Service-Dominant Logic: Reflections and Directions

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Stephen L. Vargo,
Shidler Distinguished Professor
University of Hawai‘i at Manoa

Visiting Professor, WMG
University of Warwick
Goods-dominant (G-D) Logic

- Purpose of economic activity is to make and distribute units of output, preferably tangible (i.e., goods)
- Goods are embedded with utility (value) during manufacturing
- Goal is to maximize profit through the efficient production and distribution of goods
  - goods should be standardized, produced away from the market, and inventoried till demanded

Firms exist to make and sell value-laden goods
G-D Logic Model: Value Production and Consumption
THE G-D LOGIC PROBLEMS & “FIXES”
Wrong Thinking about Service(s): The G-D Logic Perspective

Value-enhancing add-ons for goods, or

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

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

Services Economy = Post Industrial = Less-than-desirable economic activity
Sub-disciplinary Divergences and Convergences

Business-to-Business Marketing
- From differences:
  - Derived demand, professional buyers, fluctuating demand, etc
- To emerging new principles:
  - Interactivity, relationship, network theory, etc

Service(s) Marketing
- From differences:
  - Inseparability, heterogeneity, etc.
- To emerging new principles:
  - Relationship, perceived quality, customer equity, etc.

Other Sub-disciplines

Other Intra-marketing initiatives
- e.g., interpretive research, Consumer culture theory, etc.
- From deterministic models to emergent properties
- From products to experiences
- From embedded value to individual meanings and life projects
G-D Logic: The “Consumer Orientation” Fix

The Consumer Orientation is Inherently Producer Centric
G-D Logic: The Relationship Fix
FOUNDATIONS: THE S-D LOGIC CORE
A Partial Pedigree For S-D Logic

- Core Competency Theory
- Resource-Advantage Theory
- Network Theory
- Consumer Culture theory
- Experience marketing
- Services Marketing
- Relationship Marketing
- Theory of the firm
Service-dominant Logic for Service Science

<table>
<thead>
<tr>
<th>Premise</th>
<th>Explanation/Justification</th>
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<tbody>
<tr>
<td>FP1</td>
<td>service is the fundamental basis of exchange.</td>
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<tr>
<td>FP6</td>
<td>The customer is always a co-creator of value</td>
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<td>FP9</td>
<td>All economic and social actors are resource integrators</td>
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<tr>
<td>FP10</td>
<td>Value is always uniquely and phenomenological determined by the beneficiary</td>
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</table>
Clarifications: Service vs. Services

- **Services** = intangible products

- **Service** = The *process* of using one’s competences for the benefit of some party
  - The application of knowledge and skills

- **Service** *transcends* “goods and ‘services’”

There are No “Services” in Service-Dominant Logic
Value as a Central Concept

Co-production is relatively optional. Value is always co-created.
Value Co-creation through Resource Integration & Service Exchange

Resource Integrator (individual, family, firm, etc.)

- Market-facing Resource Integrators
- Private Resource Integrators
- Public Resource Integrators

Economic Currency
Social Currency
Public Currency
New Resources
Value
Service
Micro Exchange Embedded in Complex (Eco)Systems of Exchange

S-D Logic

Supplier

Supply/Value Chain

Producer

Consumer
An Extended Pedigree for S-D Logic

Service-Dominant Logic

- Human Ecology
- Business Ecosystems
- Stakeholder Theory
- New Institutional Economics
- Service Science
- Social Network Theory
- Market Practices and Performances
Reflections

REORIENTATIONS
The Value (effective) vs. Production (efficient) Trade-Off

VALUE/Effectiveness
- Benefit (Intangible)
- Customization (Heterogeneity)
- Customer Involvement (Inseparability)
- Contextual contingency (Perishability)

PRODUCTION/Efficiency
- Tangibility
- Standardization
- Separate production
- Inventoriability
Rethinking Relationship

- Joint, interactive, collaborative, unfolding and reciprocal roles in value co-creation.
- Implies a complex web of value-creating relationships, rather than making relationship an managerial option.
- In particular contexts, optimal (for the firm), normative relationships might include repeat patronage (i.e. multiple, relatively discreet transactions) but they do not have to for relationships to exist.
- punctuated in FP8: “A service-centered view is inherently customer oriented and relational.”
Transactions as Instances of Relationships

Transactions can be characterized in terms of objectified, bounded, tradable entities ("goods" and "services") that represent parts of a larger network of relationships among specialized actors. (Araujo and Spring 2006)

"mutually agreed-upon transfers with compensation located within the task network, [which] serve to divide one set of tasks from another" (Baldwin 2007)
“Its all B2B...” – A2A (Actor to Actor)

From a G-D logic, perspective
- (B2C, producer to consumer)
- Consumer centricity is inherently firm (producer) centric

From a S-D logic perspective
- All actors are, resource-integrating, service-providing enterprises (B2B or A2A)
- Resources & value creation must be understood, contextually, co-creatively, and (service-eco)systemically
Reflections

INSTITUTIONS
The Sciences of the Artificial

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

- The division of labor implies a division of knowledge that requires coordination.
  - Implies institutional structure will play a critical role in how knowledge will be integrated to solve problems

- Institutions = “rules of the game.”
- Organizations = players
Resource Integration & Service-for-service Exchange within Service-ecosystems

Resource Integrator/Beneficiary ("Firm")

Resource Integrator/Beneficiary ("Customer")

Institutions

Resource Integrators
The Service Ecosystem

- Relatively self-contained, self adjusting systems of resource-integrating actors connected by shared institutional logics and mutual value creation through service exchange
Reflections

OPERANT-BASED APPROACHES TO MARKETS & VALUE (CO-)CREATION
Practice Theory and Structuration

- **Structure:**
  - recursively organized sets of rules and resources
  - the medium and the outcome of organization

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**Toward a Theory of Social Practices**
A Development in Culturalist Theorizing

**Andrea Reissigle**
UNIVERSITY OF MUNICH, GERMANY

**Abstract**

The article works on a theory of social theory and practice which is based on the works of Edward S. Thompson and Michel de Certeau. The paradigmatic approach of Edward S. Thompson sets its limits, because this approach is static and even a little obsolete. The idea that social theory should be developed in a more dynamic way is maintained. It aims to make use of the methods of Michel de Certeau and sociologist Pierre Bourdieu.

In the complex historical context of the late 1970s and early 1980s, the idea of using the methods of Michel de Certeau and sociologist Pierre Bourdieu was taken up and developed further. The basic idea of de Certeau is to analyze the dynamic and fluid nature of social practices and the role of the individual in shaping society. Bourdieu, on the other hand, focuses on the discourse and the institutions that shape social practices.

**References**

- Thompson, E. S. (1982). *The making of the English working class*.

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**The Constitution of Society**

**Anthony Giddens**

**Central in Social Analysis**

- Practices
- Rules/Resources
- Roles/prescriptions
Resource Integration & and the Structuration of Service Ecosystems

Institutions

Resource Integrators

S-D Logic

Macro

Meso

Micro
On marketing theory and service-dominant logic: Connecting some dots

Stephan L. Vargo
University of Hawaii at Manoa

Abstract
This article serves as an introduction to a special session on "Connecting Service-Dominant Logic," which includes a series developed from manuscripts presented at the Forum on Marketing and Knowledge held in Sydney, Australia. This special session is, in turn, part of a combined special issue with related articles published in the Australian Marketing Journal, the European Journal of Marketing, and the Journal of Marketing. Together with other articles in these journals, this series presents a more direct role of theory in relation to S-D logic, and S-D logic in relation to theoretical orientations.

Keywords
consumer culture theory, marketing theory, service-dominant logic, social construction, value-in-context

Markets as Practices

- Markets do not (pre)exist; they are created from practices
- They are performed

Integrating

Normalizing

Representing
## Relational Layers

<table>
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<th>Layer</th>
<th>Examples</th>
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<tr>
<td>Relationship as shared Superordinate</td>
<td>• religious</td>
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<tr>
<td>institutions</td>
<td>• Cultural</td>
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<td>• etc.</td>
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<tr>
<td>Relationship as Shared Institutions</td>
<td>• Brands</td>
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<td>• Norms of exchange</td>
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<td>Relationship as Value Co-creation</td>
<td>• Resource Integration</td>
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<td></td>
<td>• Context</td>
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<td>• Repeat patronage</td>
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<tr>
<td>Relationship as Exchange</td>
<td>• Service for service</td>
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Directions

THEORY OF THE MARKET
Markets: Shared or (Co)Created

The MP3-Player Market
Or
The customizable-entertainment-storage-organizer-and-personal-assistant-and-life-applications-with-a-WOW-factor-platform market

The mineral-oil market
Or
The baby-butth-rash-avoidance-mommy-guilt-reducing-body-massage-and-sexual-lubricant market

The sodium-bicarbonate market
Or
The occasional-baking-But-primarily-refrigerator-freshening-teeth-cleaning-clothes-brightening market
Other disciplines have found it convenient to institutionalize the distinctions between applied and basic science... In marketing, the problem is rather one of spinning off a basic science from a problem solving discipline.  
(Arndt 1985)

“Paradoxically, the term market is everywhere and nowhere in marketing.”  
Venkatesh, Penaloza, and Firat (2006)

It is a peculiar fact that the literature on economics...contains so little discussion of the central institution that underlies neoclassical economics – the market  
North (1977)
The Sociology of the Market

- The economy is a function of the “performation” of economics (Collon, p. 23).
- “Lock-in provides richness...It is only when certain options have been drastically reduced that the market is finally organized and the individual agents can be calculative.” (Callon, 48-9).
- Markets (are) a vehicle for achieving a society of peaceful cooperation (Slater & Tonkiss, p. 20).
- “At the mirco level of analysis, we must grasp that economic and cultural categories are interdependent” (Slater 2001, p. 59)
Issues for a Theory of the Market

- There are no (a priori) markets
  - There are just micro-level, service exchanges
    - gifts, generalized reciprocity, service-for-service

- There is a Market (Market System):
  - transitory, linked, contextual configurations of resources and exchanges

- ...and yet markets can “exist”
  - They can:
    - Be envisioned --images of service potential
    - become institutionalized -- Intersubjective realities
  - Thus, markets become performed within the Market
    - They exist because we act like they do
    - “Markets are functions of marketing” (and other business practices)
Effectuation Theory

Marketing Under Uncertainty: The Logic of an Effectual Approach

Consider the following scenario: A knock on the door. "Good morning. Professor. I was in your models class. I just got a job offer to run marketing for a startup. Though uncertain, it looks like an exciting opportunity, and I hope you can introduce me to some best marketing practices in this setting because I haven’t done anything like this before."

There is little theoretical foundation for a normative framework of how marketing strategy decisions should be made in situations of uncertainty. Uncertainty is not only of entrepreneurial significance but also a reality for many market situations, such as market segmentation, competition, and new customer take-up (e.g., various kinds of new product launches).

Expanding cycle of resources

Converging cycle of constraints

- Who I am
- What I know
- Whom I know

- What can I do?
- Interactions with other people
- Effectual stakeholder commitment

Actual means
- Actual courses of action possible

New means
- New ends
Effectual Logic

Turns predictive rationality upside down to discover the rationality when:

- The environment does not independently influence outcomes or even rules of the game
- The future is truly unpredictable
- The decision maker is unsure of his/her own preferences

In a nutshell, effectual logic is:

- Relational
- Network oriented
- Equity driven
- Cocreational
- Human centered and operant resource based
A Market as an Institutionalized Solutions

S-D Logic

Resource Application (service)

Inter-subjective Agreement

Human Problem

Institutionalized Solution = A Market

Market performativity

Quasi-predictability
The Emerging Picture of Market System

- Human Species, Characterized by:
  - Independent inadequacy
  - Insufficient calculative ability
  - But exceeding cleverness
- Heuristically driven
  - Specialization and exchange – reciprocal resource integration and application (service-for-service)
  - Institutions – governance mechanisms
  - Language, concepts, symbolism – parsimony of thought and communication
- Creating increasingly complex capabilities through
  - Reproduction
  - Creative contextualization
  - Cooperation and co-creation
Directions

INNOVATION
Perspectives on Innovation

**Goods Innovation**
- Making better output (goods)
- New technology
- Efficient processes
- Decreasing returns to scale
- Purpose: increase market share

**“Services” Innovation**
- Making better output ("services")
  - Apply goods innovation principles, adjusted for "IHIP" deficiencies

**Service Innovation**
- Providing input into customers'/actors’ value-creation processes
- Link firm-available resources to peoples purposes
- Effective solutions
- Increasing returns to scale
- Purpose: "Owning" the market -- market shaping
Innovation Meets Marketing

Business has two basic functions:
Innovation & Marketing

In S-D logic, these become intertwined, if not indistinguishable

True innovation is not the making of novel units of output but the designing and creating of new markets through service provision

Peter Drucker
Effectuation Theory

Marketing Under Uncertainty: The Logic of an Effectual Approach

Consider the following scenario: A knock on the door...
Innovation as Design Thinking

“Design thinking is an approach that uses the designer’s sensibility and methods for problem solving to meet people’s needs in a technologically feasible and commercially viable way. In other words, design thinking is human-centered innovation.” —Tim Brown
S-D Logic and Design Thinking

*Designing* for service is designing dynamic systems and experiences in which one service is exchanged for another in an ongoing process, the value of which is *constituted in practice*.

Three consequences
- **Designing for incompleteness**
- **Service co-created through practices** of stakeholders
- Underpins *symbols, things, actions thoughts*
  - Thus, fundamental to all design activity, rather than a subfield
    - Kimball (2009)
Directions

MASSIVELY COOPERATIVE
VALUE CREATION
Building on the S-D Logic Platform
Cost of Light in Hours Worked

The Price of Light: Hours of Work per 1000 Lumen Hours

Years Before Present

Labor Price of Light
Exponential Growth of Computing for 110 Years

Moore's Law was the Fifth, not the First, Paradigm to Bring Exponential Growth in Computing

Logarithmic Plot

Calculations per Second per $1000

Year

1900  '10  '20  '30  '40  '50  '60  '70  '80  '90  2000

0  10  100  1010  1015

Electromechanical  Relay  Vacuum Tube  Transistor  Integrated Circuit
Growth in Prosperity

INDIVIDUAL INSTITUTION ARENA
TRAJECTORY
LEVERAGE
PACE
ATTRACT
ACHIEVE

SURVIVAL --- PROSPERITY

THE BIG SHIFT
STOCKS --- FLOWS

Navilland Studio, Palo Alto, California, and Lahaina, Hawaii
The Drivers of Increasing Returns to Scale

- Property rights
- Scientific rationalism
- Capital markets
- Fast/efficient communications
- Competition
- Consumer society
- Work ethic
- Health
- Large-scale production

Specialization and exchange

Rules and Laws

Science and Language
The Multi-level Application of Practice Theory

Specialization and exchange
Rules and Laws
Science and Language

Integrating

Macro
Meso
Micro

S-D Logic

Normalizing
Representing

Adapted from Kjellberg and Helgesson 2007

On the nature of markets and their practices
Hans Kjellberg
Stockholm School of Economics, Sweden

Claes-Fredrik Helgesson
Stockholm Center for Organizational Research and Stockholm School of Economics, Sweden
ROLE OF TECHNOLOGY
Arthur on New Technologies: Resource Integration

“A novel technology emerges always from accumulation of previous components and functionalities already in place.” (p. 124)
The Meaning of Technology

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

- **And relationship to service**
  - Service = use of competences (knowledge and skills) for another’s benefit
  - = applied, beneficial technology (operant resources)
A Structurational Theory of Technology

Adapted from Orlikowsky 1992, p. 441
Duality of Technology

- Technology as an Operand Resource
  - Technology as a product of human action
  - The outcome of design, development, appropriation and modification (this can occur through “design” and “use” mode)

- Technology as an Operant Resource
  - Technology as a medium of human action
  - Norms and meanings associated with technology enable it to influence human action
  - The introduction of new Technology often requires changes in daily practices, if the technology is adapted these changes in daily practices result in changes in institutional properties
Resource Integration as a Central Practice in Value Co-creation

- Exchange encounters are embedded within systems of other social interactions (Granovetter 1985; Vargo and Lusch 2011)

- “Practices are resource integrators” (Korkman, Storbacka and Harald 2010)

- Practices drive one another and “work together as a process of collective value creation” (Schau et al. 2009)

- When actors integrate resources through interaction with other actors, value co-creation processes emerge (Maglio, Vargo and Akaka 2008)
Value Co-creation is the driving force of action and interaction in service (eco)systems.

- **Proposing Value**
  - Technology as a product of value co-creation (co-production) practices (operand resource)

- **Determining Value**
  - Technology as a medium of value co-creation practices (operant resource)

- **Value Co-creation**
  - social vs. systems integration (Giddens 1984)

Adapted from Orlikowsky 1992, p. 441
Thank You!

For More Information on S-D Logic visit:

sdlogic.net

We encourage your comments and input. Will also post:

• Working papers
• Teaching material
• Related Links

Steve Vargo: svargo@sdlogic.net  Bob Lusch: rlusch@sdlogic.net
Practices in Systems of Service Exchange

“Market Practice” – Kjellberg and Helgesson 2006, p. 843
The Role of Technology in Value Co-creation

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Adapted from Orlikowsky 1992, p. 441
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Adapted from Orlikowsky 1992, p. 441
Rethinking Innovation

- Selection (Mokyr 2002)
  - “technology implies choice”
  - Selecting a technique, based on context
  - “technology occurs in systems...components that are changed will have effects on other parts”

- Institutions as context (Orlikowsky 1992)

- Innovation through Resource Integration
  - Institutions as Resources for Value Co-creation and Innovation

Adapted from Orlikowsky 1992, p. 441
Resource Integration as a Central Practice in Value Co-creation

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<th>Market Practices (Kjellberg and Helgesson 2006)</th>
<th>Value Co-creation Practices</th>
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<td>Resource Integration</td>
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<td>Normalizing Practices</td>
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<td>Representation Practices</td>
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</table>
Information Technology is a resource that enables humans to accomplish their "information processing activities" (Orlikowsky and Robey 1991)

- It is the ability to choose which information is important and relevant, rather than the amount of choices available that is central to value co-creation.
Future Research Directions

- **Value Co-creation Practices**
  - Identify different types of practices in value proposing and value deriving processes
  - Identify combinations of practices to better understand roles in service systems

- **Institutions as Context in Service (Eco)systems**
  - How institutions influence value co-creation practices and vice versa

- **Structuration in Service (Eco)systems**
  - How do service (eco)systems evolve?
Problems with Goods Logic

Goods are not why we buy goods

• Service (benefits) they render
• Intangibles (brand, self image, social connectedness, meaning)
• Inputs into experiences

Goods are not what we fundamentally “own” to exchange with others

• Applied knowledge and skills (our services)

Customer is secondary and seen as value receiver and destroyer

• “Consumer orientation” is an add-on--does not help

IHIP characteristics do not distinguish services vs. goods

• But they do characterize value and value creation
Directions

MARKETS AS PROCESSES AND OUTCOMES OF CLEVER HUMAN TRICKS
The Role of Information Technology in Service Systems

- IT drives the liquification of information (Normann 2001; Lusch, Vargo and Tanniru 2010)
  - Enables the unbundling and rebundling of information
  - The more information an actor has access to, the more potential for rebundling of resources
  - The ability to rebundle resources increases the density in a system
"The much heralded IT "revolution" of our age is not just about the fact that we know more (and different) things, but that the flows of information in and out of agents' minds are much more rapid" - Joel Mokyr (2002, p. 8).
An Extended Pedigree for S-D Logic

- Social Network Theory
  - e.g., Giddens (1984); Granovetter (1973)
- New Institutional Economics
  - North (2005); Menard (1995)
- Human Ecology
  - e.g., Hawley (1986);
- Business Ecosystems
  - Insiti and Levien (2004)
- Stakeholder Theory
  - Donaldson and Preston (1995)
- Service Science
  - e.g., Spohrer and Maglio (2008)
- Market Practices and Performances
  - Araujo (2008), Kjellberg and Helgesson (2008)
Systems of Service Systems

- Service Eco-system (S-D logic)
  - Relatively self-contained, self adjusting systems of resource-integrating actors connected by shared institutional logics and mutual value creation through service exchange

- (complex) Service system (Service science)
  - Dynamic value co-creation configurations of resources (people, technology, organizations and shared information)