension of this line of reasoning that goes beyond the idea of science as marketing in the sense of tailoring and selling theories that have been produced by scientific research to identified target markets. We do not adopt this implicitly sales orientation approach to science but examine the larger systems involved in the production and consumption of marketing theories and the problems of matching demand and supply.

Our approach is Aldersonian; we seek to understand how production, supply and consumption systems work and how they are linked as a basis for understanding how to make them work better (e.g. Alderson 1957, 1958). There is a long history in marketing of analyzing and characterizing the tasks of marketing and market transactions in terms of the discrepancies or separations that exist between supply and demand; between the production and consumption of products and services,

such as time, value, ownership, place and assortment. These concepts can be traced to the work of McInness (1964) and Alderson (1957) and even earlier (e.g. Dixon 1990, 2002) and are often used in marketing textbooks. In a similar way we may conceive of a “market” for marketing theories, resulting from a division of labour between marketing academics, who produce marketing theories, and practitioners, who are potential consumers of these theories. Just as in any market, discrepancies exist between the kinds of theories produced and the kinds of theories consumers demand and use, i.e. their theories in use. These discrepancies arise because the context, technology, logic and processes of theory production and supply are not the same as the context, technology, logic and processes of theory consumption. Ideas are produced in different forms, times, places and assortments by often different types of people located in different institutions with different mind sets, social milieu and incentive structures. The purpose of this paper is to identify the main types of discrepancies that exist in the supply and demand of marketing theories, to discuss why they exist and the opportunities and problems that arise for better matching demand and supply.

The paper is organised as follows. First we consider the main characteristics of the systems for producing and supplying marketing theories and contrast them with

marketing theory consumption systems. It is not our purpose to provide a systematic analysis of the theory production process i.e. scientific method. This is the domain of the philosophy of science and was well aired in the debates of the 70s and 80s in various marketing journals. For an integrated framework of the processes of science see Wilkinson and Young (2002). Next we identify and analyse the main types of discrepancies that arise between the demand and supply of marketing theories in terms of a planning, decision making and implementation framework. This is followed by a discussion of the types of relations that exist between different types of producers and consumers of marketing theory and the problems involved in successfully establishing, developing and maintaining different types of relations. We conclude by considering the extent to which and the ways in which the demand and supply of marketing theories should and could be better matched and what this means for academics and practitioners. Some research opportunities are also identified.

The Demand and Supply of Theories

Discrepancies between the demand and supply of marketing theories are reflected in arguments made about the usefulness or lack thereof of marketing and management theories by practitioners. The central issue is that of the relationship between marketing theory and practice. This is a controversial subject that has led some to argue that, on the basis of what research is currently being published by academics, “marketing practitioners should not read academic journals and should not attend academic conferences”, and that “in its present state, academic research in marketing should be ignored by marketing practitioners” (November 2004, p40). In addition “It is all very well in theory but no good in practice” is a common lament of students and practitioners. However, there is also the opposite sentiment that “there is nothing as practical as a good theory,” (Lewin 1945, p129). Indeed, Christensen and Raynor (2003), writing in the Harvard Business Review, explain “why hard-nosed executives should care about management theory” and Lundberg (2004) echoes these sentiments in an article in Business Horizons. Let us consider the systems of demand and supply for marketing theory.

The Demand for Theories

The demand for theory by practitioners is reflected in their theories in use, mental maps or schemas that underly their decisions and actions (Argyris and Schon

1974, Gell-Mann 1995, Weick 1995, Welch and Wilkinson 2002). To begin with we distinguish between managers needs and wants with regard to theories. Needs refer to ends and wants refer to perceived means of achieving ends. All managers need theories in order for them to make sense of the world they operate in and the consequences of their actions and to make decisions. But, the kinds of theories managers want depends on their awareness and evaluation of different theories. The evoked set of theories a manager considers in turn depends on the type of problems they confront, their experience and education. The criteria used to evaluate particular theories are likely to vary depending on the type of problem(s) confronted, the nature and content of the theory itself and context in which a manager operates, including their history and experience and position in a firm. If this sounds familiar it should; it is approximately the same as the way we teach consumer and buyer behaviour in marketing courses.

The Supply of Theories

Marketing theories are produced, as well as developed and adapted from practitioners’ theories, by marketing academics using scientific methods. Academics operate, or rather are supposed to operate, using the methods of science, more or less ably, in the context of scientific institutions with particular cultures and orientations (Wilkinson and Young 2002). Marketing theories are also self-produced by marketing practitioners in response to the problems and responsibilities they experience in their context. Donald Schon’s (1983) concept of the *reflective practitioner* reflects this idea. Academic marketing theories are produced and evaluated by academics in terms of how they contribute to the development of the academics involved personally and (hopefully) to the way they contribute to understanding more generally. The types of problems academics encounter and address in their research are not necessarily the same as those encountered by practitioners but are more driven by intellectual curiosity, scientific fads, available research tools, financial support and publication and reward systems (e.g. Wells 2001). Not all academics even try to produce, test or modify theories; some are more concerned with communicating existing theories to students and using them to advise practitioners. The criteria such producers of theories use to evaluate them are not the same as practitioners because they operate in different worlds and have different objectives.

Types of Discrepancies

Because of these differences in the perspectives, context and objectives of producers and users of marketing theories, various types of discrepancies arise that create opportunities and problems for the production and consumption of theories. In order to identify and discuss these discrepancies in a systematic manner we organize our discussion in terms of four planning and implementation stages, i.e. (1) problem formulation; (2) problem solution; (3) solution implementation; and (4) post implementation feedback and control.

1) Problem Formulation

The approach to problem solving by academics in marketing is quite different to that of marketing practitioners. Salipante and Aram (2003) identify some of the main aspects of this. First, the approach of academics to problem solving emerges within the context of the cognitive and social norms governing them. Second, the objectives of academic research are determined by the protocols that exist within and between disciplines. Third, most academic research is generally conducted by individual academics or relatively homogenous teams of academics, who have similar or compatible goals and methodologies within one or two disciplines

Academic research has been characterized as generally using a deductively *concept-driven design* approach in which “the researcher first selects elements and relations from a conceptual domain; determines the methodology(ies) to construct a design and finally implements that design on some systems of his/her choice” (Razzaque 1998, p9). There are of course many occasions in which academics have used the inductive or even *abductive approach* to research problem formulation (Dubois and Gadde 2002). Marketing academics then spread their knowledge and research mainly through their teaching and publications, which result from their own education, research, reading and experience.

Marketing practitioners, on the other hand, tend to use more of an inductive approach to research and solve problems organized around specific projects, processes, functions or applications and their intended uses. Such a research orientation has been characterized as *system-driven observation* (Razzaque 1998). In this system, the marketing practitioner, whether through inductive or deductive reasoning “selects the elements and relations to be studied from some existing system, chooses the

methodology(ies) to develop observations; and finally moves to the conceptual domain to interpret that set of observations” (Razzaque 1998, p9). The problems tend to find marketing practitioners rather than they seek out problems of their liking. Their objectives are the result of negotiation among the interested parties, which includes a diverse range of specialists, including, clients, suppliers, superiors, subordinates, consultants and accountants. Various types of more or less harmonious interactions and relations may take place and exist among the parties involved and similar and compatible goals and methodological preferences cannot be assumed. The business and personal contexts and motivations of managers and others in the organisation can become involved, further muddying the waters.

Marketing practitioner problems do not emerge neatly packaged and announced in terms of a fit with a particular marketing theory or indeed any theory. They arise in specific contexts at particular times and places and are likely to comprise interrelated problems and issues relevant to different marketing and management theories and other types of theory domains, spanning various functions or activities within the firm. For example, a marketing issue may be mixed up with a supply chain issue, an accounting system issue and a finance issue.

For these reasons the relevance and fit of a particular marketing theory is not necessarily obvious, even if a practitioner or academic is fully aware of the latest theories. The matching of theories to problems is difficult because they arise from different systems, logics and contexts and there is no reason to believe that they will neatly coincide. Academics on the other hand tend to abstract from specific contexts in order to focus on particular types of marketing issues and problems. Contexts become control or moderator variables, the bases for (hopefully) theoretically relevant comparisons and are used to guard against unwarranted generalizations (Wells 2001, Wilkinson 2003). Research studies of practitioners that focus on particular marketing issues require practitioner respondents to somehow separate out relevant dimensions of the focal issue, as far as the marketing academic is concerned, from the larger context of issues and problems in which any focal issue or problem is immersed. This can and does lead to frustration and bad blood on both sides and in part underlies practitioners not being convinced that academic researchers understand their context and realities.

2) Problem Solution and Strategy Formulation

From the practitioner's perspective problem solution and strategy formulation can be viewed as a type of local theory development, as the firm establishes its objectives, develops an understanding of its situation and identifies and evaluates alternatives. What types of theories do practitioners prefer? Obviously, they want theories that they can understand and use to help them in their job to solve particular problems. But they also want theories that reinforce the role and importance of managers, give them power and status and allow them to claim the benefits of desirable outcomes and avoid the blame for inferior outcomes! There is no mystery as to the reasons for this. For example, supposing a piece of marketing decision-making software, which, is based on solid theoretical grounds, is developed but the use of this software will make the marketing manager redundant. In this case, it is unlikely that any marketing manager would recommend a system that resulted in his/her own demise. Managers are people and subject to the same types of cognitive biases that have been well established in psychology for many years (for a review see Alba and Hutchinson 2000). These include self serving biases, whereby people tend to attribute good outcomes to their own efforts and contributions and to blame poor outcomes on the environment and the contributions of others (Bradley 1976). For example, in their grounded theory approach to the study of marketing strategy implementation, Noble and Mokwa (1999) found that performance was strongly associated with the commitment and involvement of the respondent manager in the implementation. But in this article, this was interpreted in terms of the way commitment and involvement are antecedents of performance. They may be, but the results also reflect the self-serving bias of those involved.

Another example is managers' resistance to the implication of complexity theories or theories of relations and networks, in which managers are portrayed as but one participant in a collective actor with only limited influence. In such situations managers are not in charge but are as much subject to being managed as managing others. Hence, there is a tendency to ignore this issue in management-focused articles, by both academics as well as practitioners. Instead, many approaches to relationship marketing, customer relationship marketing, distribution channel or supply chain management, and strategic networks assume the focal actor and manager are somehow in charge or are

the channel captain or network commander, whereas this is by no means always the case (e.g. Hakansson and Ford 2002, Wilkinson and Young 2002). And, even if it was so, what is the role of management in the firms subject to the control of others? The nature and role of management and policymakers take on new dimensions when the realities and self organizing nature of complex adaptive systems are acknowledged (Wilkinson 2006, Wilkinson and Young 2005).

As Mintzberg (1993) argues, formal planning theories and techniques can become a substitute for rather than a means for control because they provides an illusion that reduces management anxiety and allow them to sleep better at night.

Because of the way they are produced, academic marketing theories may expect too much of managers, because of the implicit and even explicit assumptions they make. In translating from the general to the particular, theories make assumptions about: the (non) impact of ignored contextual factors; the type of information available and required by managers; their degree of control of various people and organisations; their access to resources; their motivations; the other problems being faced and theories being used; and their ability to make accurate judgments about key elements of a theoretical model, such as the reactions of others within and outside the firm as well as the general environment.

Academic theories are usually formulated and tested in terms of a general linear model that focuses on the separate additive impact of explanatory factors (the main effects) and in which causation is assumed to run in one direction. This ignores history, the processes and interactions involved, feedback as well as order effects among the factors involved and with contextual factors (e.g. Abbott 1988, 1992, Buttriss and Wilkinson 2006). Indeed, taking into account such factors is beyond the reach of traditional techniques. Yet we expect managers to operate in a non-linear world where complex interactions and feedback processes take place and time order effects matter.

Because of the needs and wants regarding the use of theory, practitioners tend to expect too much of academic marketing theories. Sometimes marketing academics are asked by journalists, practitioners and lawyers to answer impossible questions as if they should be able to predict the specific futures of particular industries or products and what would have happened if something else

occurred. While we can attempt to throw some light on the answers by using appropriate techniques, we know we cannot know all that is required to answer the questions and, if we did and told someone, we would likely make our answers wrong any way, as people can adjust their behaviour in response to the answer given. It would be nice to know the future and make correct decisions (or would it?), or at least managers sometimes seem to want that. But academic theory is about general answers, generalizing so we can link information from one context and problem to others (Wilkinson 2003). Theories are also sometimes equated with answers in common parlance and this confuses things, as when someone says “I have a theory that this will be the thing to do here.”

Theories help us know what we don't know, why we don't and why we need to know. Thus, in solving a specific problem we don't know the context, though our theories help us to identify the main factors to consider (Wells 2001). Even if we do know the context, there are many unavoidable uncertainties, in terms of the reactions of competitors, customers and others that cannot be predicted. A contingency theory is required that shows how different contextual factors drive the role and importance of different factors and what are the boundaries within which particular results are likely to hold and not. Academic theories are developed with little attention to specific contexts, although the research undertaken to generate and support it necessarily takes place in a specific context, including time and place. For the manager, context is all important and includes other problems and issues within which a focal business problem and actor is embedded, including historical circumstances and the way different factors and situations are interpreted by the actors involved (Huang and Wilkinson 2007).

3) Implementation

Most academic theories of marketing management are about choice of marketing actions or about developing appropriate resources and competencies. Far less attention is given to the implementation of such theory-derived actions, or how to transition from an existing situation to the preferred one (e.g. Ghamdi 1998; Taslak 2004) - in short, is it possible to get there from here and how will it be done? (Gray 2006)

Major issues with respect to implementation include: i) assumptions that certain *competencies* exist among the relevant personnel, both in the firm and externally, or

that these can be developed cost effectively; ii) *interdependence issues*, such as relationships and networks, where much depends on the capabilities, willingness, actions and reactions of relationship partners to form and contribute to effective relationship development, which is beyond the direct control of the focal practitioner; iii) *transition cost issues*, where actual or perceived transition costs may outweigh the benefits of the move to a “superior” theoretical position or simply be impossible in the relevant planning period, given the existing structure and history of the firm and its personnel and the other problems and issues it faces; iv) *resource issues*, such that resources may not be allocated to the theoretically superior solution because it is not superior in the larger set of interrelated and nested problems a firm confronts; v) *communication issues*, such that implementation involves communicating to and involving others in the processes, but such communication is not error free and is subject to deliberate and accidental misinterpretation due to local and personal problems and contexts in which a required course of action is to take place; vi) *commitment issues*, such that achieving commitment to a major change of action, such as implementing a market orientation or building network competence, is no easy task, despite its potential benefits.

As an example, consider Day's (1999) description of case studies of firms trying to change a firm's customer and market orientation. He concludes that often some kind of crisis is required to change existing thinking and gain commitment from those involved. Marketing theory does not offer theories of second best i.e. what to do when you cannot follow the superior course of action, and economics has shown that second best is not the same as still trying to do what is best.

4) Post Implementation Feedback and Control

This is the process by which results are evaluated and corrections made to problems formulated, strategies chosen, and their implementation and/or to the theories used. Anticipated strategic outcomes may not eventuate because: i) the theory in use underlying the strategy is incorrect, based on false assumptions or incorrectly applied resulting in the development of a strategy on the wrong basis; ii) the costs as well as the benefits of additional information and theory implementation are not adequately considered, including alternative uses of the executives' time; iii) the firm may not have implemented the strategy as developed because the theories of implementation are incorrect and/or due to

problems of controlling and directing the behaviour of others within and outside the firm; iv) the implementation may be subject to the impact of uncontrollable factors, loss of key personnel during implementation or other environmental impacts; events that cannot be anticipated precisely in advance but that affect the apparent success of a strategy and a practitioner’s faith in their theory in use.

Discussion

The extent and nature of the discrepancies between the production and consumption of marketing theories will vary depending on the type of producer and consumer we are dealing with and their particular contexts and motivations. We have devised a simple typology (i.e. see Figure 1 and Figure 2) to aid discussion. The typology addresses two equally important issues:

- i. The degree of awareness of both academics and practitioners of various marketing theories in the marketplace of ideas.
- ii. The degree of application by both academics and practitioners of marketing theories within the context of their profession/industry.

First consider practitioners. They can be categorised in terms of their degree of awareness and understanding of academic marketing theories and their use of them. We take the view that all practitioners have theories in use, whether they are formal, informal, explicit or implicit.

These theories are developed over time through education and learning and experience as practitioners’ attempt to make sense of their world (Argyris and Schon 1974, Weick 1995, Welch and Wilkinson 2002). Now consider academics. We can categorise them in terms of their awareness of the context and problems of practice and their motivation to address ‘practice’ issues in the theories they produce and publish through various research journals. These two classifications are summarized in Figures 1 and 2.

The development of the Academic and Practitioner typologies provides an opportunity to reflect on: i) what each type of practitioner needs from marketing theory; ii) what each type of academic contributes to marketing theory; iii) what each type of academic brings (or doesn’t bring) to each type of practitioner and iv) what kinds of strategies could be employed to reduce the discrepancies between the production and consumption of marketing theory.

The characteristics of each type of practitioner reflect “ideal” types that may not represent well a particular individual, though we can make guesses as to where we would locate some managers we know. The main characteristics of each type are as follows:

- 1. *Pragmatic managers* have little formal awareness, knowledge or understanding of relevant academic marketing theory but in practice act as if they do. This could result from imitating best practice, including

Figure 1: Typology of the Application Of Marketing Theory by Marketing Practitioners

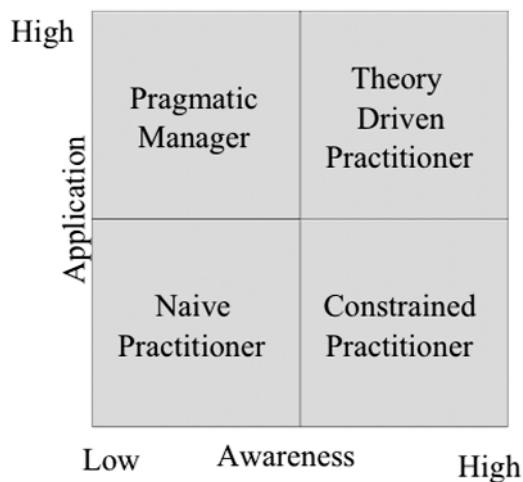
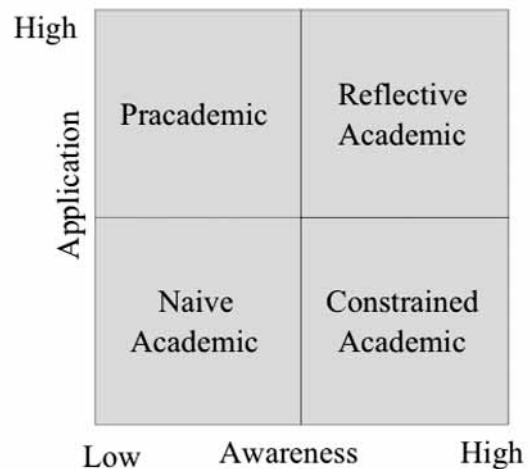


Figure 2: Typology of the Application Of Marketing Theory by Marketing Academics



theory driven practitioners, and because many academic theories are derived from observing and codifying best practice. Within the same industry or network, shared business cultures, “strategic frames” (Huff 1982), “industry recipes” (Spender 1989) or “industry mindsets” (Phillips 1996) may evolve that exemplify the use of particular theories. In this kind of environment, it is not surprising that research receives inadequate attention from practitioners (Hambrick 1994). However, marketing academics need to be mindful that research unconnected to outcomes is unlikely to sustain interest (Staw, 1984) and unless marketing academics connect their research to managerial outcomes in a real and substantive manner they are not likely to get many votes from managers. The usefulness of marketing theory to the ‘pragmatic manager’ lies in its ability to provide validation and confirmation (or disconfirmation) of the ‘pragmatic managers’ marketing practices, to provide insight into the causes of discrepancies between theory and practice and to provide guidance as to the adoption of the theory in different kinds of contexts.

Given that ‘pragmatic managers’ probably have little time for reflection, they need tacit knowledge about how to implement a theory and the risks involved. How can marketing theory be communicated to the pragmatic manager? This needs to be done, using marketing logic, in a consumer oriented way that addresses their assumptions, risks and proclivities as well as the nature of the theories to be communicated. The diffusion pathway is likely to be indirect and facilitated by consultants, other practitioners and by ‘communities of practice’ such as the professional organizations such as the Australian Institute of Marketing, the American Marketing Association, industry and employer associations and other types of professional bodies. ‘Communities of practice’ are “groups of people who share a concern, a set of problems, or a passion about a topic, and who deepen their knowledge and expertise in this area by interacting on an ongoing basis”, (Wenger et al. 2003). Typical activities which could be used to facilitate the diffusion of marketing theory here are on-line access to tools, stories, case-studies, videos; newsletters, book programs, local forums, seminars, workshops and question and answer sessions online or in a face-to-face context such as down the pub and at the football game.

2. *Theory Driven Practitioners* are similar to Schon’s (1983) ‘reflective practitioner’, and are practitioners who are aware of and try to both develop and apply relevant

theories to solve their marketing problems. This type of practitioner would be more likely to have both the experience and academic background to be able to successfully recognize and apply the theoretical concepts and overcome the kinds of problems, which inhibit the performance of the ‘constrained practitioner’ (see below). Whilst the ‘theory driven practitioner’ may understand the positivist approach of technical rationality he/she focuses on developing new understandings of the practice context as it unfolds. As Schon (1983, p68) argues, “the practitioner allows himself to experience surprise, puzzlement, or confusion in a situation which he finds uncertain or unique. He reflects on the phenomenon before him, and on the prior understandings, which have been implicit in his behaviour. He carries out an experiment, which serves to generate both a new understanding of the phenomenon and a change in the situation” (gender as in the original).

In this kind of context, a theory driven practitioner is likely to respond to marketing theory, which includes an interpretive element. This may include for example, in-depth qualitative research, ethnographic studies and case study research, that enables them to examine the causal mechanisms and processes involved in the phenomenon and helps show how such activities emerge over time and the impact of this emergence on outcomes (Buttriss and Wilkinson 2006).

3. The *Naïve practitioner* is not meant to be a pejorative or negative term. Rather, in contrast to pragmatic managers the naïve practitioner knows little about relevant marketing theory and is not an explicit or even implicit user of it. If they are successful, they may represent fruitful targets for research, as they could represent newly emerging types of business models. However, they may equally represent firms operating in comfortable and protected market niches, in which many of the complexities of markets are not relevant e.g. government or industry monopolies. Alternatively, they could represent practitioners with limited experience, education and capabilities, who are likely to fail – as the majority of small firms seem to do. They do not know what they do not know (and there is a lot of it!), they may operate on intuition and simple rules of thumb, and so far it has not bitten them or they keep moving around undetected. Their capabilities may further limit their ability to absorb complex theories-in-use that match environment conditions.

In this kind of context, awareness building must be the first objective with respect to the diffusion of marketing

theory. Communities of practice with respect to 'pragmatic managers' are relevant again and publication of user friendly accessible articles in relevant media are possible mechanisms by which marketing academics could build awareness and facilitate the diffusion of marketing theory to such managers. But there are limits as to what can be done because as the old saying goes: "You can lead a manager to theory, but you cannot make them drink it!".

4. *Constrained practitioners* are aware of relevant theory but constrained in its use or resist its application. This is an area where the discrepancies between the production and consumption of theories that we have discussed are most apparent. The constrained practitioner may believe that existing theories are wrong or do not apply in their context. Personal experience may have revealed the role and importance of contextual factors not included in the relevant theories or assumed away, such as the broader problems of which the marketing issue forms only a part, the lack of availability of particular resources and skills to carry out the necessary activities involved or that the theories may not fit with personal and professional ambitions. Finally, the theories may not be well understood because of the way they have been produced and communicated.

Here, marketing theory must seek to address and explain constraining issues with respect to implementation, including areas which are outside the central domain of marketing such as change management theories from organisation and management literatures; service recovery theories from services marketing, team-building theories, cognitive behaviour therapies and motivation theory from psychology to give some examples.

Now let us turn to the marketing academics. Once again we are not trying to categorise individual academics, though it is kind of fun to do so. Instead we focus on ideal types reflecting our bases of classification. A description of each type of 'academic' follows:

1. *Pracademics* are producers and users of marketing theory. They are boundary spanners whose histories give them experience in both the academic world and the world of practice (Salipante and Aram 2003). They have also been called practitioner-academics (Simendinger, et al. 2000), practitioner-researchers (Quigley 2000) and reflective practitioners (Schon 1983). Pracademics can contribute significantly to marketing theory development because they are knowledgeable about the

contexts of practice and can incorporate it into their teaching, research and writings. But they are dangerous too because they are limited to the contexts they have experienced and are subject to the same self serving biases we discussed before. Pracademics can play a role as "theory wholesalers", helping to adapt, combine, interrelate and translate academic theories in such a way that they better meet the needs of practitioner-consumers. Of course, they can also use the mask of theory to absorb uncertainty for practitioners and to reinforce and promulgate existing practice. Pracademics are a means of dialogue between academics and practitioners and are better able to translate marketing theory into a language that practitioners can understand. Pracademics can operate in and feel comfortable in academic communities of practice, such as universities, academic conferences and research seminars, as well as in practitioner communities of practice, such as industry associations and board rooms. Pracademics are in a difficult situation, caught between the worlds of producers and consumers of theories, the academic world and the world of practice. The tensions resulting can have both positive and negative consequences.

New knowledge and research support is generated from interactions and adaptations taking place between producers and consumers where "practitioners are universally perceived as knowledge users.....The alternative prospect-that managers may be generators as well as users of practical knowledge-has been relatively neglected" (Salipante and Aram 2003, p133). Others have shown also how innovation largely takes place through the interaction of producers and consumers of products and services (e.g. Chesborough 2003, Hakansson 1989, Roy et al 2004, and von Hippell 1988).

Potentially productive interactions and relations between the producers and consumers of marketing theories are constrained by communication problems and unhelpful stereotypes sometimes held by each party to the other. For example, practitioners can find it difficult to "frame issues of interest, abstract their ideas, and construct systematic inquiry well enough to make the knowledge rigorous and portable" (Salipante and Aram 2003, p133). On the other hand, the world of practice paradigm is framed by some around the notion that marketing academics generate knowledge that is irrelevant, unrealistic, unfocused, too narrow, ambiguous, framed in technical jargon and difficult to generalize (Wells 2001, November 2004).

Networks of relations between pracademics and practitioners (particularly involving naïve and pragmatic practitioners) may limit vision and research and support business fads and fancies rather than directing research to longer term more fundamental problems and issues. Perhaps research on market orientation is an example of this, with the Marketing Science Institute leading the way to measure the effects of marketing on performance – but this raises issues beyond the scope of this paper, as noted already (Wilkinson 2005, Rong and Wilkinson 2006, 2007).

2. *Reflective academics* have limited direct experience of the world of practice but are interested in and sensitive to the contextual issues influencing the applicability of marketing theory. Their research may deal directly with practitioners through surveys or ethnographic research documenting practice and theories in use and attempt to incorporate contextual issues from the world of practice into their theories. Such academics tend to have more arms-length relations with practitioners compared to pracademics, which both enables and constrains the type of research and theories they can and do develop. The developers of tools and techniques for solving well defined problems is an area where reflective academics can thrive, as the relevant theories here focus on measurement and estimation techniques and are more readily transportable to the world of practice in terms of software systems and best practice methods, such as Marketing Engineering (Lilien and Rangaswamy 2004) and Marketing Science tools and applications.

3. The term *Naïve Academic* is not meant in a pejorative sense but rather as a contrast to the pracademic. The naïve academic is one who has little knowledge of, or interest in, the world of management practice or policy-making. They focus on knowledge for knowledge sake or just survival in the world of academia (Polonsky et al 1998). Such academics have a contribution to make to marketing theory by helping us to understand areas of marketing system behaviour from a perspective similar to a social scientist. They stand more outside the system of interest, except as consumers and members of society, and attempt to view it more dispassionately (or only through textbooks). General marketing theorists, consumer behaviour researchers, students of macro-marketing and the evolution of marketing systems come to mind as examples of places where this kind of academic is likely to hand out. They can contribute in useful ways to our understanding of the world of practice and practitioners. Some naïve academics may become

very specialized and focused on research that serves academic promotion and publication purposes, with only limited or tenuous links to practice or policy – rigour rather than relevance, because of the incentive systems in place (Wells 2001).

Naïve academics who are captives of a ‘rigour rather than relevance’ approach may start out trying to solve limited or tenuous research questions but, in the process, they may find out something else that is useful and valuable. Many of the great advances in knowledge and theory have been discovered by accident when working on something else. One of the issues here is what types of relations such naïve academics have or should have with practitioners? Should we let them teach only certain courses and thereby interact only with potential future managers (students) or only future academics in research and doctoral courses? Will exposing them to managers help or hinder their development and the development of knowledge?

Blue-skies research has a role to play the development of marketing theory. However, we are perhaps more advocates of an approach based on dialogue in which theory and knowledge are co-produced and co-evolved by academics and practitioners interacting and interrelating. We are advocates of theories that satisfy the criteria of both theoretical robustness and practical relevancy, whether that be in the same theory or in some system of theories that link the more general and abstract to the more specific real context.

4. *Constrained academics* know about the world of practice but are constrained or resist producing theories aimed at practitioners and/or communicating them to managers. This, of course, may be because they are interested in different types of issues and problems with no direct relevance to practitioners, such as consumer research for consumers (Bazeman 2001). An issue here relates to the rewards academics earn or not for consulting to practitioners, for writing articles in a form and in a journal or media more easily accessed by practitioners, and for teaching practitioners. The evaluation systems used by the editors of academic journals and the career advancement mechanisms adopted by universities, require marketing and business academics to play by similar rules to academics in more traditional science and philosophy disciplines. This ensures the knowledge claims made and research processes used stand up to scrutiny, even though they constrain research in other ways. However, in Australia and elsewhere attempts are being made through funding

programs and other initiatives to bring industry and academics closer, in order that each can learn more about the other and co-produce theories.

Conclusion

What are the implications of our analysis for marketing theory development and communication? First, we recognize that not all academic marketing articles need to be understood by practitioners or be directly communicated to them, because they are part of the theory production and testing process. No one would offer a consumer wanting a table or chair a tree trunk; the tree trunk is an intermediate product just like some of our research articles. However, there are opportunities for academics to expand their sphere of influence with practitioners by recognizing and addressing some of the discrepancies between the production and consumption of theories we have identified.

Our analysis suggests interesting areas for future research. One obvious link is with theories and research related to consumer behaviour which are likely to be relevant for the study of the consumption of theory by practitioners. Why are consumers of theory loyal to particular theories or suppliers of theory? How do they make sense of their worlds and what affects their perceptions and reports of their own behaviour and that of their firm? Consumer behaviour researchers are well positioned to take on such issues as they have dealt with equivalent issues in the study of consumer behaviour in other contexts.

Other areas for future research attention include the need to further articulate and assess the discrepancies between the demand for and supply of marketing theories, especially in identifying key contextual issues that affect the consumer's ability to recognise, evaluate and use marketing theories. This calls for more studies about the nature of the actual marketing planning and implementation process, along the lines of Mintzberg's research on management (e.g. Mintzberg 1993), and how this is affected by practitioners' abilities, knowledge, schema, information costs, motivations and power. Such research will allow us to have a better understanding of how the phenomena that are the focus of marketing theory are embedded in different types of business problems and how potentially conflicting or complementary theories can be handled when they are simultaneously relevant. A practitioner's life is often tough and complex and cannot be neatly separated into isolated issues and problems about which marketing

theory may have been generated and tested. Rigour and relevance are required.

The realities of the theory consumption processes also alert us to the dangers and potential biases of managers' responses to and interest in surveys and interviews (Rong and Wilkinson 2006, 2007). Surfacing and codifying managers' theories in use are not substitutes for research on the nature and realities of business and markets, even though managers like to be told that what they think is true and that has been "scientifically" validated by the extent to which other managers have similar perspectives.

The world of action and events taking place and interacting over time in a context is the world of the manager, the consumer of marketing theory. Hence there is a need to build and translate our theories into this form. It is easier to do this if we produce our theories more in this way, than in the form of timeless, one way path diagrams with no feedback effects (Buttriss and Wilkinson 2006). As Umpleby (2002) argues, we should consider organizing our knowledge of management more as methods than theories, as theories of process and intervention not disembodied variables that do not act.

What can be done to bridge the gaps better between the worlds of academia and practice? First we must acknowledge that many of the discrepancies between marketing theory and marketing practice are institutional constraints related to operating and serving in the worlds of practice and academia that are not going to go away – and nor should they. They reflect the realities of producing and consuming marketing theories.

Pracademics and Theory Driven Practitioners seem best placed to bridge the gap between academics and practitioners. Each of them is likely to understand what the other groups are trying to accomplish and be sensitive to each other's needs. Communities of practice such as national marketing institutes of practitioners and industry associations provide good opportunities for the effective and efficient diffusion of ideas through both the academic and theoretical camps.

To foster better linkages between marketing academics and practitioners there is an argument for developing a climate in which the "engaged scholar" can be nurtured (Van De Ven and Johnson 2006). Such a climate is one in which the scholar views the practitioner's organisation as "a learning workplace (idea factory) where practitioners and scholars co-produce knowledge on important questions and issues by testing alternative ideas and

different views of a common problem” (Van De Ven and Johnson 2006, p809). This means, for example, designing research projects to fit the collaborative learning mode, where researchers and practitioners collaborate in designing, conducting and implementing research projects in real world settings (Van De Ven and Johnson 2006).

Whilst better academic-practitioner communication systems is an important goal, academic journals written specifically for academics are still a necessary and important part of the process. They should be concerned with upholding standards of research underlying knowledge claims, directing attention to new problems and issues and in seeking generalisable theories. But more practitioner oriented outlets also exist and need to be recognised and valued e.g. Harvard Business Review, Sloan Management Review, Business Horizons, as well as business newspapers and trade journals. Perhaps we should require academics to periodically write an article for such outlets reflecting on the potential meaning and relevance of their research for practitioners or why it is not relevant to practitioners but has other value or is of indirect benefit. Textbooks are another way of packaging theories for practitioners and these gain recognition as teaching contributions for academics.

Perhaps the most important opportunity and requirement for academics is to address the range and limits of our theories and research results by more explicitly including contextual factors in our theories and using them to do and to guide research replications. Of particular importance to managers are not just the specifics of their market, industry and firm but also the other types of problems and constraints that they are dealing with at the same time as marketing problems and issues. Marketing academics have tended to leave it up to other types of academics (e.g. organisational behaviour, human resources, and psychology) to do the interrelating of marketing theory with other theories relevant to practitioners, whereas this would make a good opportunity for mutually beneficial research; as would a greater focus on the context and issues of implementing decisions, not just deciding.

Additional suggestions for improving the impact of academic marketing theory on practitioners relate to the packaging and communication of marketing theory in practitioner terms. This does not mean we have simplistic management and policy implications in the form of obligatory paragraphs at the end of academic

papers. It means that we need to recognise and reward those who can and do translate and integrate academic theory into practice, so long as they do not content themselves with out of date research and theories and magic bullets and laundry lists masquerading as theory just because it may appeal to managers.

Practitioners, including managers and policymakers, also have responsibilities to help reduce and deal with the discrepancies we have discussed. They need to be aware of the meaning, nature and limits of theory and the theory building process. They could also contribute through participating in and helping to direct some aspects of academic research and being reflective practitioners who contribute to rather than impede or subvert the theory production process for short term ends or a search for magic bullets and someone to blame.

Managers, we believe, are interested in well founded ideas that give them interesting new perspectives on their world. For example, to break up the flow of management workshops and courses for senior managers Oxford University uses leading edge thinkers and scientists to make presentations about the latest developments taking place in their disciplines. If managers are treated like they only want simple recipes for solving complex problems they may begin to act that way.

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On A Theory of Markets and Marketing: From Positively Normative to Normatively Positive

Stephen L. Vargo

Abstract

Marketing science is built on a foundation of economic science, which in turn is founded on Adam Smith's normative notions of how to create national wealth in the context of industrialization, rather than on a positive theory of economic exchange. This paper explores the formation of economic theory, discuss its role as a foundation for marketing theory, suggest the need for a positive theory of the market that is relatively independent of economic theory, and point towards a possible path for its development.

Keywords: Service-dominant logic, General theory of the market, General theory of marketing, Marketing theory, Resource integration

Academic marketing is built on a positive theoretical foundation borrowed from economic science. Given the context and purpose of its birth, this is probably as it should be. However, economic science inherited its own theoretical foundation from a normative model of wealth creation. That is, economic science and, thus, marketing science are founded on Adam Smith's normative notions of how to make England (and other countries) wealthy in the context of industrialization, rather than on a positive model of economic exchange. Arguably, this is not as it should be.

Marketing theory's pedigree sets up an awkward, if not untenable, situation for its robustness and long-run scientific development. By almost any definition, marketing is an applied discipline (Hunt 1992); thus it is essentially normative. But normative theory normatively rests on a positive foundation (Hunt 2002). Arguably, the reason that marketing has not developed its own general, positive theory is that it is typically assumed that it has one in economic science. I suggest that it does not. The purposes of this paper are to explore the formation of economic theory, discuss issues related to its role as a foundation for marketing theory, suggest the need for a positive theory of marketing that is relatively independent of economic theory, and point towards a possible path for its development.

Smith's Bifurcation

The roots of formal economic thought for most scholars are usually identified with Adam Smith's (1776) publication of *The Wealth of Nations*. Smith did not literally invent economics, nor was that even his purpose. Smith was a *moral philosopher* and his focus was more of a normative concern for what was right and good for society and what nations *should do* for their own wellbeing than it was a positive concern for *how economic activity functioned*.

Smith partly derived his political-economic views from the foundational proposition of the efficiency of the "division of labor," resulting in the necessity of "exchange." For Smith, (1776/1904, p. 1), labor was the "fund which originally supplies (the nation) with all the necessities and conveniences of life which it annually consumes." Thus labor, the application of mental and physical skills – that is (essentially) service (Vargo and Lusch 2004) – provided the foundation for exchange.

For Smith, the metric of exchange was "value." It follows, then, that Smith (1776/1904, pp. 30-31) initially identified "real value" as the quantity of labor that was required to afford the "necessities, conveniences, and amusements of human life" through the labor of others. That is, value was a measure of benefit – *value-in-use* – in relation to the labor required to achieve it. However,

having established that the exchange of labor was the fundamental source of real value, he shifted his attention to “nominal value” – the price paid in the marketplace – because he felt that people could more easily think in terms of quantities of things rather than quantities of labor, and his proximate concern was with value rather than the associated labor.

Having laid this positive, foundational explanation of the role of specialization, exchange, and value, Smith (1776) partially abandoned it. Smith was not inherently concerned with all of exchange or with economic exchange in general. As noted, he was a moral philosopher seeking a normative explanation about which types of service (“labor”) should be promoted in order to advance national well-being. The refocusing on value-in-exchange, rather than *value-in-use*, simplified this specific normative task. That is, activities that contributed to the creation of exchange values could be identified as beneficial. Given the context in which he was writing, early in the Industrial Revolution, he identified manufacturing and export as primary sources of exchange value and wealth creation.

In Smith’s (1776) 18th Century world, with limitations on personal travel and the non-existence of electronic communication, the primary route to wealth creation was the export of tangible goods and the source of these goods was manufacturing. Thus, his underlying model was centered on the *product* – surplus tangible goods that could be exported. This narrowed focus on the exchange value of tangible goods can be seen in his extended discussion of the distinction between “productive” and “unproductive” activities. He is (mis)credited with the view that service activities in general are not as valuable and essential as goods production, a distinction that is often cited today. Actually, Smith’s (1776/1904, p. 314) statement was:

The labor of some of the most respectable orders in society is ... unproductive of any value, and does not fix or realize itself in any permanent subject, or venerable commodity which endures after that labor is past, and for which an equal quantity of labor could afterwards be produced. The sovereign, for example... produces nothing for which an equal quantity of service can be afterwards procured.

To this unproductive group, Smith (1776/1904, p. 314) added “churchman, lawyers, physi-cians, men of letters of all kinds, players, buffoons, musicians, and opera singers.” Smith did not argue that service(s) was not

useful or unnecessary for individual well-being, just that some service(s) was unproductive in terms of his national wealth standard because they could not be stored and exported.

Jean Baptist Say, John Stewart Mill, and other economic philosophers who followed typically disagreed with Smith’s *productive versus unproductive* distinction, reasoning that all activities that contributed to wellbeing were productive; but, having done so, they typically acquiesced. For example, Say (1821) recognized production as the creation of “utility,” not matter. Say’s utility was synonymous with usefulness – value-in-use and applied to what he called “*immaterial products*” as well as tangible ones.

Similarly, Mill (1885) took exception to the practice of classifying labor as unproductive unless it resulted in some material object capable of being transferred. He recognized that since “no human being can produce one particle of matter” (p. 45), production of objects only represented the rearrangement of matter. Like Say, Mill (1885 pp. 45-56) believed that labor was “not creative of objects, but of utilities.” Consequently, he asked: “why should not all labor which produces utility be accounted productive,” including labor that creates “utilities not fixed or embodied in any object, but consisting of a mere service rendered?” However, having established his case for all labor being viewed in terms of service(s) resulting in utilities, Mill, like Say, had difficulty reconciling this notion with the accepted meaning of “wealth,” and that the proper subject matter for economic philosophy was the output of “productive” skills - that is, tangible goods that have embedded value: “only what is called material wealth, and productive labor only those kinds of exertion which produces utilities embodied in material objects” (pp. 45-46).

One economist who did not acquiesce to the productive/unproductive distinction or primary role of manufacturing in national well being was Frederic Bastiat (1848, p. 162), who argued:

The great economic law is this: Services are exchanged for services... It is trivial, very commonplace; it is, nonetheless, the beginning, the middle, and the end of economic science ... Once this axiom is clearly understood, what becomes of such subtle distinctions as use-value, and exchange-value, material products and immaterial products, productive classes and unproductive classes?...Now since these reciprocal services alone are commensurate with one another, it is

in them alone that value resides, and not the gratuitous raw materials and in the gratuitous natural resources that they put to work.

In essence, Bastiat was reverting to Smith's (1776) original, partially abandoned views of value being directly tied to benefits realized from the labor of others.

However, Smith's (1776) productive/unproductive distinction had taken root by then and it held. Over time, "utility" morphed in meaning from *usefulness* to an *embedded property of matter* – essentially value-in-exchange – and the "product" became the unit of economic exchange. In this context, service(s) became understood as a type of second-class product, at best. All of these transformations were derived from a normative foundation of how to increase national wealth.

This product-, or goods-, based model of economic activity was convenient for another reason; it was compatible with the increasing desire of the economists who followed to turn economic philosophy into economic science. The model of "science" at that time was Newtonian Mechanics, a model of matter embedded with properties. Thus, an economic model of products embedded with utility had natural compatibility and appeal. Therefore, at least partly because of the desire for scientific respectability, the goods-centered paradigm survived and flourished. Economics and the derivative disciplines of marketing and management (and later other business disciplines) emerged and developed from this goods-centered paradigm.

The Emergence of Marketing Thought

This normatively grounded, product-centered science of economics provided both the foundation and the need for marketing. Economics in its pure-science form was lacking in its ability to inform much of the daily activities of commerce and industry at the turn of the century. "scientific management" had resolved some of the issues of production efficiency and, in so doing, had exacerbated problems of distribution, which was the initial concern of formal, academic marketing (see also Vargo, Lusch and Morgan 2006; Vargo and Morgan 2005).

Some of the initial efforts of the emerging discipline were directed toward its own justification. The issue was: if manufacturing created (embedded) value that could be exchanged in the market, did marketing contribute to value creation and, if so, how? The initial debate settled on delineation of types of utility – time, place,

possession (Weld 1916) – contributed by marketing which complemented the "form" utility of manufacturing. As long as marketing was primarily concerned with distribution, this model served reasonably well as a foundation. However, marketing soon began shifting from distribution as its core focus to a broader concern with value, including more positive issues of how it is created and exchanged.

The lack of a positive theoretical foundation was constraining to the development of the understanding of this broadened concern. Alderson (1957, p. 69) seemed to be intimating this constraint when he revisited the debate over the role of marketing in value creation and asserted: "What is needed is not an interpretation of the utility created by marketing, but a marketing interpretation of the whole process of creating utility." But as Dixon (1990, p. 342) has more recently noted, "the task of responding to Alderson's challenge remains." The inherited, restricted logic of the dominant economic paradigm has been difficult to overcome.

Vargo and Lusch (2004) have called this restricted logic "goods-dominant (G-D) logic" (see also Lusch and Vargo 2006a). Others have referred to it as the "neoclassical economics research tradition" (e.g., Hunt 2000), "manufacturing logic" (e.g., Normann 2001), "old enterprise logic" (Zuboff and Maxmin 2002), and "marketing management" (Webster 1992). Regardless of the label, it says something like: the purpose of the firm is to make (ideally tangible) products and the role of marketing is to sell and distribute these products. Thus, we find the development of the normative theory of marketing based on a normative foundation of economic theory. Vargo and Lusch (2008) have argued that this G-D logic has hampered theory development and, thus, practical marketing applications based on solid theory.

The Subdivision of Marketing

It has been argued (e.g., Vargo and Lusch 2007) that trying to develop both positive and normative marketing theory from a normative theoretical foundation is responsible of the inability for academic marketing to better inform applied marketing. It has also been suggested that it is responsible for the apparent fragmentation of marketing into a series of sub-disciplines (e.g., business marketing, service marketing, international marketing, consumer behavior, etc.) as well as alternative approaches to research (e.g., interpretive). Most of these fragmented research streams have initially been concerned with the delineation of differences

between their distinctive focal phenomena and the more general focal phenomena of “mainstream” marketing, so that the related mainstream strategies could be adjusted accordingly. For example, in services marketing, the initial approach was to identify the differences between goods and services (inseparability, heterogeneity, etc) (e.g., Zeithaml, Parasuraman, and Berry 1985) and then to identify how services needed to be marketed differently from goods, given these differences. Similarly, in business and industrial marketing, the approach was to identify how inter-business exchange differs from business-to-consumer exchange (e.g., derived demand, professional buyers, etc.) and then to identify how business-to-business marketing managers needed to adjust. Similar approaches can be found in other sub-disciplines within marketing.

Typically, after this initial approach, the sub-disciplines have developed new frameworks, models, and micro theories to deal with their specific subject matter in areas where mainstream marketing theory was inadequate. For example, service scholars soon identified alternatives to the concepts and models of mainstream marketing, such as exchange conceptualized as relationship rather than transactions (Berry 1983), quality conceptualized in terms of customer perceptions rather than engineering standards (e.g., Gronroos 1984), and the equity of the firm residing with its customers rather than in its brands (Rust, Zeithaml, and Lemon 2000), etc. Likewise, in B2B marketing, the network perspective (Hakkansson and Snehota 1995) began to replace the dyadic (buyer-seller) perspective; interactivity and relational models began to supersede one-way-flow models.

Perhaps more generally and more significantly, from these sub-disciplinary “skunkworks”, newer models and theories have begun to emerge that are not only applicable to the focal phenomena of the sub-disciplines, but are increasingly replacing and/or becoming superordinate to their mainstream marketing counterparts. In effect, a stealthy redevelopment of mainstream marketing has been taking place from within the sub-disciplines (Vargo and Lusch 2007).

The Evolving Service-Dominant Logic

Rather than fragmenting, Vargo and Lusch (2004) have suggested that the discipline has been parallel to a “new dominant logic.” In this new logic, they view *service*—a *process* of doing something for another party—as the primary focus of exchange activity. That is *service is exchanged for service* (cf. Bastiat 1848). Therefore it has

become known as *service-dominant* (S-D) logic. In S-D logic, goods continue to play an important, service-delivery role, at least in a subset of economic exchange.

Perhaps the most notable distinction between G-D logic and S-D logic can be seen in the conceptualization of service. In S-D logic, *service* is defined as the application of competences (knowledge and skills) for the benefit of another party (Vargo and Lusch 2006). The use of the singular “service” as opposed to the plural “*services*,” as traditionally employed in G-D logic, is intentional and non-trivial. It represents a shift from thinking about value in terms of *operand resources*—usually tangible, static resources that require some action to make them valuable – to *operant resource* – usually intangible, dynamic resources that are capable of creating value. That is, whereas G-D logic sees services as (somewhat inferior to goods) *units of output*, S-D logic sees service as the *process* of doing something for another party. Value creation, then, moves from the firm, or “producer,” to a collaborative, co-creative process involving both parties.

Thus, the purpose of economic exchange in S-D logic is service provision for (and in conjunction with) another party in order to obtain reciprocal service – that is, *service is exchanged for service*. While goods are sometimes involved in this process, they are *appliances* for service provision; they are *conveyors of competences*. In either case – service provided directly or through a good – it is the knowledge and skills (competences) of the providers that represent the essential source of value creation, not the goods, which are only sometimes used to convey them. Thus, in S-D logic, goods are still important; however, service is a transcending concept in relation to goods.

Importantly, S-D logic represents a shift in *logic of exchange*, not just a shift in *type of product* that is under investigation. This shift to a process of mutual service provision has implications for additional foundational shifts in marketing theory as well as for applied marketing.

Toward a Theory of the Market

As the name indicates, S-D logic is just that, a logic. It is a framework and a mindset for organizing the micro theory building taking place throughout marketing and elsewhere. The approach has been to synthesize and extend work in the sub-disciplines, as well as other, broader initiatives such as the resource-advantage theory of competition (e.g., Hunt 2000) and consumer culture

theory (e.g., Arnould, Price, and Malshe 2006), among others. It also ties back to Bastiat (1848) and to Smith's (1776) foundational chapters. However, S-D logic is not a theory. It represents a first, necessary step toward the building of a true positive theory of exchange.

Additional concerted and comprehensive theory building remains. This requires more than just the integration of emerging micro theories. It requires consciously rethinking the theoretical foundations of economic exchange, and thus marketing; extending the work begun in the sub-disciplines of marketing and other research initiatives (including many in economics); and advancing the model of science beyond Newtonian Mechanics (as have other scientific initiatives). Arguably, it takes (re)building a positive foundational theory of exchange. To date, direct attempts at this theory building have been focused at creating a general theory of *marketing*, rather than rebuilding a theory of the *market*, arguably what economic science is intended to provide.

Venkatash, Penalosa, and Firat (2006, p. 252) note that "the term market is everywhere and nowhere in our literature" and argue that a general *theory of the market* should logically precede a general theory of marketing. They are correct. "*Marketing theory*," almost by definition, implies normative theory. A theory of the market, on the other hand, suggests a positive theory of exchange. As noted, marketing scholars have likely missed this seemingly obvious need for a theory of the market because they have been assuming, Incorrectly I argue, that a theory of the exchange and the market is what economic science had provided. But, also as noted, positive theory built on a normative foundation is inherently unstable (see Hunt 2002). It has become increasingly apparent that economic science does not provide an adequate theory of economic exchange, let alone of the market.

A first critical step toward developing this foundational theory of the market involves understanding that *value creation*, rather than products, is the appropriate focus for analysis. This involves a corollary understanding that the essential driver for all value creation is operant resources, rather than the operand resources that have traditionally been considered central. It is this application of resources for the benefit of another entity—that is, service—with the anticipation of reciprocity—service for service—that motivates exchange. Business marketing scholars have already laid much of the groundwork for this shift from products to

value creation (e.g., Lingreen and Wynstra 2005; Mohan 1991; Moller 2006; Ulaga 2003).

This value-creation focus points toward a second critical step: understanding that *value is phenomenologically* determined by the beneficiary, not something created by a provider. That is, service is not something that happens to another party. The associated experience and its value are uniquely determined by the beneficiary in the context of its individual needs and availability of other resources (Arnould et al. 2006; Venkatash et al. 2006).

A third, related step is the *elimination of the producer-consumer distinction*. If value is not created in the factory but rather in conjunction with the beneficiary, it follows that it is not destroyed in "consumption". Rather, value is created—for both parties (service is exchanged for service)—in the process of the resource transformations that occur through resource interaction. In voluntary exchange, all parties are simultaneously "providers" and "customers" (see also Yang and Ng 1993).

A fourth critical step in building a theory of the market and marketing is to move to a *network, rather than a dyadic, perspective* of exchange and value creation. If value is determined in the context of other available resources and in relation to the specific needs of the parties, then the resource context becomes a critical part of value creation. Business marketing academics have been at the forefront of the development of *network theory* for understanding this context. So far, network theory (e.g., Hakansson and Snehota 1995) has been largely focused on the industrial "sellers" and "buyers" and, probably because of the B2B context, less often toward what has traditionally been considered the "consumer". These scholars have advanced the idea that providers represent "supplier" networks or constellations and have eliminated much of the producer/consumer distinction, at least in the B2B context. However, this perspective does not appear to have been fully extended to a perspective of "consumer" networks.

Lusch and Vargo (2006) have suggested that all parties to exchange function in integrative contexts. This integration happens at both a macro and a micro level and includes not just private resources but also public resources (Lusch, Vargo and O'Brien). For example, in a B2B setting, local, state or federal governments provide public infrastructure (highways, bridges, airports, university and/or vocational-technical training, etc.) that are part of an integrated set of resources to attract and/or

retain business. Similarly, the household and the individual are integrators of public and private, including market-facing, resources.

The Market as a Resource Integrator

All of this seems to point toward a positive model of the market built around the interplay of resources, especially operant resources, as they are uniquely combined by economic actors that specialize and exchange with each other for mutual benefit. It seems to point to something like a theory of *resource integration*. This links back to S-D logic's (Vargo and Lusch 2006) Foundational Premise 9, as rephrased in Lusch and Vargo (2006): *All economic actors are resource integrators*. This resource integration theory needs to be dynamical, evolutionary, and fractal. That is, it should be scaleable to any level of economic exchange—individual, household, tribe, society, nation, etc.

In a very real sense, it represents an advancement and further abstraction of S-D logic's reversion to Smith's (1776) original notions of economic activity being a story of division of and recombination of "labor" – operant resources. However, particularly in today's digitized world, it probably requires extension to concepts like Normann's notions of "unbundleability" – separating activities that have previously been performed together – and "liquification" – separation of information from people and matter – allowing "rebundleability." It begins to paint a picture of economic entities exchanging their own unique combinations of resources (sometimes operand but always operant) with other resource integrators to improve their own resource accessibility. Thus, it would likely draw from and link resource-based theories of the firm (e.g., Hunt 2000), resource advantage theories of competition, and other similar resource- and network-based theories and models (e.g., Hakansson and Snehota 1995), as well as a whole host of other models and theories, while providing a more generalizable model for current manufacturing-based (including "services"-based) models of marketing.

As a more general and more encompassing potential positive theory of the market, it could serve as a foundation for the generation of a more meaningful and relevant normative theory of marketing. As a positive theory of human exchange, it also has implications beyond marketing by offering a theoretical foundation for a general theory of the firm and of society.

Concluding Comments

Marketing inherited its foundation from neoclassical economics. At the time and in the context of that handoff, the foundation might have been adequate. But the purpose of academic marketing has changed and its scope has expanded. Perhaps as important, the same can be said for economic science. Consequently, the theories based on Smith's normative bifurcation, as amplified by the neo-classical economists' marginal approach, might no longer be an appropriate foundation for either. Ironically, many economic scientist have noted this and the discipline seems to be moving toward a better-grounded, more general positive theory, even as marketing has remained mostly influenced by neoclassical economics. Evidence can be seen in the drive to develop models of increasing returns to scale (e.g., Arrow et al. 2003), growth theory (e.g., Romer 1986), and inframarginal analysis (e.g., Yang and Ng 1993), all of which run at least partially counter to neo-classical economic theory. Perhaps not coincidentally, they recapture Smith's original notions of division of labor, as do S-D logic and models of resource integration.

There is no inherent reason why marketing science must rest on the back of economic science. Of course, there is also no inherent reason why S-D logic should not. Conversely, there is no reason that marketing science, or more precisely market science, can not develop its own positive theory and contribute not only to the further development of normative marketing theory, but also as a positive theory of economics. This of course echoes Alderson's (1957) call for "a marketing interpretation for the whole process of creating utility." It also acknowledges Dixon's (1990, p. 342) observation that "the task of responding to Alderson's challenge remains."

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Biography

Stephen L. Vargo is a Shidler Distinguished Professor and Associate Professor of Marketing at the University of Hawai'i at Manoa. Professor Vargo's primary areas of research are marketing theory and thought and consumers' evaluative reference scales. He has had articles published many of the leading marketing journals, including the *Journal of Marketing*, and serves on the editorial review boards of the *Journal of Marketing*, the *Journal of Service Research*, the *Australasian Marketing Journal*, and the *International Journal of Service Industry Management*. Professor Vargo has been awarded the Harold H. Maynard Award by the American Marketing Association for "significant contribution to marketing theory and thought."

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Marketing Research Traditions: Toward Theoretical Unification or Pluralism?

Kristian Möller

Abstract

Theories of marketing and their future directions are increasingly discussed topics. A significant theme is whether we can construct a unifying logic for the marketing discipline (Vargo and Lusch 2004), or whether marketing should be seen as a theoretically pluralistic field (Möller and Halinen 2000). This issue is first addressed by examining the characteristics of marketing as a scientific domain. Next, a selected set of research traditions or schools of marketing (marketing management, services marketing, marketing channels, interaction and network approach in business marketing, relationship marketing) are described in terms of their intellectual goals and metatheoretical assumptions. This evaluation suggests that the fundamental aspects in assessing the explanatory value, limitations, and relative closeness of research traditions are the assumptions they make about: (i) marketing exchange relationships, (ii) the context of this exchange, and (iii) the actors carrying out the exchanges, in addition to their epistemological and methodological bases. Lastly, the results are used to argue for the adoption of theoretical pluralism in the marketing discipline.

Keywords: Service-dominant logic, Paradigms, Paradoxes and dualities, Marketing theory

1. Marketing as a Research Domain(s)

Marketing is a complex, multilayered, and dynamic social phenomenon. Traditionally, the core or “basic substance matter” of marketing (Hunt, 1991) has been viewed as the exchange relationship and its context (Bagozzi 1974, 1979; Hunt 1976, 1983). What brings complexity to this core is the embedded character of marketing exchange manifested, for example, in the Sheth, Gardner, and Garrett (1988) “Marketing Theory” monograph, in the fundamental explananda proposition of marketing by Shelby Hunt (1983), and in the layered conceptualization of Möller and Wilson (1995) examining the character of business markets and marketing, as well as in the so-called post-positivistic views of marketing. Drawing on these sources, marketing as a research domain seems to consist of several interrelated layers:

- individuals and their behaviors (behaviors of customers and sellers);
- groups and their behaviors (family buying behavior, sales teams, buying centers);

- organizations or firms and their behaviors (marketing and customer organizations, other relevant actors);
- functions and their behaviors (marketing as a function and its interactions with other company functions);
- management (marketing as specialized and institutionalized management);
- interorganizational behaviors (between buyers and sellers);
- institutional systems and their dynamics (e.g., distribution channels); and
- markets, industries, and cultures, and their dynamics (forming the context of marketing and consummating behaviors).

In each layer, a researcher can ask content and structure-specific questions, as well as dynamic or process questions. For example, what aspects characterize “market oriented organizations”, and why? Through what processes does market orientation evolve? Based on this kind of positive understanding, one can begin to

pose and answer normative questions, such as how to construct a “market oriented organization”. For a discussion on the positive and normative perspectives, see Hunt (1983, 2002).

The layered character of marketing has had significant consequences for theory development. First, due to its simultaneous broadness and depth, there are several layers and aspects of marketing which have received relatively scant attention since the 1960's: marketing organization/organizing marketing, marketing as a management profession, markets, and cultures. Second, because of the complexity of interesting phenomena in different layers, there often exist different research traditions or schools of thought in each sub-domain or layer. Third, as the underlying assumptions of these traditions, and subsequently their research approaches, vary, there have been communication problems between researchers representing different schools of thought. This has impeded the development of a general theoretical understanding of marketing and has also led to paradigm “wars”.

In brief, the complexity concerning both the domains of marketing and the research approaches involved suggest that marketing researchers should have advanced metatheoretical skills in order to evaluate and make sense of the various schools of thought in marketing.

2. Marketing Research Traditions: A Contested Field

How does one become “multi-lingual” in terms of marketing theories? The current paper addresses this question by first briefly examining the core marketing research traditions. The following traditions or approaches, an essentially subjective listing, are included: marketing management, services marketing, marketing channels, the interaction and network approach in business marketing, and relationship marketing. Consumer behavior is not included, as it forms a distinct discipline in its own right.

Each of these traditions is briefly assessed by examining the cognitive goals, theoretical driving forces, underlying assumptions, and insights provided for the marketing domain. The aim is not to make judgment on which research approach is better, but to develop an understanding on their relative descriptive and explanatory strengths and limitations, as well as on the assumptions these are based on. For theoretical comparisons of research traditions within marketing and management, see Anderson (1986); Arndt (1985); Brodie et al. (1997); Burrell and Morgan (1979);

Coviello et al. (1997, 2002); Gioia and Pitre (1990); Mattsson (1997); Möller (1994); Möller and Halinen (2000); Möller (2006a); Tikkanen (1996); Vargo and Lusch (2004); and Walker et al. (1987).

The metatheoretical analysis indicates that each tradition provides a particular and partial view of its focal phenomena, dependent on its ontological and epistemological assumptions and the issues it has chosen to take to the foreground, along with its intellectual goals. In this context, only very brief descriptions of each tradition or school can be given.

The *Marketing Management School* is a normative theory of the development of optimal marketing management solutions. In solving the key questions (optimal marketing mix, segmentation solution, and offering positioning), the school relies on the monopolistic theory of competition and marginal utility theory, and on being informed about customer preferences and responses (Chamberlin 1965, 1st published 1933, Dorfman and Steiner 1954; Dickson and Ginter 1987; Kotler 1967, 1971). A key assumption is that there exist working markets with primarily independent actors. The school of thought is silent about customer relationships, organizing marketing activities, and strategic marketing issues.

The *Services Marketing School* describes the service provider-customer relationship. Consumers' quality experiences and subsequent satisfaction toward the service are seen as outcomes of an interaction relationship between the personnel and the customer (cf., Parasuraman, Zeithaml, and Berry 1985; Zeithaml, Berry, and Parasuraman 1988). In addition, the organizational aspects in service production and marketing are stressed (“internal marketing” concept, Grönroos 1981). Much of the research in this school of thought is empirically driven: inductive orientation is prominent among Nordic researchers aimed at developing broad, managerially-oriented frameworks (Grönroos 1990). A more theoretical base has been constructed for the customer service expectations and behavior, using foundations from consumer behavior.

Research in the *Channels Research Tradition* often involves examining how actors in a marketing channel behave, and how and why various forms of channels evolve. The basic normative goal is defining efficient relational forms between channel members. This tradition is primarily theory-driven and attempts to combine the economic, political, (power, dependency)

and social aspects (cooperation, trust, commitment, communication, and conflict behavior) of channels. The tradition relies on transaction cost theory, relational law, social exchange theory, political economy, and power and conflict in organizational sociology (Stern and Reve 1980; Heide and John 1990, 1992; Anderson and Narus 1990; Williamson 1985). Three essential points are offered: (1) both economic and political aspects and their interactions must be considered in examining channel behavior; (2) a focal channel/dyad is the recommended unit of analysis; and (3) complex relationships cannot be understood outside of their context, as the “dyadic behavior” and “channel” are reciprocally interrelated (Heide 1994; Möller 1994; Möller and Halinen 2000; Rindfleisch and Heide 1997; Wathne and Heide 2004).

The Interaction and Network Approach in Business Marketing is mainly associated with the work centered on the IMP Group (Anderson et al., 1994; Axelsson and Easton 1992; Ford 1990; Håkansson and Snehota 1995). The goals are to understand and explain the functioning of business markets from the perspective of the interactive buyer-seller and other actor relationships, as well as the networks these relationships constitute. The broad managerial goal is to sensitize managers to the embeddedness and dynamics of management in a network context. Both relationships and networks form the unit of analysis.

Relationships exist between different types of actors, and are seen as vehicles for accessing and controlling resources, and creating new resources in the relationships. The key questions include: “How are relationships created and managed?”, “How do networks of relationships evolve?”, “How can an actor manage these relationships and create a position in a network?”, and “How do networks function and evolve?” (cf., Ford 1990, 1997, 2002 for compilations of INA research). The approach is influenced by channels research, resource dependency theory, social exchange theory, evolutionary economics and sociology, and resource-based theory (Axelsson and Easton 1992; Möller and Halinen 2000).

Interaction processes, adaptation and investments in relationships, actor bonds, resource ties, activity chains, relationship outcomes and phases of relationships, nets and networks of relationships, network dynamics, and embeddedness represent key constructs. Recently, the management perspective in the network context has gained focus (Håkansson and Ford 2002; Möller et al., 2005; Ritter et al., 2004). The world view emphasizes

contextuality and time, where singular events or relationships cannot be understood without knowledge of their context and evolution. The environment is not transparent, and actors perceive its structure and meanings and learn about them through enactment.

The key aspect of *Relationship Marketing* (RM) is the focus on marketer-supplier relationships and the dynamics of these relationships. Both the seller and customer can be active, which is the key to understanding their behaviors and relationship dynamics. The approach is influenced by services marketing, the interaction approach in business marketing, channels research, and the ideas of database and direct marketing (Möller and Halinen 2000; Sheth and Parvatiyar 2000). In addition, Sheth and Parvatiyar (1995) included aspects of consumer behavior research as the roots of RM. This variety of roots has consequences for the consistency of the developing RM theory. Möller and Halinen (2000) argued that RM actually consists of two theoretically different and distinctive approaches: market-based RM (MRM) and network-based RM (NRM). MRM assumes a market of potential customer relationships with relatively low actor interdependence and interaction intensity, and consequently, relatively low switching costs. NRM assumes a network of interdependent, often reciprocal relationships involving relatively complex interactions and higher switching costs. MRM researchers tend to employ explanatory methodology, whereas many NRM researchers use more understanding-oriented methods, such as the case study approach.

3. Marketing Discipline: Enhanced Relevance through Theoretical Pluralism

The metatheoretical analysis of the selected marketing research traditions or schools of thought has significant implications for theory development within marketing. First, the analysis shows that current marketing research is pluralistic and is composed of several research traditions that cannot be integrated or unified because of their distinctive world views concerning the context of marketing exchange relationships, the characteristics of the exchange and exchange behavior, and the actors or units carrying out exchange behavior. Moreover, each tradition has distinctive intellectual goals, which, although partly overlapping, include different aspects of the marketing phenomena being addressed.

In brief, marketing is a pluralistic discipline and the recent suggestion by Vargo and Lusch (2004) that we

should adopt a single dominant logic seems to be theoretically misinformed. My recommendation is that marketing scholars become multilingual in terms of the theories in marketing, which would lead to better capability for recognizing and understanding the goals and assumptions of marketing theories. There are several themes for advancing both theoretical understanding and theory development in marketing.

We should recognize and accept the differences between: (i) theories assuming working markets and the relative non-embeddedness of the exchange behavior, and (ii) theories assuming strong contextuality of exchange behavior and offering frameworks for addressing the relationship between environment and exchange behavior. It seems that, as we already have reasonably well-articulated theories concerning “network environments” and “institutional environments” having political-economy characteristics, we need a better understanding of how markets evolve. This topic is beginning to be addressed through the social construction view of markets (Anderson et al., 2005) and the network perspective (Möller and Svahn 2005), and is an important research theme, as the advancement of how emerging markets are constructed and operate would be relevant for the marketing discipline in terms of strategy research and societal policy.

Another issue is that most marketing theories have relatively unarticulated views of the organizations carrying out exchange activities. The marketing management tradition (MMT) is silent about the organization or assumes a machine-like view. Although they address organizational aspects, services marketing and market-based relationship marketing have relatively mechanistic views of both the marketer and customer organizations, compared to the multiple orientations available through organization theory and management studies (Morgan 1986). An important aspect is the increased utilization of the resource and capabilities-based view of the firm in both the network approach and the emerging “competence-based” marketing (Vargo and Lusch 2004; Golfetto and Gibbert, 2006). The RBV and capabilities approach can provide a well-founded conceptualization for examining the marketer-customer relationship from the value-production perspective (Möller 2006b).

A more restricted but relevant point that seems to have been missed in paradigm construction, particularly in Nordic countries, is the applicability of the marginal

utility theory-based optimization approach of MMT for the services and relationship marketing (market-based RM) in cases where the goal is to manage a customer relationship base involving individualized offering development and personified communications, in an optimal fashion (cf. Möller 2006a).

Finally, most of the key research traditions in marketing have a relatively strong normative and managerial orientation (the marketing management school, services marketing, relationship marketing). Research and theory development concerning the social and societal influence and role of marketing are lacking. Before advancing these issues, we should not wonder why marketing is often not recognized, nor respected, as a legitimate part of social sciences.

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Biography

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SESSION 3

Shifting the Service-Dominant Logic debate to the empirical arena

In their recent article in the *Journal of Marketing*, January 2004, Vargo and Lusch proposed a service-centred perspective for theory and knowledge development in marketing. They argued for a theoretical shift from a “goods-centered logic,” based on tangible resources, embedded value, and transactions, to a “service-centered logic,” based on intangible resources, the co-creation of value, and the fostering and maintenance of relationships. In their 2004 article, Vargo and Lusch provided eight foundational premises that underpin their case for the dominance of service-centred logic and more recently Lusch and Vargo (2006) have presented a ninth premise, that “Organizations exist to integrate and transform micro-specialized competences into complex services that are demanded in the marketplace”. To date, the debate about which paradigm should dominate has been largely theoretical.

In this session, we shifted the debate to the empirical arena by focusing on three questions:

1. How can organizations’ adoption of “service-centered logic” be operationally measured (cf. “market orientation”)?
2. What type of empirical research is needed to test the theoretical premises of “service-centered logic”?
3. Is “service-centered logic” more effective than other “logics” for marketing practice?

In this section of the AMJ, we have collected the five papers that were presented in the session, and conclude with a commentary on the five papers by one of the authors of the S-D logic, Steve Vargo.

The first paper is by Brendan Gray, University of Otago; Sheelagh Matear, Lincoln University; Ken Deans, University of Otago; and Tony Garrett, Korea University Seoul, and is titled “Assessing Sources of Competitive Advantage in a Service Dominant World”. This draws on

the research experience of the Marketing Performance Centre at the University of Otago to address the questions. This research stream about service firm marketing practices and performance offers particular insight in how ‘source of competitive advantage’ should be assessed in a service-dominant, relational, and co-created value context.

The second paper, by Heidi Winklhofer, Nottingham University Business School; Roger Palmer, Henley Management College; and Rod Brodie, University of Auckland, is titled “Researching the Service-Dominant Logic: Normative Perspective Versus Practice”. This provides a perspective from the Contemporary Marketing Practice CMP research programme. The CMP research programme was established at the University of Auckland a decade ago and since then has led to research about marketing practices in over 15 different countries.

The third paper is by Vasilis Theoharakis, ALBA Graduate Business School & Aston University and Laszlo Sajtos, University of Auckland, and is titled “The Service-Dominant Logic: an MC21 Project View”. This provides a perspective from the Marketing in the 21st Century (MC21) research programme. Like the CMP research programme, the MC21 research has been undertaken in a number of different countries, focusing on marketing practice and performance.

The fourth paper is by Richard Brookes, University of Auckland, and is titled “The Service-Dominant Logic of Marketing: A Logical and Evidential Case for Multiple Logics?”. Richard Brookes is a member of the CMP group and in this paper he provides a CMP perspective on the premises of the S-D logic. In particular he questions whether the 9th Foundational Premise “Organisations exist to integrate and transform micro-specialised competences into complex services that are demanded in the marketplace is too confining.

The final paper is by Jill Sweeney University of Western Australia, and is titled "Moving Towards the S-D Logic: A Comment". This paper draws on the evidence from two consumer research projects on customer empowerment and customer participation to examine how appropriate the S-D logic is as a basis for a theory of marketing.

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Assessing Sources of Competitive Advantage in a Service-Dominant World

Brendan J. Gray, Sheelagh Matear, Kenneth R. Deans & Tony Garrett

Abstract

Vargo and Lusch (2004), in their award-winning *Journal of Marketing* article, have called for a paradigmatic shift in marketing to a service-dominant logic. This paper discusses research findings of the Marketing Performance Centre (MPC) into service firm marketing practices and performance and reflects on how sources of advantage should be assessed in a service-dominant, relational and co-created value context.

Keywords: S-D Logic, Marketing performance, Service marketing

Introduction

There is increasing interest among marketing researchers in how to improve marketing practices and firm performance. The Marketing Performance Centre (MPC), based at the University of Otago, is a multi-disciplinary research group that has been investigating service marketing and management practices for the past 10 years. This paper discusses the MPC's research into the best practices associated with five key sources of competitive advantage – market orientation, branding, innovation, human resource management and information technology – and reflects on how these should be assessed in the future, given the challenge laid down by Vargo and Lusch (2004) for a paradigmatic shift in marketing to a service-dominant, relational, and co-created value logic.

In particular, the paper will address three questions raised by the Vargo and Lusch challenge:

1. How can organisations' adoption of "S-D logic" be operationally measured?
2. What type of empirical research is needed to test the theoretical premises of "S-D logic"?
3. Is "S-D logic" more effective than other "logics" for marketing practice?

Brief History and Philosophy of the MPC

The Marketing Performance Centre (MPC) has been

investigating links between marketing and management practices and firm performance since 1995. In the past 10 years it has focused on service firms, following a large grant from the Public Good Science Fund to investigate ways of improving the international competitiveness of New Zealand service enterprises. The MPC, which is a member of the larger Marketing in the 21st Century (MC21) research group based at Aston University, U.K., has a core membership of about 10 researchers. As well as being responsible for implementing the New Zealand aspects of the MC21's multinational study into marketing practices, the MPC's own studies are being replicated in Austria, Germany, the U.K., Ireland, Malaysia, China and Australia. The MPC's research also complements that of the Contemporary Marketing Practices (CMP) group based at the University of Auckland. Where appropriate, the findings of the MPC research will be compared to those of the CMP and MC21 groups.

Originally, MPC researchers adopted a pragmatic research view, with a healthy skepticism of existing marketing and strategic management models. The guiding ontology and epistemology and the related research methodologies initially employed could be described as objectivist, functionalist and/or realist (Burrell & Morgan 1979). Since then researchers have adopted a more pluralistic research approach, which appears to mirror the beliefs and practices of

contemporary marketing managers (Brodie et al. 1997). This has involved employing various deductive and interpretive methodologies, depending on the issues being researched. The current guiding philosophy could best be described as a critical realist approach (Bhaskar 1999), meaning that researchers believe that an objective reality may exist, but acknowledge that it is difficult to know, perceive and study and therefore multiple (qualitative and quantitative) methods need to be employed in an attempt to discern this reality.

More specific marketing and management theories and concepts have underpinned recent research, though. These include the resource-based view of the firm (Wernerfelt 1984, Barney 1991, Fahy & Smithee 1999), and the sources-position-performance model of sustainable competitive advantage, originally posited by Day and Wensley (1988), but adapted for service firms by Bharadwaj, Varadarajan and Fahy (1993), Mazzarol and Soutar (1999), and Gray et al. (2001). The two dominant models of market orientation (Narver & Slater 1990, Kohli & Jaworski 1990) are also guiding constructs, with recent analyses of the MPC database suggesting that market orientation provides the requisite information for successful innovation and branding decisions, which in turn lead to improved performance (Matear et al. 2002, Matear, Gray & Osborne 2004).

A Summary of Key MPC Research Findings

Market Orientation

Much of the MPC's research has focused on understanding the market-oriented cultures and associated behaviours of New Zealand firms. This resulted in the development of a parsimonious measure of market-oriented behaviour (Gray et al. 1998) based on an intersection of the two most popular scales (i.e. Narver & Slater 1990; Jaworski & Kohli 1993). It also included questions relating to firms' abilities to track profitable customers and products that had been dropped from the original Narver & Slater instrument but which proved useful in a later Canadian study (Deng & Dart 1996). The resulting five-dimension model (i.e. customer orientation, competitive orientation, interfunctional co-ordination, responsiveness and profit emphasis) has now been used by research partners in seven other countries, but the invariance analysis needed to determine whether a valid cross-national instrument can be developed has yet to be completed.

However, based on a survey of 350 New Zealand professional financial and business service firms, and in-

depth interviews with 27 top-performing and 10 less well-performing firms, it appears that there are a number of market-oriented practices that companies should adopt if they wish to improve performance. These involve improving the frequency and formality of the procedures used to assess customer satisfaction, competitor actions and to identify the firm's most profitable customers and products, and adopting more effective ways of communicating market information throughout the organisation (Matear et al. 2004).

What implications, then, are there for the three S-D logic questions (Vargo & Lusch 2004) raised in the introduction to this paper? In terms of the measurement of service-centred practices, it appears that a key concern should be the quality of the market information that is gathered, shared and utilised. Researchers should focus on customers' perceptions of the information they need to help co-create value with service providers, as well as customers' perceptions of how adaptive and responsive the firm is to their changing needs, preferences and consumption behaviours. This is particularly important, given the growing array of interactive solutions that more service-centred competitors may offer. Previous research, including that conducted by the MPC, MC21 and CMP research groups, has tended to focus on managers' perceptions of the most effective marketing practices. The danger here is that managers' perceptions could be more product-oriented than market-oriented.

In terms of the empirical research needed to test the theoretical premises of a S-D logic, then it appears that further investigation is required to assess the ability and willingness of customers to offer and exchange market-related information with firms so they can co-create service solutions. Again previous research has tended to emphasise a more managerial and firm-centred view, with the inference being that managers seek the market information that they perceive to be useful for value creation (rather than co-creation). However, if customers are unwilling and/or unable to share market information, then this could raise questions about theoretical robustness of a service-centred, relational and co-created value logic.

This mirrors the concerns of Fritz (1996), whose study of market orientation in German companies concluded that multiple business orientations or philosophies were necessary for firm success. In terms of market orientation, then, further questions that need to be asked, including whether there are instances (as in low involvement, routine purchases) where a more

traditional, transactional and firm-centric view to information generation, sharing and utilisation may be more appropriate.

Innovation

The MPC research findings suggest that better performing service firms tend to adopt a mixture of formal and informal innovation processes. What appears to be crucial, though, is having a culture that encourages staff, customers and other stakeholders to suggest innovative ideas. Innovative firms also have a greater willingness to experiment and take risks (Garrett, Gray & Matear 2005). The implications for the three S-D logic questions (Vargo & Lusch 2004) raised in the introduction to this paper appear to be similar to those raised by the market orientation findings.

In terms of the measurement of service-centred practices, it appears that a key concern should be developing ways of assessing the effectiveness of practices aimed at encouraging customers and other stakeholders to help co-create service solutions. This would include assessing the willingness and ability of stakeholders to share ideas and assist in the development and testing of service innovations. In terms of the empirical research needed to test the theoretical premises of a S-D logic, then again it needs to be established in which contexts that firm-created and customer co-created innovations are most appropriate. This also has important implications for the final question about whether a S-D logic is more effective than other "logics" for marketing practice in different service innovation contexts. The service-centred view appears to be appropriate for the idea generation stage for both high and low-involvement services, but may be less appropriate in the innovation development, testing and promotion stages for low-involvement and/or expert services (in the former situation customers may be unwilling to participate, while in the latter case they may be unable to do so).

Branding

In terms of branding and corporate reputation, successful firms tend to emphasise service quality in their advertising and public relations and try to personalise their offerings by emphasising their people. They supplement this with community-oriented activities to engender trust (Gray 2006).

The implication for the measurement of service-centred practices is that service quality and satisfaction need to

be assessed in terms of the quality of the relationships that customers and service providers develop. Relationship quality and satisfaction are also important for other stakeholders, including community groups, particularly if firms want to improve their levels of corporate responsibility and citizenship. In terms of the empirical research needed to test the theoretical premises of a S-D logic, then again it needs to be established in which contexts that meaningful relationships are most appropriate. However, given that communication is essentially an interactive process, it is likely that a S-D logic is likely to be more effective than other "logics" (e.g. one-way, product-oriented communication) for marketing practice in most if not all service branding and reputation contexts.

Information Technology

In terms of electronic marketing, the most successful firms tend to adopt a more strategic approach to integrate new media into the communications mix (Deans et al. 2003). However, few firms in New Zealand, Australia (Adam & Deans 2001) or Ireland (Ramsey et al. 2003) appear to be using communications technology to develop better customer relationships.

The implication for the measurement of service-centred practices is that, as in the case of branding and reputation management, the effectiveness of electronic marketing strategies needs to be assessed in terms of the degree to which information technology helps to improve the quality of the relationships that customers develop with service providers. In terms of the empirical research needed to test the theoretical premises of a S-D logic, then again it needs to be established in which contexts that meaningful relationships are most appropriate. However, given that information technology should (in theory, at least) be integrated with other service development, delivery and communication processes, it is likely that a S-D logic is likely to be more effective than other "logics" for marketing practice in most if not all electronic marketing contexts (e.g. electronic communication needs to be accessible and valuable in both low involvement and high involvement situations).

Human Resource Management

In terms of HRM practices, the better performing firms pay for regular staff training. Although much of this is directed at improving functional skills related to current duties, professional services firms, in particular, also emphasise "softer" communication and relationship marketing skills so that professionals can deal more

effectively with customers and staff. Clear career paths, internal promotion and rewards for customer-oriented performance are used to motivate and retain key personnel (Gray, Edgar & Browning 2004).

The implication for the measurement of service-centred practices is that the effectiveness of HRM practices should be assessed in terms of the communication, interpersonal and relationship management skills of professional and front-line staff, as well as their functional (job specific) skills. The empirical research needed to test the theoretical premises of a S-D logic would be to establish whether the relative importance of relational and product or task related knowledge and skills vary in different market contexts. If job and/or task related knowledge and skills are more important in low involvement service contexts, then this would raise questions about the usefulness and effectiveness of a S-D logic compared to other "logics" for marketing practice in these situations.

Future Research Directions and Possible Collaborations

The MPC's research into marketing management and service firm performance has attempted to answer calls for further research into the links between market orientation and performance in service firms (Van Egeren & O'Connor 1998), as well as innovation and performance (Johns & Storey 1998), corporate image and reputation (Yoon, Guffrey & Kijewski 1993), and the use of new media such as the Internet (Lynn et al. 1999). Further, the research has begun to address some important issues regarding the nature and importance of corporate culture. Is a market-oriented culture sufficient, or do firms need a more balanced culture to be successful (Fritz 1996)? How important are corporate social responsibility and other ethical concerns (Balanabis, Phillips & Lyall 1998)? The importance of identifying service marketing and management knowledge and skills requirements and the need to ensure that the practitioner-academic divide is lessened (Brennan 2004) have also been acknowledged.

It is also worth comparing the MPC results with those of other researchers with similar agendas. The first of these complementary groups is the Contemporary Marketing Practices (CMP) research programme directed by Professor Rod Brodie and Professor Nicole Coviello at the University of Auckland, New Zealand. This programme, which is now 10 years old, has concentrated on investigating the relational and transactional

marketing strategies and practices of firms in 15 different countries. Its findings suggest that marketing managers often adopt a pluralistic approach, blending both relational and transactional approaches. And although service firms tend to be more relationship-oriented than firms selling tangible goods, there are many exceptions. The researchers have been successful in linking projects with specific journals, including a *Journal of Marketing* article (i.e. Coviello et al. 2002).

The second programme, which includes the MPC as its New Zealand partner, is Marketing in the 21st Century (MC21). This is based in the Aston Business School, Birmingham, UK, and is led by Professor Graham Hooley, Professor Gordon Greenley and Dr Vasilis Theoharakis. MC21 has a large group of international collaborators who are undertaking a 15 country study of marketing resources (strategic stakeholder orientation, marketing capabilities, and marketing assets), competitive positioning and firm performance. It has also targeted high quality journals, such as the *Journal of Business Research* (Hooley et al. 2003). The MC21 group shares similarities with both the CMP (particularly its concern with marketing capabilities) and the MPC (particularly its interest in drivers of competitive positioning and firm performance).

All three research programmes have an interest in benchmarking best practices in marketing and related business practices (relationship management in the case of CMP, electronic marketing in the case of both the CMP and MPC, strategic management in the case of MC21, and human resource management and innovation in the case of the MPC). However, the research teams have had different starting points and histories and have subsequently designed research models, defined variables and investigated research questions in different, but complementary, manners.

A common assumption of all three groups appears to be an acceptance of the resource-based view of the firm (Wernerfelt 1984, Barney 1991, Fahy & Smithee 1999), which suggests that competitive advantage relates more to intangible business resources, processes and relationships, rather than capital assets. Although intangible resources are highly contextual, they can produce barriers to imitation that help create and sustain competitive advantage (Mazzarol & Soutar 1999). Benchmarking the marketing practices of successful firms, then, and comparing these practices with those of less successful firms, can offer insights to researchers and managers into ways of improving firm performance.

A key determinant of success may be how well these practices are implemented (Kirca, Jayachandran & Bearden 2005). All three research programmes – CMP, MC21 and MPC – appear to be developing a better understanding of the quality of strategic marketing implementation.

Finally, a paradigmatic shift which may impact on future research – and possible collaboration between CMP, MC21 and MPC researchers – is the argument by Vargo and Lusch (2004) for a theoretical shift in marketing from a goods-centred logic, based on tangible resources, embedded value, and transactions, to a S-D logic, based on intangible resources, the co-creation of value, and the fostering and maintenance of relationships. This raises theoretical and practical questions about how marketing resources, competencies and capabilities should be configured in the future to co-create value with key stakeholders.

It would be useful to investigate the knowledge, skills and competencies that marketing practitioners require to prosper in a co-created, open-source, information-rich world. However, it should not be under-estimated how difficult it may be to encourage change in organisational cultures, given the reluctance of many firms adopt best practices in marketing and management which have been linked to superior competitiveness and performance of firms operating in a more “conventional” service marketing paradigm (Gray & Matear 2005).

More fundamental questions may have to be addressed first, though. These relate to whether consumers and organizational buyers are always interested in co-creating value and/or developing long-term relationships with commercial enterprises (there may be contexts and segments where this is desirable, and others where a transactional approach is more appropriate), and whether performance (perceived value for both parties) varies in relational and transactional market contexts.

The results of the MPC’s research into market orientation, innovation, branding, IT and HRM practices suggests that there are contexts where the Vargo and Lusch (2004) view may be more appropriate than others. However, further research is required to confirm this.

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Researching the Service Dominant Logic – Normative Perspective Versus Practice

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Abstract

Based on the key building blocks of S-D logic we review empirical studies in these areas to provide preliminary evidence on the adoption of S-D Marketing. We conclude providing a discussion about an instrument to measure S-D Marketing.

Keywords: S-D logic, Role of theory, Theory measurement

Introduction

The Service Dominant (S-D) logic first proposed by Vargo and Lusch (2004) has attracted considerable academic interest and attention, resulting in numerous articles and conference discussions. This logic has arguably achieved paradigmatic status and it is also proposed that it could form the basis for the development of a general theory about marketing. In particular, Lusch and Vargo (2006a, p. 28) believe “.. perhaps the ultimate hallmark of S-D logic is this unification potential, through the simultaneous understanding of buyer behavior, seller behavior, institutional mechanisms that bring buyers and sellers together, and the role of marketing in society”.

For theory to be relevant it must relate to practice. An insightful parallel can be drawn with the interest that was shown in the concept of relationship marketing during the 1990s. This too engendered considerable academic interest and output, but until the work of the Contemporary Marketing Practice (CMP) group emerged towards the end of the decade there was little empirical work that compared the theory with practice.

Against this background, the objectives of this article are threefold: Firstly, to clarify the nature of the theory proposed within the concept of S-D logic. Secondly, to provide preliminary evidence on the adoption of S-D logic in practice. In particular, to build on the key building blocks of S-D logic and review empirical studies surrounding these building blocks. Thirdly, to

offer some preliminary thoughts on developing a measurement instrument for S-D Marketing.

Literature Review

The Role and Nature of Theory

Lusch and Vargo (2006 p.51) note that "it is too early to make claims about service dominant logic being a new theory, let alone a "general theory" or a paradigm shift for marketing". Equally, Saren et al (2006) call for stronger theoretical development of the S-D logic concept and Holbrook (2006 p. 221) demands a “*focused framework for thinking*”. Whilst arousing considerable interest, it can be seen that further theoretical development of the concept of S-D logic is required.

Theory can be simply stated as a generalised description or explanation of the relationship between two or more variables. The term theory can encompass anything from simple conjectures to all-encompassing laws of the universe. The Logical Positivists would argue that theories can never be proven, but only remain to be refuted and that this refutation in turn forms the basis for stronger theory (Chalmers, 1982). However for this to occur, the nature of the theory needs to be clear and presented in such a way that it is capable of empirical testing. This begs the question as to the nature of the theory proposed within the concept of S-D logic, and how such theory can be validated in order to develop it further.

S-D logic may be considered as paradigmatic in nature

Table 1: Concepts and their Transition.

Goods dominant logic concepts	Transitional concepts	Service dominant logic concepts
Goods	Services	Service
Products	Offerings	Experiences
Feature/attribute	Benefit	Solution
Value-added	Co-production	Co-creation of value
Profit maximization	Financial engineering	Financial feedback/learning
Price	Value delivery	Value proposition
Equilibrium systems	Dynamic systems	Complex adaptive systems
Supply chain	Value-chain	Value-creation network/constellation
Promotion	Integrated marketing communications	Dialog
To market	Market to	Market with
Product orientation	Market orientation	Service orientation

Source: Lusch and Vargo (2006d).

and as pre-theory, which implies the need for more inductive development in order to develop theory suitable for testing. This is the approach suggested by Gummesson (2006) with respect to his networks/relationship/interaction approach to the development of a grand theory of marketing. In addition, it could be regarded as a paradigm shift in the physical sciences sense whereby the new theory rejects currently established theory.

The term "paradigm shift" recurs throughout the discussion of the S-D logic concept. In physical science terms, paradigms are incommensurable, either the earth revolves around the sun or vice versa, but both states cannot simultaneously exist. In the social sciences alternative views may exist and overlap, as is acknowledged in other fields of management such as corporate strategy where various views or "lenses" are presented (Johnson and Scholes, 2002). Ambler (2006) also argues that in the field of marketing different and valid perspectives of the same phenomenon are expressed. Saren et al. (2006) draw on the work of the Contemporary Marketing Practice (CMP) group and argue that in researching the S-D logic paradigm incommensurability is not a problem but rather an opportunity for fruitful research. They develop their

argument to propose a multiple paradigm and multiple method research approach which they refer to as being pluralistic. Alternatively S-D logic could be viewed as a meta-theory, which draws from a number of theoretical and sometimes apparently contradictory bases in order to develop a more comprehensive framework, this is the argument proposed by Lusch and Vargo themselves (2006 p. 407).

Levy (2006 p. 61) reminds us that "managers want to know what academics can teach them" and "scholars want to know what managers are doing". This is consistent with Schon's (1983) view of a hard science, in which there is a close relationship between theory and practice as managers identify problems for academics to solve, whilst academics develop better theory to explain real-world phenomena and contribute to scientific progress. Schon (1983) contrasts this with the soft sciences, the social sciences, within which we can include marketing. Hence, marketing can lose touch with the day-to-day concerns of managers and fail to progress by developing better theory. Thus, we propose that research and debate surrounding the S-D logic would benefit from empirical investigation into the adoption of S-D logic by businesses, since, as Levy (2006 p. 61) notes, "the most successful dominant logics over time are

those that are embraced by both managers and scholars".

Building Blocks of a S-D Logic

In order to examine the prevalence of this new logic in practice some form of framework or structure is required as the start point for empirical research. The framework we will be employing is based on the key concepts comprising a S-D logic (see Lusch and Vargo, 2006d), and incorporates the four fundamental building blocks which form the strategic marketing direction of a S-D firm: collaboration with customers and partners in terms of service offering, value proposition, conversation and dialogue, value processes and networks (see Lusch and Vargo, 2006). The list of key constructs suggested by Lusch and Vargo (2006d) is particularly useful, as the authors demonstrate the transition of these constructs from a G-D to a S-D logic (see Table 1).

As the S-D logic draws heavily on the work in relationship marketing, services marketing, marketing orientation, various network perspectives, integrated marketing communication, and the resource based view of the firm, empirical work is available on the components of a S-D logic. Nevertheless, apart from anecdotal evidence, there appears to be a lack of work that examines all components of a S-D logic, simultaneously. This is important since, S-D logic is not a restatement of these ideas, instead, Vargo and Lusch's "special contribution to marketing debate is in bringing these ideas together in a new way" (Aitken et al., 2006 p. 276). For example, the adoption of relationship marketing does not necessarily imply the firm has adopted a S-D perspective of marketing, since "S-D logic is inherently relational: however a relationship paradigm is not inherently service centred" (Lusch and Vargo, 2006c p. 48). The same rationale has been used by Sheth et al. (2000) in the context of customer-centric marketing. Nevertheless, a review of the empirical literature would provide some evidence as to the extent to which the individual components of a S-D logic have been adopted by firms.

At the core of a S-D logic lies the exchange of service for service, which implies that firms provide their customers with value propositions that constitute experiences and/or solutions. Sawhney (2006) provide a number of examples that demonstrate how firms have successfully transformed themselves from selling goods/services to solution providers. The authors also highlight the changes that are required in a firm's mindset, organisational structure, pricing structure, etc. in order to

master this transition. Despite the obvious advantages, it appears that few firms actually follow the "problem-solution" approach in practice, and it is mainly limited to complex and high value products and services, (e.g. computer systems, medical devices, telecommunication systems, etc. (Sawhney, 2006). Equally important to the S-D logic of marketing is the concept of value-in-use. It implies that firms can only create value propositions. In addition, Vargo and Lusch (2004) stress co-creation of value, which "clouds who is seller and who is customer, because each is involved in creating value for the other" (Woodruff and Flint, 2006 p. 183).

Since co-creation with customers and partners is central to the S-D logic, the following reviews the practice of customer involvement. A number of authors have reported customers being engaged as co-creators and innovators (e.g. Thomke and von Hippel, 2002; Prahalad and Ramaswamy; 2000; 2004). Brown and Bitner (2006) provide examples of best practices of customer involvement, this includes the co-production of the services in terms of service offering as well as in terms of enabling customers to serve themselves (i.e. self-service technology). The authors also emphasised the importance of employees within a traditional service setting. Rust and Thomson (2006 p. 389), however, warned that customers are not necessarily willing to invest time and effort to engage in close one-to-one relationships with all the firms they interact with, and can feel burdened by choice, as "consumers do not have the cognitive resources to customize all the products they buy" (see also Schwartz, 2004). Equally, an underlying assumption is that a learning relationship with customers can help uncover their hidden and overt preferences (Peppers and Rogers, 1997). Simonson (2005), however, after reviewing the work on the construction of preferences, concluded that customer preferences are often ill defined, and customers may not appreciate offers that have been customised for them.

Woodruff and Flint (2006 p. 184), although supportive of the central role of customer value in the S-D logic, critique that "our knowledge of customer value has not progressed to the level needed to support Vargo and Lusch's (2004) S-D logic for marketing". In particular, they conclude little is known about the nature of co-production, for instance, what would encourage customers to engage in co-production. Kalaignanam and Varadarajan (2006) provide a conceptual model which delineates the factors impacting on the intensity of customer participation in the firm's value chain activities

and value creation processes (i.e. product development, customer relationship). The authors propose customer participation to be determined by product characteristics (e.g. tangible dominant versus intangible dominant, high versus low involvement, etc.), market and customer characteristics (e.g. B2B versus B2C markets; experts vs. novices) and firm characteristics (e.g. information resources, information skills, etc.), as well as macro-environmental trends and developments. Prahalad and Ramaswamy (2000) provide some examples and also highlight the challenges for industry.

Co-creation with customers, suppliers, and other partners requires conversation and dialogue. Ballantyne and Varey (2006) provide a useful classification that helps differentiating between the various modes of interaction between various parties. Informational interaction is the most basic form, its aim is to pass on persuasive messages within a hierarchical system. Communicational interaction encompasses informing and listening within an interactive market system, while Dialogical interaction is about joint learning within a network “and generating value in new ways” (Ballantyne and Varey, 2006 p. 229). Prahalad and Ramaswamy (2004 p. 9) go further and suggest that “dialogue implies interactivity, deep engagement, and the ability and willingness to act on both sides”. This links dialogue back to the circumstances under which customers are willing to participate (see Kalaignanam and Varadarajan, 2006). Spekman et al. (2002) illustrate the pre-conditions for learning to emerge within a supply chain context. This includes: the dilemma between cooperation and competition, ensuring that learning happens throughout the supply chain (i.e. firm, supply chain enterprise and individual level), and flexible firm structure. Networks, in contrast to hierarchical systems, have been suggested to be particularly suited to maximise organisational learning (Achrol and Kotler, 1999).

In the networking literature marketing phenomena have been described as interactions within networks of relationships (Gummesson, 1999). The importance of networks has been repeatedly highlighted. Achrol and Kotler (1999 p. 146) suggested “Marketing outcomes increasingly are decided by competition between networks of firms rather than by competition among firms”. The increased occurrence of horizontal alliances between former competitors has led to situations of “networked rivalry” (Srivastava et al. 2001). The CMP group has developed a measurement tool for assessing firm’s engagement in Network Marketing activities

(Brodie et al. 1997; Coviello et al. 2002) and found that only one third of the sample practiced high levels of Network Marketing, which makes it one of the least practiced types of Relationship Marketing. There is also strong evidence to suggest that firms that practice Network Marketing also practice Interactive Marketing (Coviello et al. 2002). Practising Network Marketing is independent of a firm’s customer or product type, as well as customer/product type combination (Coviello et al. 2002). However, it was also found that firms with high use of technology practice higher levels of Network Marketing (e.g. Coviello et al. 2002).

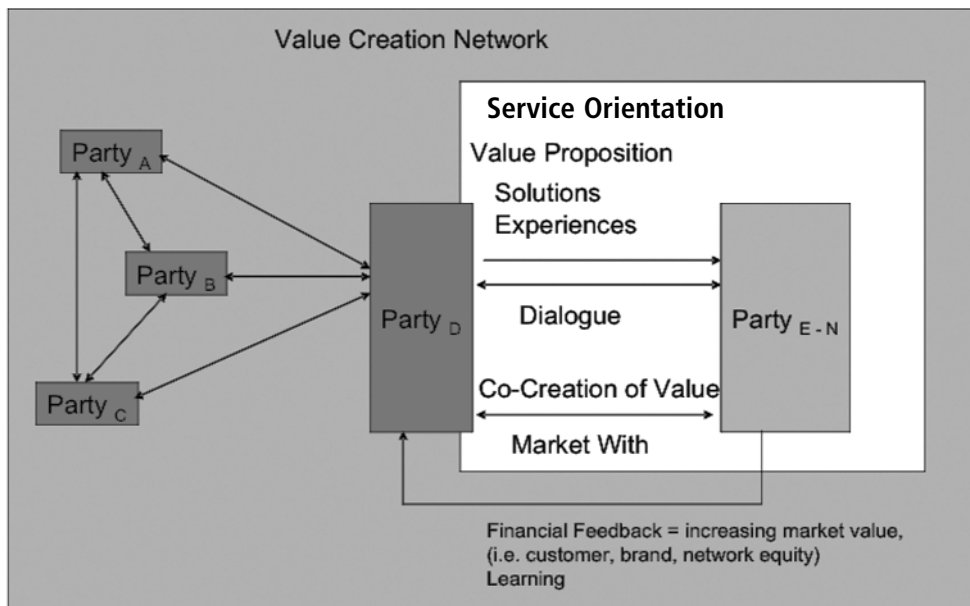
There is ample evidence to suggest that the majority of firms still subscribe to a G-D view of marketing, where the product is the primary unit of exchange (Vargo and Lusch, 2004; Sawhney, 2006) and the predominant approach to markets is transactional marketing. The work undertaken by the CMP group clearly shows that Transactional Marketing is still widely popular with all types of firms (e.g. Coviello et al. 2002; 2004).

The empirical work of the CMP group (Coviello et al. 2002) highlighted that a purely relational approach is adopted by less than half of all B2B service firms (40.8%) and even less frequently by B2B goods (30.1%); consumer service firms (29%) or consumer goods firms (11%). Given that relationship marketing is a necessary but not sufficient condition for S-D marketing, it appears that S-D marketing is currently only practiced by a minority of firms.

In addition, the findings of the CMP group challenge the singularity of a S-D logic, logic (Brodie et al. 2006, p. 314). The extensive empirical work of the CMP group clearly shows that a large proportion of firms practice a hybrid approach, which combines elements of transactional and relationship marketing practices (e.g. Coviello et al. 2002). Similarly, Lusch and Vargo (2006a p. 247) acknowledge that “...some firms might be adopting part of each (G-D and S-D logic)” but argue “...that, from a normative perspective, S-D logic is more likely to lead to value creation and should be fully embraced, rather than embracing it with remnants of G-D logic”.

As mentioned earlier, empirical investigations on the components of S-D marketing are numerous, however, to the authors’ best knowledge no empirical study has tried to explore all components of S-D logic simultaneously. The following raises a number issues that should be considered when embarking on developing a

Figure 1: Value Creation Network



From Theory to Empirical Investigation: Some Preliminary Thoughts on Developing a Measurement Instrument for “S-D Marketing”

measurement instrument that fully captures S-D marketing practice.

Although key constructs comprising S-D logic have been mentioned by the authors and discussed in detail, (see above), several have questioned whether these constructs are defined with sufficient clarity to proceed with their operationalisation. For example, Woodruff and Flint (2006) question whether the value concept has been sufficiently defined. Thus, a great deal of theoretical and exploratory qualitative work is still required before proceeding with a meaningful operationalisation of the overall construct suitable for survey research (see also Saren et al. 2006).

We would expect that the development of a sound measurement instrument capturing S-D marketing will go through similar stages as the comprehensive work undertaken to develop market orientation scales. Like S-D logic, the concept of market orientation was initially discussed as a business philosophy (cf. Barksdale and Darden 1971; McNamara, 1972), however, dominant measurements concentrated on its implementation, as reflected in an organisation’s activities and behaviours (see for example, Kohli and Jaworski 1990; Kohli et al,

1993; Narver and Slater, 1990). Equally, relationship marketing has been extensively defined and attracted a great deal of theoretical attention. Nevertheless, it took almost a decade until a sound measurement instrument of the various types of relationship marketing was published (Coviello et al, 1997), and empirically tested in a number of contexts (see Coviello et al. 2002; 2006). The resulting tool includes dimensions capturing relational exchange as well as dimensions pertaining to management activities.

Concerns have also been raised about the language employed in outlining S-D logic, as businesses might find it difficult to relate to it (Achrol and Kotler, 2006). This means that any instrument requires a more business friendly lexicon.

As mentioned in the previous sections, the singularity of S-D marketing in practice is questionable (Brodie et al. 2006; Lusch and Vargo, 2006a). Given that the purpose of a measurement instrument is to capture actual firm practice, we propose that research in this area focuses on developing a measurement instrument that can accommodate hybrid forms of marketing. A similar approach has been adopted by the contemporary

marketing practice group (see Coviello et al, 2002). Their original instrument covers four distinct types of marketing, namely transaction marketing, database marketing, interaction marketing and network marketing. In addition, the literature in which the CMP instrument is grounded overlaps a great deal with the literature on which the S-D logic is based. Consequently, the CMP instrument might serve as a fruitful starting point.

The constructs discussed in connection with a S-D logic (see Table 1) partly relate to a network (i.e. Value-creation network/constellation), while others can also refer to a dyad (e.g. solution, co-creation of value). Figure 1 depicts these key constructs and how they relate to each other as outlined in Vargo and Lusch (2004) and Lusch and Vargo (2006a). Thus, researchers embarking on developing a measurement tool need to carefully consider the unit of analysis. As we have argued that the existence of hybrid forms (see above) should be accommodated, the unit of analysis needs to be suitable for goods and service dominant marketing practice, and possible transition forms. This already adds a great deal of complexity. We therefore propose that the dyad serves as the unit of analysis and the tool merely establishes the existence and possibly the extent of the network.

Conclusion

The objectives of the paper were to (1) clarify the nature of theory proposed by Vargo and Lusch (2004); (2) assess whether businesses already practice S-D marketing; and (3) offer preliminary thoughts on developing a measurement instrument for S-D marketing. Regarding the nature of theory proposed in the S-D logic, we conclude that S-D logic draws from a number of apparently incommensurate areas but is built upon a number of preconditions as well. In this respect it offers the potential to extend theory by providing better explanations of observations, whilst also integrating prior theory. In this sense we agree with Lusch and Vargo (2006 p. 407) that S-D logic has the potential to offer a metatheory. However this requires significant further methodological and empirical development, made more complex due to the expansion of theoretical bases from which the work is developed. By drawing on the developments in the area of market orientation and relationship marketing, we propose that research and debate surrounding the S-D logic would benefit from empirical investigation into the adoption of S-D logic by businesses.

Our brief review of the literature on the building blocks

of S-D marketing revealed that certain components of S-D marketing, such as the value construct, require further theoretical attention prior to operationalisation. We also found that empirical work in the areas of customer involvement and co-production (i.e. co-creation) and network marketing highlight that S-D marketing practice is still in its infancy. Moreover, firms are likely to adopt hybrid forms of marketing practice, i.e. mixing components of goods and service dominant marketing. Against this background we provide preliminary thoughts on developing a measurement instrument for S-D marketing. We call for a measurement tool that captures S-D marketing practice but equally accommodates goods dominant as well as hybrid forms of marketing practices. We suggest that the tool developed and widely employed by the CMP group would serve as a valuable starting point for measure development. Finally, we regard the dyad as relevant unit of analysis.

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The Service Dominant Logic: an MC21 Project View

Vasilis Theoharakis & Laszlo Sajtos

Abstract

Vargo and Lusch (2004) propose a framework that aims to expand the boundaries of the marketing discipline by moving away from the existing exchange paradigm and creating a new one. The S-D logic has the potential to strengthen the theoretical grounds of marketing by establishing links to other disciplines. This commentary attempts to discuss some aspects of the foundational premises of the S-D logic from the perspective of the MC21 group with special emphases on innovation, value creation and resource allocation.

Keywords: Resource-based view, Competitive advantage, Value creation

Introduction

Vargo and Lusch (2004) proposed that marketing thinking should shift towards a Service Dominant (S-D) logic and away from the goods exchange model inherited from economics. Since its appearance in 2004 it has been reviewed, revised and refined by several forums. The S-D logic “is driven by an innate purpose of doing something for and with another party, and is thus customer centric and customer-responsive” (Lusch, Vargo, and Malter, 2006). Therefore, this view echoes what the service and relationship marketing literature has been advocating for quite a while: customers are not looking for a product or service, but a solution to a problem (Grönroos, 1995; Gummesson, 1998).

The authors of this paper are members of the Marketing in the 21st Century (MC21) research group, which was born out of the mutual interest of marketing scholars at the Aston Business School in the United Kingdom. The research programme initiated by this group quickly escalated to over 16 countries around the world enabling a unique snapshot to be taken of marketing approaches and methods at the start of the 21st Century. The research programme’s core focus has been on identifying tangible and intangible marketing resources and their impact on marketing performance.

The work of Vargo and Lusch has been very successful in stimulating a discussion among researchers with

regard to expanding the boundaries of the marketing discipline and moving towards a paradigm shift. Such discussions can only improve the discipline; the work of Vargo and Lusch invites researchers to express their opinion and even if one is not in complete agreement accepts the need for a paradigm shift. Therefore, in this commentary we briefly address our thoughts with regard to the S-D logic by discussing some areas of concern and then highlight some examples of the work of the MC21 group that might help to further develop thinking in the marketing discipline.

How does the S-D logic advance our understanding?

The original paper of Vargo and Lusch (2004) has done an excellent job in describing the fundamental shifts in the history of marketing thinking and practice by providing a comprehensive overview of the major milestones of the marketing literature. Furthermore, their work attempts to generate a general theory of the marketing discipline by synthesizing the various widespread schools of thought in the marketing literature. Therefore, one would expect from this new theory that it emphasizes the contribution of marketing and marketing-related elements in the value creation.

Vargo and Lusch (2004 p. 9) quote Alderson (1957 p. 69) who pointed out that “What is needed is not an interpretation of the utility created by marketing, but a marketing interpretation of the whole process of creating

utility". The S-D logic echoes the Aldersonian thought and it attempts to serve as a marketing interpretation of the value creation process. Considering the S-D logic as a fundamental, overarching exchange theory of marketing it should be pointed out how the "goodness" of the theory can be assessed. As Popper pointed out 'Every "good" scientific theory is a prohibition: it forbids certain things to happen. The more a theory forbids, the better it is' (Popper, 1963). A theory is good if one can use it to predict future occurrences or observations or explain why things behave in certain ways, and we are able to test or falsify it through empirical observations. The S-D logic in its current state of development is conceptual and general. While it serves as a common ground for researchers to closely tie together the current research streams the S-D logic is too general to be refuted or proved, especially because there are no methods provided to test the existence of such logic or the propositions of it.

Vargo and Lusch emphasize that the core of the S-D logic is the service, which is a process of doing something, and hence, service is a common denominator of exchange. Service as a common denominator is differentiated from services, which – according to the S-D logic is a goods-logic (G-D) term. This distinction seems to be rather difficult to maintain at places when differentiating between services and service economy (FP5), and also considering that the S-D logic lexicon does not appear to be conceptually new from the existing one. Furthermore, it seems that all arguments for, and premises of the S-D logic, are grounded in the product-service comparison (Achrol and Kotler, 2006; Brodie, Pels, and Saren, 2006) and compare product-, market- and service-orientation to each other (Vargo and Lusch, 2006 p. 286), and thus, simplify the S-D logic to one extreme of a dichotomy. By responding to these claims Lusch and Vargo (2006) pinpoint that academicians still misinterpret the S-D logic, by comparing their S-D logic to goods-dominant (G-D) logic, or by relating S-D logic to the prevalence of service industries all over the world, or by emphasizing the value added nature of services to products. Overall, for the S-D logic to be judged as good or superior general theory compared to other theories the S-D logic has to: i) step out of its existing analytical framework ii) contribute to explaining the actual behaviour and interactions of the marketplace.

Co-creation or customer creation

Christensen and Bower (1996) attribute the inability of many leading firms to sustain their competitive

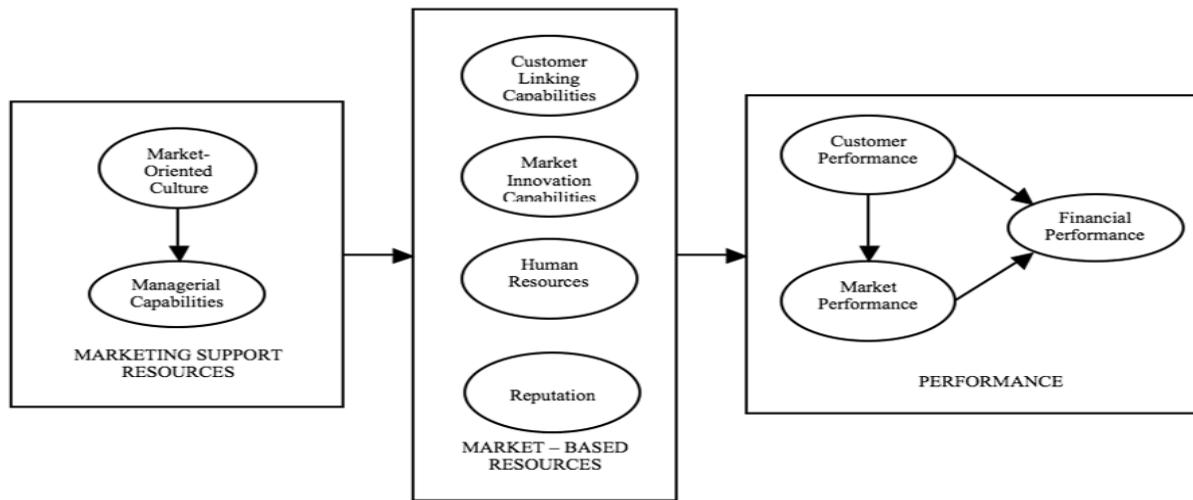
advantage to the fact that they listen too carefully to their customers and forget to innovate. Other researchers have expressed the criticism that the popular market orientation constructs over-emphasize the short term response to customers' expressed desires and "stress serving the customer, but place little emphasis on customer creation" (Berthon, Hulbert, and Pitt, 1999). Therefore, while there are concerns about the contribution of customer focus to the achievement of longer term performance, innovativeness is generally viewed as the path for achieving longer term competitive advantage. The S-D logic certainly, directly or indirectly, does consider skills and knowledge through some of the foundational premises (FP), however innovation only appears as reaction to expressed customer needs. The findings of the MC21 group indicate that organizational innovativeness is an important mediator between customer focus and performance. In particular, the ability of firms to integrate knowledge via new product development processes was proven to be a powerful force in achieving competitive advantage. It turns out that innovativeness is a more significant factor for explaining performance than customer focus and essential in producing unique and differentiated products.

With regard to innovation the view of the S-D logic is that information symmetry is essential (Lusch, Vargo, and Malter, 2006). While there are professional standards about fully informing clients and not misleading customers or other stakeholders, entrepreneurship and innovation are based on information asymmetries. In other words, complete information disclosure has the potential of reducing the perceived value offered to the customer. For example, one of the largest fish farm producers in the world sells its products to supermarkets both branded and unbranded. The disclosure of the information to the final customer that the unbranded product is identical with the branded product would have a major impact on the firm's profitability. By delivering both variants to a supermarket the producer has managed to lock-out a number of its competitors and enjoy higher margins. Further, positioning of products is in itself an act of creating a monopoly in customers minds and is to a great extent an effort to create informational asymmetries.

Marketing resources and dynamic capabilities

One of the main foundation theories the underpins the S-D logic is the Resource-Based View (RBV) of the firm, which builds on the sources, positions and performance

Figure 1. Performance Impact of Marketing Resources (Hooley et al., 2005)



framework (Day and Wensley, 1988). In this framework the operant resources can be considered as a source of advantage, and the shift towards and the dominance of intangible resources, in general, have been put forward a long time ago by various RBV scholars. These intangible resources (market-based resources) enable the assets to be deployed in an advantageous way. Companies, however, cannot focus on every single resource, but have to be selective in their choice and focus only on those key resources that ultimately will guarantee survival and success in the marketplace. The resources applied by a particular company might represent a rather product oriented and/or transactional approach, which is not supported by the S-D logic. Therefore, the question remains: How does the S-D logic change our assumptions about achieving a competitive advantage? The MC21 group has significantly contributed to this research stream by identifying various resources and capabilities of the firm and their interrelationships with corporate performance (see Figure 1).

This framework (Figure 1) differentiates between *marketing support resources* and *market-based resources*. These two sets of resources encapsulate previous conceptualizations of marketing culture (market orientation), assets (tangibles, intangibles and invisibles), capabilities (outside-in, inside-out and spanning), and competences (core and otherwise), in a simplified, integrated but comprehensive framework. The market-based resources are very consistent with the call from the S-D logic for the development of intangible

operant resources which are viewed as primary since they are the producers of effects (Vargo and Lusch, 2004)

The realization of the S-D logic depends heavily upon the availability of intangible resources that enable the firm to provide the service which is consistent with the resource based view of the firm. Specifically, market driven organizations depend on intangible, skill-based capabilities (Day, 1994) that are inherently more difficult to identify as they are more deeply embedded in the culture and systems of the firm (Aharoni, 1993). Despite its popularity, the resource-based view (RBV) of the firm has been criticized for being tautological, and static in concept, assuming stability in product markets (Priem and Butler, 2001). Therefore, the focus of the RBV literature has shifted to the identification and understanding of dynamic capabilities that allow firms to develop competitive advantage in environments of rapid change (Eisenhardt and Martin, 2000; Teece, Pisano, and Shuen, 1997). More specifically, dynamic capabilities are conceptualized as being concerned with change and adaptation since they build, integrate or reconfigure other resources and capabilities. This definition appears to reduce the need for the identification of unique and valuable resources and capabilities, since rather than focusing on the protection of resources, our attention shifts to the continuous creation and change of resources and capabilities that ultimately lead to competitive advantage. From this perspective, when examining a model of dynamic capabilities we confirm that

knowledge and skills are even more fundamental as sources of competitive advantage which has long been advocated by the proponents of the knowledge based view of the firm (Tsoukas, 1996).

Conclusion

In summary we conclude that the work of Vargo and Lusch is unique in a sense that their ideas have not been presented previously in this particular format. However, by emphasizing that “service is the foundation for all exchange” (Vargo and Lusch, 2006 p. 45), the S-D logic has not brought us any closer to understand the nature of this exchange. The name and the premises of this new logic should be able to express the harmony between exchange, transformation, skills, resources, and co-creation, and should serve as a solid ground for interdisciplinary interaction/communication.

The MC21 project has successfully operationalized many of the intangible marketing resources that have been raised by previous conceptual work and are also included in the S-D logic. More importantly, the contribution of these resources on market performance was tested on more than 6,000 companies across sixteen different countries. The richness of our dataset and the wide range of resources examined has allowed us to demonstrate that models that were initially developed in the context of services such as the service profit chain (Heskett et al., 1994) also hold in industrial environments (Theoharakis and Hooley, 2003). Therefore, the development of capabilities that improve the management of relationships with customers is applicable to any type of business and applies across cultures.

Most business school curricula throughout the world seek to present an integrated view of the business, and in this sense a new logic would be advantageous to combine the view of various disciplines. The advantage of the S-D logic is that it attempts to synthesise the various views in the marketing literature, and provide a holistic view, which could allow marketing scholars to work on various fields considering all other areas as well as their interrelations at the same time. S-D logic also claims to be embedded in the economic literature (Vargo and Lusch, 2006 p. 53), which could help marketing to develop/reinvent itself on a more solid theoretical ground. Establishing a stronger bond between marketing and economics could play an essential role in the development of marketing. This, however, was not always the case in marketing literature, since marketers

tried to define marketing by its differences and separation from economics and through what economics could not explain (Jones and Monieson, 1990). Furthermore, these stronger links with economic theory could help marketing to establish its position as a dominant force (c.f. King, 1985) behind both marketing strategy and overall business strategy and as an integrator of various functional areas (Achrol, 1991; Donnellom, 1993). Therefore, as long as the S-D logic or any other framework does not address the above issues, it may have a short product life cycle in the marketing literature.

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The Service-Dominant Logic of Marketing: A Logical and Evidential Case for Multiple Logics?

Richard W. Brookes

Abstract

We examine the Vargo and Lusch (2004, p. 1) argument for a “new dominant logic for marketing, one in which services provision rather than goods is fundamental to economic exchange”. In our Contemporary Marketing Practices work we find that in the consumer products industry, especially, the traditional differentiation between what used to be a product and what used to be a service is becoming less relevant. However, our main argument is that since contemporary marketing practices are characterised by a pluralism of approaches, the Service Dominant (S-D) logic can be strengthened by recognising that firms need both to serve and create customers. In other words, given the exigencies that drive organisations to innovate, an additional foundational premise (FP) to the S-D logic is required to recognise the theoretical and practical differences between market-driven and market-driving approaches to innovation.

Keywords: S-D Logic, Marketing Practice, Foundational Premises, Pluralism, Innovation, Market Driving

Introduction

Vargo and Lusch (2004, p. 1) advocate “a new dominant logic for marketing, one in which services provision rather than goods is fundamental to economic exchange”. Penaloza and Venkatesh (2006, pp. 299-300) agree, arguing that the “landmark series of articles have... ushered in what may well evolve into a new paradigm in the field of marketing, the S-D logic”. They sum up the S-D logic as having: an emphasis on intangible services; value as perceived and determined by the consumer in use as benefits of specialist knowledge and skills they label operant resources; the customer as co-creator of the service; and wealth obtained in the form of economic capital from consumers to firms in the application and exchange of operant resources by consumers and firms. Ultimately, they cast the benefits of this paradigmatic transition as: furthering the customization of services for consumers; increasing consumer involvement for market expansion; assisting in value creation; advancing the place of marketing activity as the predominant organizational philosophy within the firm; and bringing about more market-driven, customer-centric organizations.

At the same time Penaloza and Venkatesh (2006, p. 300) advocate that the Vargo and Lush framework “does not

go far enough”. For example, Vargo and Lusch (2004) had originally provided eight foundational premises (FP) that underpin their case for the S-D logic. In calling for an “open, collaborative effort” (Lusch and Vargo 2006a, p. 281) they then responded to early resulting commentaries by providing their own follow-up reactions, reflections and refinements. One of these has to do with the resource-application and resource-integration functions of firms and households, and the proposition of a ninth foundational premise (FP):

FP9: *Organisations exist to integrate and transform micro-specialised competences into complex services that are demanded in the marketplace.*

FP9 may thus provide a fundamental underlying premise of a service science perspective of marketing. However, this paper argues for an extension of the possibly confining S-D logic of Vargo and Lusch. That is, as firms need to both create and serve customers, a view espoused more than fifty years ago by Drucker (1954), FP9 can be strengthened and broadened by an additional and balancing foundational premise:

FP10: *Organizations also exist to integrate and transform uniquely-specialised competences into innovative (product-service) offerings that may create or reshape value, demand and marketplaces.*

We propose FP10 firstly on the basis of the empirical evidence concerning the changing nature of contemporary marketing theory and practices. We agree with Lusch and Vargo (2006a) that because a good could be an appliance used in a service provision, “in S-D logic, service is the common denominator of exchange and thus is hypernymic to goods. There is no good-versus-service winner or loser in S-D logic”. In our Contemporary Marketing Practices (CMP) research we have also found that, in the consumer products industry anyway, the traditional differentiation between what used to be a product and what used to be a service, is also becoming increasingly less relevant (Brookes and Palmer, 2004).

Further, since contemporary marketing practices are characterised by a pluralism of approaches (Brodie et al, 1997; Coviello et al, 2002), the S-D logic expressed through FR9 can be strengthened by recognising that firms need both to serve and create customers, given the importance of customer acquisition and retention performance (Brodie et al 2007). Vargo and Lusch’s (2006a) FP9 tends to emphasise the serving dimension, however. This may apply especially to firms seeking to retain and build their customer base but, as Prahalad (2004, p. 171) cautioned: “the dominant logic embedded in an organization may keep it on the road ahead, but it also acts as a blinder to peripheral vision”. For example, Mitchell (2005, p. 5) said the main challenge for brand marketers now is not just to focus on improving their brands in line with changing consumer requirements, but also “continually to refine, deepen, extend and reinvent the category basics – the ultimate test of any organization’s ability to innovate”. As a result, the pressures, paradoxes, pragmatism and pluralism that impact on an organisation’s need to innovate require the addition of FP10 in order to accommodate the theoretical and practical differences between market-driven and market-driving approaches to innovation.

Secondly, we propose FP10 on the grounds of logic, based on Norman et al’s (2004) work comparing the assumptions underpinning two logic paradigms – ‘formal logic’ and ‘paradoxical logic’. In their examination of why some high-technology firms, in particular, are more innovative than others they concluded that when formal logic and paradoxical logic are combined, “firms are likely to be more innovative and to compete successfully in industries that demand both innovativeness and speed-to-market” (p. 67). Further, an examination of the research on innovation

and innovative firms shows there is a common argument for a combination of market-driven and market-driving approaches.

FP9 thus encompasses the logical, theoretical and practical importance and possibilities of market-driven service innovation, and FP10 encompasses the logical, theoretical and practical importance and possibilities of market-driving service innovation.

The Logic of Pluralism

Strategic thinking and decisions are likely to be affected by what might be termed the dominant logic paradigms that exist within organisations (Prahalad, 2004; Norman et al, 2004). Prahalad (2004, p. 172) explains that: “Over time, successful recipes – business models, processes, approaches to competition – become embedded in the organisation and represent the dominant logic”. However, he also cautioned that: “A dominant logic limits the ability of people in the organisation to drive innovation or see new opportunities and threats (p. 172).” This is an issue of increasing interest to researchers. For example, after studying the world’s disk drive industry from 1975-1990, Christensen and Bower (1996) considered why ‘disruptive innovations’ were so often *not* taken up by the incumbent firms in an industry, and why they were more likely to *intensify* their commitments to conventional technology, even while the new technology was gaining ground in their market.

Sull (2005, p. 10) said that all too often: “Companies fall prey to ‘active inertia’ - responding to market shifts by accelerating activities that succeeded in the past.” Sull’s argument was that such firms might be held back by five factors: Strategic Frames: how the world/market is seen; Processes: formal and informal ways of doing; Resources: tangible and intangible assets; Relationships: with suppliers, key customers etc; and Values: beliefs that inspire, unify and identify. Taken together, these factors might be considered as part of the firm’s dominant logic.

In examining types of logic and their relationship with innovation in high-technology firms, Norman et al (2004) said that two forms predominated: Formal and Paradoxical. Based on the work of Ford and Backoff (1988), in particular, they show that formal logic, in which rigorous deductive reasoning is stressed, has a number of axioms underpinning it (Norman et al, 2004, p. 54): Axiom of identity (“A thing is equal to itself”); Axiom of noncontradiction: (“A thing cannot be itself and something else”); and Axiom of the excluded middle

(A thing must be one of two mutually exclusive things; it cannot be both or something in between”).

On the other hand, paradoxical logic was seen by Norman et al (2004) as emphasizing the paradoxes and contradictions arising from the opposing tensions inherent in organizational growth and change. Based on the work of Ford and Backoff (1988), in particular, they show that three axioms underpin paradoxical logic (Norman et al, 2004, p. 57): Axiom of oppositional struggle (“Contradictory opposites exist within each entity and change results from the internal struggle of these contradictory opposites”); Axiom of transformation (Change occurs within an entity when quantitative increases or decreases reach a point where qualitative change results”); and Axiom of negation (“Development occurs by denying previous forms”).

They concluded (Norman et al, 2004, p. 57) that: “Paradoxical logic is particularly suited for diverse, dynamic, and uncertain environments. These are the very environmental conditions faced by many high-technology firms. Thus, paradoxical logic equips high-technology firms to generate diverse, unique solutions to innovative dilemmas”.

At issue then, is whether a single dominant logic as framed by FP9 is supported by how firms currently undertake their marketing practices in general, and not just the process of innovation. Evidence from the contemporary marketing practices project suggest that the paradoxical logic of pluralism is more prevalent than is a single dominant logic.

The Contemporary Marketing Practices Project

In the mid-1990s the University of Auckland group led by Rod Brodie and Nicole Coviello, together with Richard Brookes and Vicky Little, began to formalise the CMP research programme. Because of our experience with practicing managers, a guiding principle was to employ multiple perspectives in both field work (see, for example, Coviello et al 2002; 2003 for details) and theory development. The first stage was to develop a comprehensive classification scheme of marketing practice that involved bringing together literature from both North American schools of thought that had more emphasis on management and European schools of thought that had more emphasis on processes.

The second stage was to develop a framework (see Coviello et al 1997; Brodie et al 1997) that described the four resultant ‘types’ of marketing practices: (1)

Transactional Marketing (managing the marketing mix to attract and satisfy customers); (2) *Database Marketing* (using technology-based tools to target and retain customers); (3) *Interaction Marketing* (developing long-term interpersonal relationships to create cooperation between buyers and sellers for mutual benefit) and; (4) *Network Marketing* (developing inter-firm relationships to allow for coordination of activities among multiple parties for mutual benefit, resource exchange, and so forth). With the emergence of IT developments, Coviello et al (2001) and Coviello et al (2003) extended the CMP classification to include a fifth aspect of marketing practice associated with the Internet and IT-enabled interactivity: *e-Marketing* (using the Internet and other interactive technologies to create and mediate dialogue between the firm and identified customers).

By using a theoretical framework that has multiple perspectives, the presence and relative importance of different marketing practices can thus be examined, and which do not necessarily assume there are competing ‘logics’ at play. In particular, over time the CMP research consistently shows that marketing may now be depicted not by any dominant logic but by a firm’s own resource-based competitive logic, given a context of pressures, paradoxes and pragmatism, and the resulting pluralism in its marketing practices. This is more closely aligned to what organizational and strategic management researchers have referred to as configuration theory. Rather than any dominance, the theory suggests marketing is characterised by multiple complex processes in an environment where there is a wide range of possible opportunities. Successful firms are those that allow for flexibility and can adapt to different opportunities, some of which might require either a goods-centered logic or a service-centered logic, and some of which might require either a transactional approach or a relational approach, and some which might require a combination of both (Coviello et al, 2002; Brodie and Brookes 2005).

Because the CMP classification scheme embraced a *multi-paradigm* philosophy a comprehensive taxonomy of marketing practice was thus developed. This was made possible because, based on their class-room experience, the authors did not take a position that the alternative views of marketing practice are mutually exclusive (*paradigm incommensurability*). Nor did they seek to synthesize the contributions from the different paradigms (*paradigm integration*). This view does not seek to place distinct boundaries between each aspect of

marketing; neither does it imply they are independent and mutually exclusive.

Given this background and the growing evidence from the CMP research, we feel it is useful to examine some of the issues concerning the emerging S-D logic proposed by Vargo and Lusch (2004), and the points that have been raised by various interested parties. Nearly ten years of international research by the CMP research group has also shown us how the practice of marketing has evolved. For example, managers in consumer products industries have told us there are up to five underlying changes currently impacting on their marketing practices, given that globalisation is an overarching change (Brookes 2001; Brookes and Palmer 2004):

- The increasing emphasis on services and service aspects of product delivery;
- The greater focus on financial accountability, customer loyalty and value management;
- The transformation of organizational structures and operations, and including networks;
- The shifts in power and control within industry and marketing systems; and
- The increased role of ICT-based interactivity and customer integration.

Cumulatively and collectively, these changes are likely to have an impact on organisations in such a way to create increasingly “diverse, dynamic, and uncertain environments” (Norman et al, 2004, p. 57), even for organisations where stability and predictability might have been the norm previously. The first change is also consistent with the S-D logic argument of Vargo and Lusch (2006a, p. 281) that: “There is no good-versus-service winner or loser in S-D logic”. What is important here, however, is that the changes are likely to be interrelated, depending on their industry context and impacts (Brookes 2001). For some, they may signal a time of opportunities and promising starts; for others a time of threats and unrequited endeavours. Whatever, they may also signal that the focus of marketing practice extends beyond the provision of ‘complex services that are demanded by customers’, to include the provision of new offerings that are not yet demanded by customers. In other words, the S-D logic says little about the importance of innovation, and particularly innovation that leads rather than follows the market.

The Emerging S-D Logic in Marketing with respect to Innovation: Unitary or Pluralistic?

The service-oriented approach as first argued by Vargo and Lusch (2004) appears to have as its focus an active consumer who interacts with the organisation’s personnel and their service script and/or supporting tangible and intangible resources. In a follow-up article Vargo and Lusch (2006a) illustrate how “the lexicon of marketing is transitioning”, i.e. from a set of goods-dominant (G-D) logic concepts and ultimately to a set of S-D logic concepts (for example, the transition from goods to services to service; from products to offerings to experiences; from features/attributes to benefits to solutions; from value-added to co-production to co-creation of value; from profit maximization to financial engineering to financial feedback/learning; from price to value delivery to value proposition; from equilibrium systems to dynamic systems to complex adaptive systems; from supply chain to value-chain to value-creation network/constellation; from promotion to integrated marketing communications to dialogue; from ‘to market’ to ‘market to’ to ‘market with’; and from product orientation to market orientation to service orientation).

The argument by Vargo and Lusch (2004, p. 1) for “a new dominant logic for marketing, one in which services provision rather than goods is fundamental to economic exchange” is not new. Coburn (2006, p. 24) notes that in *Marketing Myopia* nearly half a century ago Levitt (1960) said that when people buy quarter-inch drill bits, it is not because they want quarter-inch drill bits but because they want quarter-inch holes: “What he meant was that everything is a *service* attending to a need”.

As argued (eg. Slater and Naver 1995) organisations with a strong market-orientation perspective will seek continuously to learn about customer needs, the influence of technology, competition, and other environmental forces, and act on that knowledge in order to better serve their markets and to become more competitive. In terms of new service development Matthing et al (2004, p. 480) call this ‘learning from and with customers’. Market orientation and organisational learning are seen as being closely related (Webster 1994; Morgan et al 1998). They may also be an antecedent to innovativeness (Hurley and Hunt (1998), and may positively influence performance (Han et al 1998).

Webster (1994, p. 31) considers the interrelated issues of customer value, learning and innovation, especially in

terms of the need to create and keep customers: “In an age of increasingly informed, sophisticated and value-conscious consumers, the emphasis on customer value must be the central element of all business strategy... Companies must increase their knowledge and selectively target them. Continuous improvement builds customer loyalty and feeds retention. And innovation can attract customers as well as keep old ones.” However, Berthon et al (1999, p. 40) ask: “Why has so much of the recent literature come to stress *servicing* the customer over *creating* the customer?”

At this stage in their value co-creation discussion Vargo and Lusch (2006a) do not appear to make the distinctions between creating and serving customers. For example, they argue that value co-creation has two components: (1) *co-creation of value* (“value can only be created with and determined by the user in the ‘consumption’ process and through use or what is referred to as value-in-use”), and *co-production of value*, (which “involves the participation in the creation of the core offering itself. It can occur through shared inventiveness, co-design, or shared production of related goods, and can occur with customers and any other partners in the value network”). The Vargo and Lusch (2006a) definition above of co-creation does not appear to address specifically the issue of discontinuous innovation in particular.

Senge (1990) argues that organisational learning involves two types of organisational behaviour: adaptive and generative learning. According to Matthing et al (2004, p. 481) “adaptive learning focuses the organization on adjusting to serve the present market”, whereas “generative learning requires an organization to challenge its own assumptions”, in order to... “discover new directions and new possibilities, and thus create new innovative services”. Berthon et al (1999, p. 38) note that while Drucker (1954) was a “progenitor of the customer orientation”, he was also a proponent of the belief that the purpose of a firm is to create and keep customers. This view is supported by Webster (1994, p. 24): “Merely being ‘customer oriented’ in the philosophical sense was not enough, nor was marketing skill, narrowly defined; constant innovation was also necessary to deliver better value to consumers in a competitive marketplace”.

According to Berthon et al (1999, p. 43), in environments characterised by flux and uncertainty, “there will be dwindling opportunities to sustain competitive advantage by attempts to interpret and

respond to customer wants”. Rather, competitive advantage will come from “anticipating and creating customer wants”. They therefore argue (p. 42) that “an innovation orientation turns traditional marketing philosophy on its head: products precede needs and create their own demand by changing the way customers behave”. This is consistent with the Lynn et al (1996, p. 9) argument that, while continuous improvements are necessary for competitiveness and loyalty purposes, it is “the more discontinuous innovations in process and product technology that lead to new business and product lines”. It is also consistent with the Jaworski et al (2000) proposition that there can be two approaches to being market oriented: a market-driven and a driving-market approach. Berthon et al (1999) argue that it is not an either-or proposition. Rather, “For longer-term prosperity, the firm must not only meet the needs of today’s customer, but must simultaneously innovate to ensure the creation of new customers and the means of satisfying their future needs and wants” (p. 40). This view is consistent with the Tushman and O’Reilly (1996) argument of what they term ‘organizational ambidexterity’.

However, Christensen and Bower (1996), after studying the world’s disk drive industry from 1975-1990, asked why were disruptive innovations so often *not* taken up by the incumbent firms in an industry? They concluded that one reason they fail was because they listen too carefully to their customers - and the risk was that major customers, in particular, may place stringent limits on a firm’s ability to pursue a strategy of discontinuous innovation. With the growing interest in the resource-based theory of the firm, Christensen and Overdorf (2000, p. 71) argue that: “Successful companies, no matter what the source of their capabilities, are pretty good at responding to evolutionary change in their markets Where they run into trouble in handling or initiating revolutionary changes in their markets, or dealing with disruptive innovation”. Gilbert (2003, p. 27) adds another factor: “One of the reasons it is so difficult for managers in established companies to recognize disruptions as opportunities is that the new markets lie outside their existing resource base”.

For these reasons, and in particular that firms need to consider potentially disruptive opportunities ‘outside their existing resource base’, including the existing needs of customers, we find it appropriate for the two foundational premises:

FP9: *Organisations exist to integrate and transform micro-specialised competences into complex services that are demanded in the marketplace; and*

FP10: *Organisations also exist to integrate and transform uniquely-specialised competences into innovative (product-service) offerings that may create or reshape value, demand and marketplaces.*

In summary, whilst the proposed addition by Vargo and Lusch of FP9 to their original S-D logic was timely and appropriate, it may not be sufficient in reflecting the exigencies to do with the pressures, paradoxes, pragmatism and pluralism inherent in contemporary marketing practices. The argument for the addition of FP10 explicitly recognises the logical, theoretical and practical differences between market-driven and market-driving approaches to innovation, as organizations strive to both create and keep customers.

5. Future Directions

Based on our discussion so far, two issues are suggested for future examination. Firstly is the issue of defining and categorising the nature of service and its construct characteristics. Lusch, Vargo and Malter (2006) argue that the S-D logic shifts the focus from *operand resources* (tangible, static resources that require other resources acting on them to create value) to *operant resources* (dynamic resources that act on other resources, operand or operant, to create value through service provision and delivery). If this proposition is increasingly accepted and adopted, many academics may be required to re-examine the tenets that underpin their current understanding of what a service-centred logic now implies. For example, in their recent textbook Kotler and Keller (2006, pp. 345-6) classify products into three groups according to their durability and tangibility: Non-durable goods (“are tangible goods that...”), durable goods (“are durable goods that...”, and services (“are intangible, inseparable, variable, and perishable products...”). This classification of products (versus services) is based on definitions and constructs that have largely been unchanged in textbooks for several decades. It may therefore become necessary to rethink what basically have become unquestioned precepts, such as these. The CMP research programme may be a means by which this could be undertaken.

Second, a re-conceptualisation, re-classification and re-operationalisation of terms and constructs to do with service-centred logics will require further engagement with executive respondents in terms of multiple

dialogues that explore issues such as to what extent firms have adopted more of a service-centred approach in their marketing practices, and whether or not a service-centred approach to marketing is more effective than other more traditional logics. This may require the addition of a further foundation premise:

FP11: *Organisations which focus on both FP9 and FP10 will perform better at attracting and retaining customers than do organisations which emphasise either FP9 or the more traditional marketing “logics” to do with the more traditional classifications of products and services.*

In this way we can begin to address the three challenges originally posed to stimulate this discussion about the possibility of a new dominant logic in marketing:

- How can organisations’ adoption of “service-centred logic” be operationally measured (cf. “market orientation”)?;
- What type of empirical research is needed to test the theoretical premises of “service-centred logic”?; and
- Is “service-centered logic” more effective than other “logics” for marketing practice?

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Biography

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Moving Towards the Service-Dominant Logic – A Comment

Jillian C. Sweeney

Abstract

The Service Dominant Logic has generated a great deal of debate in the marketing domain, in particular within services marketing. However, the logic is still in its infancy, thus there is a raft of questions and issues relating to its relationship with other paradigms, its further conceptualisation and its measurement. These points are briefly addressed in this paper. The paper concludes that the paradigm may be more appropriate in some contexts than others and that a multi-paradigm approach is required in most cases. Focussing on the central S-D logic tenet of customers coproducing the service, thus cocreating value, evidence is presented from two consumer research projects on customer empowerment and customer participation that may assist in future operationalisation of the S-D logic.

Keywords: S-D Logic, Paradigm, Operationalisation

Introduction

The Service Dominant Logic has created a considerable stir in marketing academic literature, yet several questions need answering before moving on. Three such questions were posed to the authors of the current issue of the Australasian Marketing Journal. The current paper comments on two, the appropriateness and effectiveness of the S-D Logic compared to other logics; and the operational measurement of the S-D Logic.

The paper is organised as follows: first the development of key paradigms in the marketing literature will be reviewed. Such a discussion positions the S-D Logic in the context of previous paradigms such as postmodernism and relationship marketing. Second with a view to operationalisation of the S-D Logic, two projects involving the author and previous doctoral students on customer coproduction related constructs will be discussed. The article finishes with the conclusions and discussion as to the current position with respect to the S-D Logic.

Key Paradigms in the Marketing Discipline

Given where we are as a discipline today, the days of the 4P's approach to marketing seems a relic of the past. Indeed it should be. McCarthy (1960) is largely touted as the person responsible for the 4P's model. However, it

seems that McCarthy's framework was perhaps developed as starting point for marketing strategy development, not as a marketing paradigm in itself (Gronroos, 1994; Harker and Egan, 2006). Thus any criticism of the framework may be levelled at marketers as much if not more than McCarthy himself (Harker and Egan, 2006). The enthusiasm with which the model was taken up illustrated the need to have a framework for our young discipline. The framework, also known as the marketing mix management approach, the marketing mix paradigm or the 4P's model, was subsequently criticised widely for being atheoretical, since it essentially comprised a checklist; was disconnected from its origins; too sterile; and unimaginative positivism (Arndt, 1980; Grönroos, 1994, 2007). Nonetheless the 4P's was so dominant as a paradigm that it became accepted wisdom. One of the key outcomes associated with the approach is that it suggests that marketing is an activity associated with marketing specialists within the firm rather than marketing being the responsibility of all employees, thus inhibiting the development of an external market and customer focus within the organisation (Grönroos, 1994, 2007).

A paradigm is dominant until challenged by a competing paradigm that offers superior explanation of the phenomena in the discipline; in other words until there is

evidence of evolution including acceptance of a new foundation, new values and new assumptions or methods within the discipline (Gummesson, 2002). A paradigm is alternatively known as a logic or a conceptual lens through which to view exchange and marketing processes (Harker and Egan, 2006; Lusch et al., 2007). Thus one of the first obvious paradigm shifts in the early 1980's was towards postmodernism, a shift that was evident in many fields such as arts, science, philosophy and theory (Best and Kellner, 1997). While modernism had focused on a single reality, postmodernism allows for multiple realities and experiences and essentially recognises that consumers may be more complex than originally thought. The key differences between modernism, which the 4P's have been linked to and postmodernism approaches are shown in Table 1. Relationship marketing has also been hailed as a new marketing paradigm (Gronroos, 1994; Gummesson, 2002). Relationship marketing based on interaction, often in a network of relationships, focuses on retaining customers, while creating an environment of equal gain. Consistent with the trend towards relationship marketing the AMA developed a new definition of marketing in 2004:

“Marketing is an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders (AMA, 2007).

More recently still, Vargo and Lusch (2004) have put forward the S-D Logic as a new logic. Vargo and Lusch take us into the creative world of marketing based on social and economic processes. While Bagozzi (1975), among many others, identifies the importance of the social as well as the economic aspects of marketing, Vargo and Lusch essentially extend and formalise this approach, proposing foundational premises of the new way of thinking which they term the S-D Logic. Key aspects of the S-D Logic are that marketing focuses on the exchange of competencies such as skills and knowledge and that customers co-produce the service and thus are part of the value creation process. The SDL, which they argue is appropriate to both goods and services, is described in detail elsewhere (e.g. Vargo and Lusch, 2004; Lusch and Vargo, 2006; Lusch et al., 2007). The comparison of SDL with the modernism, postmodernism and relationship marketing is shown in Table 1. In essence, the table shows the evolution of the

SDL over time. For example, the units of value (i.e. what is expected to be of value to the consumer) are the product in the case of modernism, the experience in the case of postmodernism, the relationship outcomes in the case of relationship marketing and skills and knowledge in the case of the S-D Logic.

Differences become particularly apparent in considering the row titled 'orientation', the four orientation bases being production, consumption, relationship and co-creation. It would seem that the paradigms are clearly different, yet that there are elements of commonality. For example the S-D Logic recognises the importance of the whole process of consumption and use and the associated experiential outcomes, such as comfort rather than furnaces and energy (Vargo and Lusch, 2004); this is similar to the postmodern approach. Similarly, the service provider and customer work together in the case of relationship marketing and the S-D Logic. In the case of relationship marketing, the customer may not be as active as the provider. Further, the focus is on possibly more on working towards mutual outcomes, rather than the process itself, while under the S-D Logic framework, the customer acts as an operant resource hence coproducing the service, thus the focus is on the process. Hence, there is some difference in conceptualisation. Table 1 depicts other differences suggested between the paradigms. Overall however, the paradigms are not mutually exclusive and it is clear that the S-D Logic has commonalities with relationship marketing and postmodernism. Further, the S-D Logic has not replaced either of these approaches; both are still prominent in today's literature. Hence, the S-D Logic does not represent a full paradigm shift. This suggests several paradigms may be used simultaneously, i.e. multiple paradigms may be needed in any one case. Such a pluralistic approach is supported by Coviello et al. (2002), Brodie et al. (2006) and Ambler (2006).

Measurement of the S-D Logic

The strong following of the S-D Logic underlies the importance of developing an operational definition and associated measures. The broadness of the S-D Logic and its nine fundamental propositions make such a task challenging at least. FP5 for example in stating that 'all economies are service economies' concerns principles of the wider economy, while FP3 and FP9 are general principles or beliefs underlying the role of goods and the purpose of organisations in general rather than being aspects of the process of the S-D Logic within a specific

Table 1: Marketing Paradigms or Logics

	Modernism (also 4P's)	Postmodernism	Relationship Marketing	Service Dominant
Dates from	1950s – 1960s	Prominent in last two decades	Berry coined the term 'relationship marketing' in 1983. Recognised as the early milestone of RM	Vargo and Lusch's (2004) seminal article
Focal concept	Product	The experience provided by the product	A quality relationship, between customer and provider	Co- creation of value
Unit of value	Product (value embedded in product)	Experience	Relationship outcomes	Skills and knowledge
Orientation	Production oriented, production is king	Consumption oriented, consumers define themselves through consumption	Relationship oriented, relationships are the key to both parties gaining through mutual exchange and fulfilling promises	Co-creation oriented, customer an operant resource (ie applying knowledge and skills to operant resources) thus co-producing the service
Consumer description	Rational, responsible, in control, expected to follow linear, static pattern of consumption	Complex, fluid, dynamic expectations and needs, experience seeking	Consumer's relationship to provider crucial in terms of outcomes. Consumer sophisticated and has expectations of outcomes that benefit them in relationship.	Consumer active in dynamic process of co-production. Equal party in terms of both process and outcome.
Theory base	Microeconomics – led to the development of the 4P's	Postmodern theory and theories of symbolic meaning	Interpersonal theory, network theory, new accounting theory (Gummesson, 2002)	Aspects such as skills and knowledge are fundamental units of exchange and co-creation, which suggests the customer is someone to market with rather than to. This and the nine fundamental propositions of Vargo and Lusch (2006) form the basis of a new theory.
Consumer activity	Passive (a target)	Reactive (consumer aware and responsive)	Active, though less than the service provider usually	Consumer active role in co-creation of value

Sources include: Best and Kellner (1997); Firat et al. (1995); Gronroos (1994, 2007); Harker and Egan (2006); Lusch and Vargo (2007); Vargo and Lusch (2004).

organisation. However, questions such as how and to what extent does the organisation practice S-D Logic, should be the primary consideration for operationalisation, at least at this time. The first step in operationalisation should therefore be the practices and processes conducted by organisations that act as indicators of an S-D Logic approach.

So how should we start? One of the core aspects of the S-D Logic is that the focus is on the exchange of knowledge and skills of both providers *and* customers. This is evident in their fundamental proposition 1 (FP1) – the Application of Specialised knowledge is the Fundamental Unit of Exchange, which suggests that the provider offers skills and knowledge, in the form of a good (see FP3) or service, as well as FP6 which states that the customer is always co-producer. Indeed the customer's skills and knowledge are also used in the coproduction of value, for example in developing the product (e.g. giving feedback to an architect regarding building a house; software system); or using the product (video or DVD player; a car; software; online banking; tax agent; lawyer). Such coproduction clearly requires skills and knowledge from the customer as well as the provider for the ultimate value to be realised by the customer. Indeed as Normann and Ramirez (1993, p 66) argue in successful companies value is *created* not just added and the focus should be on the "value-creating system itself, within which different economic actors – suppliers, business partners, allies, customers – work together to co-produce value". The new approach involves a 'reconfiguration' of roles and relationships among these parties to generate value, possibly and probably in new forms.

Given this, the remainder of the discussion focuses on the measurement relating to one fundamental proposition (FP6) that is the coproduction role of the customer.

The Co-production Role of the Customer

The important role played by customers in the provision of their own service has long been recognised. For example Mills and Morris (1986) and Larsson and Bowen (1989) both conceptualise the role of customers as 'partial employees'. A significant benefit of enabling the customer to take such a role is that the customer is not only a productive resource but takes some ownership of the outcomes in terms of quality and value perceptions as well as satisfaction and service outcomes (Bitner, et al., 1997). In the current dynamic business environment,

organisations are moving towards maximising customer competencies and see their organisation as a collection of competencies, including those of the customer, rather than taking the traditional view of the organisation as a series of business units with assets (Prahalad & Rangaswamy, 2000, 2004). This trend is entirely consistent with the S-D Logic. Remarkably, however, little research has addressed how customer participation or co-production can be measured. While an objective of this paper is to suggest the operationalisation of S-D Logic, in our case coproduction, from the organisational viewpoint, some indication may be gained from studies investigating coproduction and similar constructs from the consumer viewpoint. The author has been involved in two projects exploring customer coproduction related concepts, one studying customer empowerment and the second, customer participation. These may contribute to an initial measurement of customer coproduction in the S-D Logic context.

Study 1 - Empowerment in physician-patient relationship (Ouschan et al., 2006)

Customer empowerment has gained some momentum as a focus of marketers, particularly in service industries. In healthcare in particular, several factors underlie the trend to consumers taking an active role in their own health management:

- Health care policy makers embrace patient empowerment because it is seen as a means to make better use of resources by improving health care outcomes and reducing the need for health care services in the long-run (Vernarec 1999)
- Empowerment is in line with a preventive health care focus (Roter et al, 1991) and the recent introduction of managed care policies (Vernarec, 1999).
- Medical practices emphasise patient feedback (e.g., patient satisfaction surveys) for performance evaluation purposes (Johnston Roberts, 1999).
- Health-care consumerism is increasing (Ouschan et al, 2000).

This study examines whether empowering the patient in patient-physician consultations enhances patients trust in and commitment to their physician. In particular, the concept of empowerment is explored through Ouschan et al.'s (2000, 2006) three dimensions of patient empowerment that relate to the medical consultation context: (i) patient *control* over the illness management (i.e., patient domain), (ii) *patient participation* during

the patient-physician encounter (i.e., patient-physician interaction domain), and, (iii) *patient education/support* received from the physician (i.e., physician domain). Example items used to measure these constructs are shown in Table 2.

The study, conducted among patients with chronic illnesses, shows that the patient is critically involved in the service delivery, and that value is produced by 1) the physician's actions (the old view of marketing); 2) the patients actions; and 3) the interaction between these two. Thus the study describes the importance of co-creation of the service and co-creation of value (through trust and commitment). The contribution of skills and competencies by both parties is clearly demonstrated, the patients contributing for example through research on the internet, or through self-help groups, the taking of medicine and other recommended practices as well as interactively generated competencies through communication with the physician. Moreover, patients are more trusting of and committed to physicians who adopt an empowering communication style with them.

Study 2 – Customer Participation in Recreational Services (Chua and Sweeney, 2004)

Since participation can be carried out only by the customers themselves and is central to the service transformation process, it also plays a direct part in influencing perceptions of what is received as a result of their effort. Attribution Theory suggests that the greater the involvement of the customer, the more positive the outcomes to both organisation and customer. This realisation is important, since effectively customers contribute to satisfaction with the outcomes.

Given the strategic necessity of providing value to customers, this second study examines the effect of customer participation on customer perceived value in the context of recreational course participants. Such courses included health and fitness programs, relaxation (e.g. yoga) and applied skills/hobbies (e.g. art, dance, photography and handicrafts). The study identified four dimensions of participation - 1) self-directed effort, that is, the effort instigated by the individual in the class; 2) instructor-directed effort, that is the effort encouraged by the instructor; 3) effort with other customers, that is the

Table 2: Selected Patient Empowerment Scale Items

Physician support

My doctor checks my understanding of what is going on

When appropriate my doctor provides me with a written plan on how to control my chronic illness condition

My doctor informs me about all possible treatment outcomes (e.g., side effects of drugs)

My doctor gives me ample time during consultations

Patient control

My doctor makes medical information more meaningful for me

My doctor checks my skills to monitor my own progress

I monitor my own progress

I have control over my daily symptoms

Patient participation

I discuss alternative (not main-stream) care with my doctor

I discuss information received from other sources (e.g., family, friends, media, educational literature) with my doctor

I ask a lot of questions during my consultations

I direct my doctor on what needs to be addressed

Scale: 1=strongly disagree, 7=strongly agree

Table 3: Selected Patient Participation Scale Items

Self-directed effort
I was prepared to try everything
I persisted at difficult tasks
Effort with other participants
Made effort to get to know other participants
Discussed issues with others participants
Instructor-directed effort
I followed instructions
I paid attention to the instructor
Extra effort
I made additional effort outside class
I spent time preparing for the course
Scale: 1=not at all, 7=a great deal

interaction with other customers and 4) extra effort, that is the additional effort outside the class (revision, exercises etc.). As with the previous study on the patient-physician relationship, the three domains of provider, customer and provider-customer interaction are apparent within these dimensions. Example items are shown in Table 3.

Results of the study indicated a strong relationship between the four dimensions of participation and Sweeney and Soutar's (2001) four dimensions of perceived customer value. For example, self-directed effort, effort with other members and instructor directed effort, that is, activities that take place within the recreation centre itself, contributed to perceptions of quality-value.

The two studies highlight the important role played by both parties, the customer and provider, as well as the interaction between the two parties in cocreating the service. These three aspects are also highlighted by Gummesson (2004) in his commentary supporting the S-D Logic.

Summary

The present study investigated the development of various paradigms over time. The dire need for new marketing paradigms other than the marketing mix

paradigm was demonstrated, and postmodernism, relationship marketing and the S-D Logic discussed. Relationship marketing research over the last two decades, has generated a vast number of studies empirically examining aspects such as relationship quality and relationship benefits and the outcomes they generate, such as, retention and market share. However, no research has empirically examined the outcomes of the S-D Logic. Hence it is not possible to say which paradigm is more effective. The author suggests that the S-D Logic is broader than relationship marketing and that there is some overlap, thus agreeing with one view does not mean disagreeing with another. It seems that no one paradigm alone is correct and that a multi-paradigm approach is needed according to the context. Further, the S-D Logic may indeed be more appropriate to some service industries than others.

In order to examine the S-D Logic empirically however, and in particular to address the question proposed as to how and to what extent does the organisation practice S-D Logic, key questions need to be addressed. First, is the S-D Logic a process as suggested in the current article? Second if indeed a process, what are the core activities of the firm that underlie the S-D Logic process?; what is the ultimate outcome of an S-D Logic approach? The latter is particularly important and there seems to be next to no

discussion as to potential outcomes for organisation or customer.

The present study also discussed some difficulties in operationalising the S-D Logic, while also making some early suggestions as to how to measure the coproduction role of the customer, relating to FP6, based on two recent studies involving the author. Both studies examine the coproduction role from the consumer viewpoint, however, clearly the measurement of the coproduction role, indeed a more complete conceptualisation of the S-D Logic, may well be measured from an organisational viewpoint, as is marketing orientation and customer orientation. Clearly, the S-D Logic represents an exciting and challenging paradigm and it is hoped that this paper and others in this series may form a foundation for future research on the topic.

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Biography

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Paradigms, Pluralisms, and Peripheries: On the Assessment of the S-D Logic

Stephen L. Vargo

Abstract

This commentary addresses some common themes of the papers from the 3rd EMAC/ANZMAC Research Symposium track on service-dominant (S-D) logic: (1) issues and approaches to measurement, (2) the need for plural versus singular paradigms, and (3) questions concerning the boundary conditions of S-D logic. It suggests that since S-D logic is not a normative theory and is an alternative to the current (goods-) dominant logic, caution must be exercised in designing empirical tests. It also suggests that since S-D logic transcends the goods vs. services logics, it obviates the need for pluralism and is capable of spanning boundaries created by goods-dominant-logic...possible path for its development.

Keywords: Service-dominant logic, Paradigms, Paradoxes, Dualities, Marketing theory

The common tasks for the papers developed for the 3rd EMAC/ANZMAC Research Symposium track on "Service-Dominant Logic – Moving the Debate to the Empirical Arena" were (1) to address issues of measurement and (2) to assess the movement toward and effectiveness of a service-dominant (S-D) logic (e.g., Vargo and Lusch 2004). The papers approached these tasks in varying ways; each also raised additional issues. Rather than address each of the papers separately, the purpose of this short commentary is to address the overall focus of the track and to respond to some of the recurring themes. Generally, these deal with issues of and approaches to measurement, the question of the need for plural versus singular paradigms, and questions concerning boundary conditions.

The Nature and Measurement S-D Logic

As discussed elsewhere (e.g., Vargo and Lusch 2006), S-D logic is a lens, a mindset, through which phenomena can be viewed. It is not a theory. In fact, as Winklhofer, Palmer, and Brodie (2007) correctly state, it is "pre-theory." Thus, while it could lead to the development of a theory of the market and marketing as Vargo and Lusch (2006; see also Vargo 2007) have suggested, neither the logic nor its premises currently meets the criteria for a theory (e.g., Hunt 2002) and should not be so evaluated.

This non-theory, but potential theory-foundation status, of S-D logic raises several questions. The first concerns the type of theory that could (should) be developed. The most apparent answer is a *theory of marketing* but, for reasons discussed elsewhere (e.g., Vargo 2007), a theory of marketing implies *normative theory* and normative theory should rest on a *positive theory of the market*. Thus, perhaps the first task for S-D logic is to provide the foundation for this positive theory.

These issues of theory status and theory type are important in the present context because they have direct impact on the issue of measurement, the common focus of these articles, and give rise to the second question: can S-D logic be assessed empirically and, if so, what are the measurement issues?

Generally, it appears that the call for the empirical assessment of S-D logic assumes that it is a normative theory, which, as noted, it is not. However, this situation does not necessarily imply that empirical research is not valid and useful; it just implies that it should be approached with prudence. That is, while it is possible to address empirical issues of effectiveness as a function of *general orientation*, it will not likely provide a powerful test because orientation can become manifested in different normative decision rules as moderated by

alternative positive theory. Thus, the correlation between orientation and outcome might be weak and therefore conclusions should be approached cautiously.

For somewhat similar reasons, an empirical test of whether an evolution toward S-D logic is evident in practice should be approached cautiously. A finding that marketing practitioners have not adopted an S-D logic orientation in whole or in part does not imply that S-D logic *would* not improve firm performance, if adopted.

Additionally, both operationalization of constructs that reflect an emerging orientation and the measures of effectiveness are likely operationally bound by the dominant paradigm. For example, *relationship*, which is typically associated with S-D logic, can be operationalized consistent with S-D to reflect *interactive value-creation* or, more typically, reflective of goods-dominant (G-D) logic in terms of *multiple transactions*. Likewise, measures of *effectiveness* can be assessed in G-D logic terms like *productivity* (units of output per amount of effort) or as determined by the beneficiary (e.g., satisfaction, value-in-use), which is more consistent with S-D logic. The general point is that care needs to be taken to assure that measures are consistent with the purpose of the research and reflective of the orientations under investigation. The very nature of paradigms makes this correspondence difficult.

Paradigms and Paradoxes

S-D logic is also not a paradigm (e.g., Lusch and Vargo 2006; Vargo and Lusch 2006), though it has been so characterized in numerous instances. It could become one of course if, by definition, it becomes a *worldview*. But worldviews are determined bottom up rather than top down and, thus, it is the discipline that will make this determination, over time. However, while it is too early to know if S-D logic will achieve paradigmatic status, it is appropriate to say that it operates at a *paradigmatic level of analysis*.

Perhaps somewhat naturally, analyses at the paradigmatic level raise questions of singularity or plurality. A number of scholars, including several in this track (e.g., Sweeney 2007; Winklhofer et al. 2007) have taken a stance that plurality is needed. That is, S-D logic and G-D logic should coexist.

This pluralistic stance is a convenient, if not understandable, resolution, but perhaps one that deserves further scrutiny. The general issue is whether it is possible to have pluralistic paradigms. The more specific

issue is related to the relationship between G-D logic and S-D logic or, perhaps alternatively, the relationship between goods and service(s).

Aside from the issue of whether it is coherent to have competing “worldviews,” paradigms are normally considered *incommensurable*, though there remains debate concerning to what extent and what this implies (see Hunt 2002; Winklhofer et al. 2007). That is, alternative paradigms can not be directly, objectively compared. This does not mean that they can not both be true. In fact, it can be argued that, as meta-models, all paradigms are true. This sets up a paradox. But pluralism, at least in terms of dual acceptance, as normally implied, is not the only resolution.

Perhaps not entirely coincidental, paradoxes and dualities have been the focus of a fair amount of attention in marketing lately, particularly in the B2B literature (e.g., Dittrich et al. 2006; Hakansson and Ford 2002). Lewis (2000) notes that there are three ways to deal with paradoxes. The first is *acceptance*. This is something like the historical approach to the rather intractable goods versus services debate (see Vargo and Lusch 2004b) and, arguable, pretty close to what most advocates of pluralism in logics of marketing seem to be advocating.

The second resolution strategy is *confrontation*. In the present context, this involves something like arguing that service is more important than goods. Arguably, this is what some hear proponents of S-D logic advocating. However, I do not (see Vargo and Lusch 2006).

A third strategy is *transcendence*, essentially finding a level of abstraction and perspective at which the paradox is resolved. This is closer to what Bob Lusch and I have been advocating with S-D logic: service (singular) – the process of doing something for the benefit of another party – is the common denominator of exchange; goods represent mechanisms for service provision. Thus, S-D logic is inherently *dualistic* while resolving the paradox. Stated slightly differently, plurality is what the discipline has had with the separation of goods marketing and services marketing. In S-D logic, that separation is not only unnecessary; it (arguably) is resolved – service and goods coexists with a common purpose (service). More generally, the existence of a paradox is often evidence that there is a need for a more unifying paradigm rather than an excuse for promoting pluralism.

Peripheries and Boundaries

Some scholars advocate more consideration for

boundary conditions. Paradoxically (in a different sense from above), the arguments are *both* that there should be *more and fewer boundaries*. Most of these calls seem to stem from the issues above.

For example, Sweeney (2007; see also Brookes and Brodie 2007) insists that that S-D logic might fit some industries but not others, implying that *boundary conditions* are necessary. But this argument is based on the argument that, since not all practitioners use the same approach, pluralistic paradigms are required. As noted, managerial practices can not solely dictate normative theory, much less the appropriateness of the paradigm on which it is based. S-D logic is neither. Perhaps as important, managerial approaches are neither paradigms themselves nor do they operate at a paradigm level. More generally, issues of plurality are often confounded by use of the rubric of “paradigm” as synonymous with a whole host of non-paradigmatic (or paradigm-level) constructs, such as managerial approaches, models, and positive and normative theories. Again, caution in assessment is warranted.

Conversely, Brookes and Brodie (2007) suggest that S-D logic sets up *false and unnecessary boundaries* by implying that it only applies to serving, rather than *creating*, customers. Theoharakis and Sajtos (2007) make a similar point. Aside from the fact that serving and creating are not mutually exclusive, much less opposing, concepts, this boundary issue points toward a more serious issue. As discussed elsewhere, (see Vargo and Lusch 2008) S-D logic is continually evolving and necessarily communicated through a lexicon tied to the paradigm to which it is being compared. In the case of “serving” versus “creating,” the observation, while appropriate, is based on an early version of Foundational Premise 9 (e.g., Vargo and Lusch 2006) – “Organizations exist to integrate and transform microspecialised competences into complex services that are demanded in the marketplace.” A change in wording, to a more general “all economic actors are resource integrators,” was signaled in Lusch and Vargo 2006 (and formalized in Vargo and Lusch 2008). These issues will continue to provide challenges in the development and communication of S-D logic but the linguistic challenges should not be confused with the foundations of S-D logic itself.

Conclusion

S-D logic can and should be subjected to empirical investigation. The scholars associated with the papers in

this symposium should be commended for what are some of the first efforts in this regard. Nothing in this commentary should be interpreted as being critical of these efforts. Rather, the purpose is to note that caution should be exercised in both the identification of empirical research questions and the operationalization of the related core constructs. Perhaps as important, care should be taken not to reify S-D logic. S-D logic is a tag that has become used to identify what appears to be an evolving, revised logic of exchange, markets, and marketing. It will continue to evolve and, while it is appropriate to investigate S-D logic empirically at any point in this evolution, premature conclusion should be avoided.

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Biography

Stephen L. Vargo is a Shidler Distinguished Professor and Associate Professor of Marketing at the University of Hawai'i at Manoa. Professor Vargo's primary areas of research are marketing theory and thought and consumers' evaluative reference scales. He has had articles published in many of the leading marketing journals, including the *Journal of Marketing*, and serves on the editorial review boards of the *Journal of Marketing*, the *Journal of Service Research*, the *Australasian Marketing Journal*, and the *International Journal of Service Industry Management*. Professor Vargo has been awarded the Harold H. Maynard Award by the American Marketing Association for "significant contribution to marketing theory and thought."

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References should appear as follows:

For books: Kotler, P., Ang, S.H., Leong, S.M., Tan, C.T., 1996. *Marketing Management: An Asian Perspective*, Prentice-Hall, Singapore.

For articles in collected volumes: Douglas, S.P., Morrin, M.A., Craig, C.S., 1994. Cross-national consumer research traditions. In: Laurent, G., Lilien, G.L., Pras, B. (Eds.), *Research Traditions in Marketing*. Kluwer Academic Publishers, Boston, MA, pp. 289-306.

For articles in journals: Brodie, R.J., Danaher, P.J., 2000. Building models for marketing decisions: Improving empirical procedures. *International Journal of Research in Marketing* 17 (2-3), 135-139.

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