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The Small and Long View

Robert F. Lusch

Macromarketing research should be grounded in a small view of things. It should focus on the microactions of microactors that create macrostructures. At the same time,

Keywords: *marketing systems; complex adaptive systems; public policy; service-dominant logic*

My macromarketing research began in the area of social marketing and ethics (Laczniak, Lusch, and Murphy 1979; Laczniak, Lusch, and Strang 1981; Lusch, Laczniak, and Murphy 1980; Murphy, Laczniak, and Lusch 1978). However, my enduring interest has been in the functioning of marketing systems. This work has been on antitrust policy (Harvey and Lusch 1995), evolutionary systems (Kiel, Lusch, and Schumacher 1992), foreign direct investment (Akhter and Lusch 1991), macroenvironmental trends (Laczniak, Lusch, and Udell 1977; Laczniak and Lusch 1986), retail industry structure and performance (Ingene and Lusch 1981a, 1981b), spatial equity in health care markets (Lusch 1991), wholesale industry structure and performance (Lusch, Coykendall, and Kenderdine 1990; Lusch, Zizzo, and Kenderdine 1996; Zizzo, Kenderdine, and Lusch 1993), and working capital (Lusch and Serpkenci 1982).

As I studied marketing systems, I learned to appreciate the value of developing a long view; a view over decades, centuries, or even longer. I also found that viewing macrosystems as emerging from more fundamental micro building blocks provided important insights.

HOW I ARRIVED AT THIS VIEW

After studying macromarketing systems for fifteen years, I found a large gap in my knowledge. I found it disquieting how little I could learn during my lifetime about large macrosystems that evolve slowly over time. Throughout life, I sensed that some things were working well but later observed they were not working well or vice versa. Inflation was generally low in the 1950s and 1960s but then rose substantially during the 1970s and early 1980s. Planned economies and social systems seemed to work well and succeed in the 1950s and 1960s but then began to falter. Tax rates were lower in the 1970s and 1980s than in the 1950s, but the economy was not doing as

macromarketing thought should embrace a long view of things since only a long view of system behavior can separate successful from unsuccessful public policy.

well. I could observe changes; however, I knew my understanding was severely constrained.

I began to draw on history to understand macrosystems. However, I discovered that history did not provide the answers I was seeking about how systems evolve into new states of order or structure. I also began to recognize that when histories are written, much is left out, either intentionally or otherwise, in an attempt to provide coherence. Influenced by my early work in futures research (Laczniak, Lusch, and Udell 1977; Laczniak and Lusch 1986) and evolutionary systems (Kiel, Lusch, and Schumacher 1992), my interest in the long future began to intensify.

I began to investigate the role of policy simulations in providing this long view. I was convinced that by taking a long look at the future, such as the Club of Rome did with its *Limits of Growth* global simulation (Meadows 1972), we could gain insights that a shorter-term perspective would not allow. However, the more I learned about these simulation models, the more I recognized their flaws. These models were calibrated on data from past system behavior and performance and then extrapolated into the future. I noted two problems. First, I believed that macrosystems do not exist per se but evolve from the microaction of actors in the system. In brief, macrostructures are emergent phenomena. So, essentially, these simulations were studying ecological time (the lifetime of the current system) but not evolutionary time (the time it takes for a new system to emerge and proliferate). Second, any extrapolation from the past assumes that the system will continue to function and behave as it did historically.

In seeking to understand complex systems, I attended the Bionomics Conference in the early 1990s and met Tom Ray. Tom was a rain forest biologist who believed he would die before he could witness evolutionary change. Tom recognizing this problem studied computer science and later developed TIERRA (Ray 1991), the first successful attempt to grow artificial evolution. Ray impregnated his computer with digital organisms that were essentially

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computer programs that would evolve through replication, variation, mutation, and death. As Tom presented TIERRA at the Bionomics Conference, I knew immediately I must study the area of artificial life, evolution, and complexity theory.

At about this same time, I had the opportunity to work with Stephen L. Vargo, one of my doctoral students, at the University of Oklahoma. In a term paper for a doctoral seminar in marketing theory, Stephen developed a paper on the history of economic thought related to services. From that initial effort, we collaborated for nearly a decade to develop what has become known as the service-dominant logic (S-D logic) of marketing (Vargo and Lusch 2004a, 2004b; Lusch and Vargo 2006), which has a foundation in work I did on resources with James A. Constantin (Constantin and Lusch 1994).

WHAT IS S-D LOGIC?

Thinking about the most micro thing each human entity does, as it becomes part of an exchange system, is at the root of S-D logic. S-D logic views applied, specialized, skills, and knowledge as the focus of economic exchange (Vargo and Lusch 2004a). S-D logic specifies that it is *service*—defined as *the application of specialized competences (operant resources—knowledge and skills), through deeds, processes, and performances for the benefit of another entity or the entity itself—that is exchanged for service*.

If goods, organizations, networks, or money are involved in the exchange, they are seen as mechanisms for service provision. It represents a shift from an emphasis on the exchange of *operand resources*, usually tangible, inert resources, to an emphasis on *operant resources*, dynamic resources that act upon other resources (Constantin and Lusch 1994). S-D Logic thus embraces a small and long view. A *small view* is embraced because S-D logic focuses on fundamental building blocks or the development of specialized competences that result in the division of labor. A *long view* is embraced because it views all economies (hunter-gatherer, agricultural, industrial, information) as having a common foundation. As Bastiat (1848/1964) stated, “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” (pp. 161-62).

Division of Labor

Microscopic actions begin with the division of labor. Physical and mental skills are the two basic operant resources that all individuals possess (Vargo and Lusch 2004a). As long as all individuals use these resources for self-production and do so independent of other individuals,

the world is simple. Isolated humans only interacting with nature keep the world static except for naturally occurring physical phenomena. However, when individuals interact with others and exchange the platform for changing, the system is set.

Humans learned that the skills they possess are not equally distributed, and thus they began to specialize. This specialization led to a division of labor where entities became more dependent on each other. Smith (1776/1904) recognized that the extent of the market was a function of the division of labor in society. However, as the division of labor increased, another important development occurred—the connectedness of individuals. As each person specializes, they become more dependent and connected to others. Thus, both the extent of the market and the density of the network of interconnections is a function of the division of labor in society.

This begins to form the basis of a complex system. And because each entity in this interconnected system is always attempting to do better or to improve its condition, the system becomes adaptive. Thus, what emerges as a result of a division of labor (the *small view*) is a complex adaptive (macro)system that evolves over time (the *long view*).

The Market(Place)

One of the first macrostructures to emerge is the market. S-D logic suggests that markets and marketing are primary drivers or creators of society. Individuals without the exchange of service for service are antisociety. With exchange of service comes society, and society does not exist without the exchange of the most fundamental resources for human existence (mental and physical competences). Sometimes social and sometimes economic, but most often intertwined, a society involves a complex web of social and economic exchanges of service(s). In modern society, this complex web is heavily centered on the market as the central forum for exchange. S-D logic embraces market mechanisms as efficient and effective methods of exchange in many situations. It does this because markets as institutions are co-created (both buyers and sellers determine the market functioning), and S-D logic embraces cocreation and both buyers and sellers as operant resources. Consequently, S-D logic embraces the recommendation of Venkatesh, Penaloza, and Firat (2006) that a central unit of analysis for marketing research and knowledge development be the market.

Can S-D Logic Inform Public Policy?

We (Vargo and Lusch 2004a) built S-D logic on eight foundational premises and later added a ninth (Lusch and Vargo 2006). All of these foundational premises are based on the idea that if entities are able to freely develop and

exchange their competences, then the macrostructures that emerge will generally be pro-consumer and pro-society (Lusch and Vargo 2006). This basic idea is similar to that of Amartya Sen, the Nobel Prize winning economist, who viewed the development of economies as a question of freedoms (Sen 2000) and not a question of economic wealth per se. Sen identified five freedoms as instrumental, and these include political freedoms, economic facilities, social opportunities, transparency guarantees, and protective security. When these freedoms are developed, the capabilities of individuals are enhanced, and the society develops or advances. S-D logic is consistent with viewing development as freedom. S-D logic suggests that the freedom of individuals to develop their competences and exchange those with others is at the heart of societal and economic development.

I consider the nine foundational premises of S-D logic and provide initial thoughts on public policy implications. It should be noted that with a complex adaptive system, such as a macro-marketing system, many trade-offs, linkages, and feedback mechanisms exist. Consequently, the public policy guidelines that follow should not be viewed independent of one another.

The first foundational proposition of S-D logic is *the application of specialized skill(s), and knowledge is the fundamental unit of exchange*. This argues that the root of economics is the exchange of service for service. Consequently, public policy should be directed at enhancing and developing the mix of skills and knowledge of the citizenry.

A second proposition is that *indirect exchange masks the fundamental unit of exchange*. Organizations, networks, intermediaries, and money obscure the service-for-service nature of exchange. Public policy should thus foster institutions that allow entities to efficiently and effectively exchange their competences.

Goods are distribution mechanisms for service provision is the third proposition of S-D logic. As Gummesson (1995) suggested, "Activities render service; things render service," or goods are appliances. If goods are appliances and mechanisms for service provision, then public policy should encourage firms to sell service flows and not tangible goods in order to be motivated to consider the total system costs of tangible goods.

A fourth foundational proposition is that *knowledge is the fundamental source of competitive advantage*. Operant resources, especially "know-how," are the essential component of differentiation. Public policy should, therefore, encourage competitive systems that enhance knowledge discovery.

Fifth, *all economies are services economies* is a foundational proposition of S-D logic. Service is only now becoming more *apparent* with increased specialization and outsourcing; it has always been what is exchanged. Consequently, public policy should encourage freedom of exchange and should not prevent specialization and outsourcing.

The sixth proposition is that *the customer is always a cocreator*. The customer cocreates as it uses and/or helps to produce a product. The concept of cocreation should

be applied to the basic service that government provides. In brief, rules and laws should be cocreated with the citizenry.

A seventh foundational proposition is that *the enterprise can only make value propositions*. There is no value until an offering is used—experience and perception are essential to value determination. This suggests that public policy should monitor perceptions of value in use among the citizenry of public and private offerings.

A service-centered view is inherently customer oriented and relational is the eighth proposition. Operant resources being used for the benefit of the customer place the customer in the center of value creation and imply relationship. Consequently, public policy should recognize the role of relational, social, and implicit contracts.

Finally, the last proposition is that organizations exist to integrate and transform microspecialized competences into complex services that are demanded in the marketplace. The modern corporation is given legitimacy to operate as long as it provides a fair venue for the exchange of service(s) for service(s). For this to occur, individuals and collectivities must be satisfied with both work and consumption. If corporations create wealth but fail to provide a fair venue for the exchange of services for services (via jobs and consumption), then the corporation will lose its legitimacy. Consequently, public policy should encourage fair market venues for jobs and consumption.

AGENT-BASED MODELING (ABM)

Recognizing the complexity of macromarketing systems, Meade and Nason (1991) suggested using a systems-theoretic approach to develop a unified theory of macromarketing. However, a continuing shortcoming is a methodology that is appropriate for studying complex systems.

I argue that what is needed is a petri dish for growing and breeding artificial macromarketing systems. Toward this goal, scholars have looked to evolutionary concepts to create the method of agent-based modeling (Epstein and Axtell 1996; Arthur 1991; Holland and Miller 1991). Agent-based modeling (ABM) is a form of artificial life simulation that has been made possible because of nearly simultaneous developments in computer science, mathematics, and complexity theory. A typical agent-based computational model of a system is built with institutional features (or constraints) that mimic those of the real system. Living in the artificial system are agents that encapsulate the behaviors of the participants in a real system. Just as one would observe in a real market, these artificial agents are heterogeneous, have bounded rationality, and do not have complete information about the issues they need to deliberate on. Like their counterparts in the real system, these artificial agents have the ability not only to learn but also to create new knowledge based on their past experience and information.

ABM provides the macromarketing scholar a research method to take a small and long view of things. It provides a small view because one can study the rules governing the microactions of actors in the macromarketing system. At the same time, ABM provides a long view because it helps to produce a video of how a macromarketing system would unravel. More important, the researcher can use this cultural petri dish to gain understanding of how various public policies influence macromarketing system performance.

In my recent work with Tay (Lusch and Tay 2004; Tay and Lusch 2005), we develop an ABM that mimics the lives of individual buyers and sellers that constantly adapt to the environment (and shape the environment). In our artificial market, sellers with the same knowledge base and starting with equal wealth evolve to have unequal wealth. Thus, suggesting unequal wealth in society is inherent in the system, unless public policy provides corrective rules. We also find that a variety of learning mechanisms occur that result in the distribution of wealth continuing to change and winners becoming losers and vice versa. In this same artificial world, we find the effects of advertising and pricing strategies are transitory and based on the behavior and reactions of competing sellers.

I believe ABM will enable the macromarketing scholar to study a variety of public policies. For instance, patent laws provide a protection of intellectual property for a set time; using an artificial market system, one could investigate the influence on industry structure and performance of patent protection of varying years. Taxation on the sale of tangible versus intangibles and investment tax credits are most often restricted to capital goods. Using ABM, one could investigate the influence of various tax policies. More important, these are only a couple of the dozen of potential public policy issues that could be studied with ABM.

CONCLUSION

I argue that macromarketing research should start with an understanding of the most microactions of buyers, sellers, and government. It is these agents and their microactions that result in the emergence of macrostructures. Macrostructures take a long time to emerge and then evolve over long periods of time. If one conducts cross-sectional research or longitudinal research of one or two decades, one is not only limited in what will be observed; also conclusions drawn from these observations are likely to be misleading.

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