Toward an empirical understanding of Service Dominant Logic

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Abstract

Marketing literature has exploded with a focus on Service Dominant Logic since Vargo and Lusch’s seminal works in 2004. Despite this, four years on and limited work has been undertaken on empirical testing of this research. This paper, although not empirical, contributes to the discussion about an empirical testing of Service Dominant Logic. It discusses Service Dominant Logic and then proposes a study to be undertaken by this author in 2008. This author has a particular interest in self-service technology and therefore FP 6 (The customer is always a co-producer) is relevant in the study and research must focus on this aspect. This paper commences with an overview of S-D Logic, and then discusses the proposal for empirical testing. A series of scales have been developed to test S-D Logic in the context of banking. These scales, once tested for reliability and validity, can be utilised by other authors attempting to evaluate S-D Logic.

Introduction

Vargo and Lusch’s 2004 paper and further works on Service Dominant Logic has altered the direction of marketing, with an increased focus on service delivery. That paper has been widely researched and discussed by academics; however limited empirical testing has been undertaken. As Sweeney (2007) explains the process of Service-Dominant Logic (S-D Logic) needs further consideration to operationalise it, however, methodology considerations are imperative (Winklhofer, Palmer and Brodie, 2007). Since the 1990s, Services Marketing has increased in importance (Vargo and Lusch, 2004) and the use of Self-Service Technologies (SSTs) has increased (Bitner, Ostrom and Meuter, 2002), however even when marketing goods, S-D Logic is important as marketers seek to add value to offerings. This paper briefly reviews the literature on S-D Logic and then discusses further research. As S-D Logic is not a theory (Vargo, 2007) empirical testing becomes more complicated. Can one test something that is a mindset or, perhaps even a “pre-theory” (Winklhofer, et al, 2007) or must one wait until a theory is established? How can a pre-theory ever become a theory if not tested empirically? Vargo (2007) assumes that the call for empirical testing assumes that S-D Logic is a theory, which it is not. This paper does not make the assumption, but rather feels that the mindset of S-D Logic is useful in research, and should be considered. In order to do this, empirical testing is desirable.

Services, within the framework that Vargo and Lusch (2004) propose, do not include non-tangible goods, or those that have been offered to enhance a good. Services involve the use of human resources for the benefits of others (Lusch, Vargo and Malter, 2006) and applying “specialized competences (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself” (Vargo and Lusch, 2004). A narrow definition of services, it examines all business enterprises, applicable to all marketing offerings (Vargo and Lusch, 2004).
An Understanding of SD-Logic

To maximize customer involvement, and enhance the relationship, the goal is to customize offerings (Vargo and Lusch, 2004) and literature suggests that organisations providing an entire host of services will develop the best relationships with customers (Rifkin, 2000), as the marketer becomes a buying agent (Vargo and Lusch, 2004). A superior understanding of customers allows the most innovative companies to outperform their competitors (Lusch, Vargo and Matler, 2006), thereby increasing customer satisfaction. Technology does not necessarily need to be better for it to be successful, it just needs to be customer focused, One-off transactions evident in a goods context (Vargo and Lusch, 2004) are in direct contrast to S-D Logic and relationship marketing. Consequently, it is worthwhile examining S-D Logic and relationship marketing together.

Vargo and Lusch (2004) provide a number of Foundation Premises (FPs) that highlight how Service Dominant Logic can be addressed. The most important one to this study is the sixth FP, “The customer is always a cocreator of valuer”. The producer and customer are often viewed as separate in marketing, however, when considering SSTs, this is probably most important as they work together. As literature suggests “from a service centred view of marketing with a heavy focus on continuous processes, the consumer is always involved in the production of value” (Vargo and Lusch, 2004: 11). Gronroos (2000, pp. 24–25) explains this in more detail:

“Value for customers is created throughout the relationship by the customer, partly in interactions between the customer and the supplier or service provider. The focus is not on products but on the customers’ value-creating processes where value emerges for customers and is perceived by them, ... the focus of marketing is value creation rather than ... simply distributing ready-made value to customers.”

Of course, this means the customer must learn to use and repair (if necessary) the service, for their own usage situation and behaviour (Vargo and Lusch, 2004) impacting on perceptions of service quality (Bitner, et al, 2002). Most SSTs do not have service recovery systems in place, and the customer must speak to someone over the telephone or in person (Bitner, et al, 2002) increasing dissatisfaction with the technology and potentially the brand. This gives the customer a choice – use a full service vendor, or engage in self-service. If engaging in self-service, the customer must have sufficient skills and core competencies (Vargo and Lusch, 2004) or must have undertaken training on service use to make this self service possible.

Marketing research was initially focused on economic principles, where value was embedded in a physical product, aimed at satisfying the customer (Vargo and Lusch, 2004). Since the 1990s, however, the emphasis on Services Marketing is evident (Dixon, 1990; Vargo and Lusch, 2004). Vargo and Lusch’s paper provides a framework for rethinking marketing, and a lot of the implications in terms of services are relevant to this research. The objective of Vargo and Lusch’s work is to track the evolution of marketing thought (Vargo and Lusch, 2004) from a goods based discipline to one that embraces services.

The service orientated view of marketing sees marketing as a continuous series of processes, largely focused on operant resources, leading to customer satisfaction. Continual feedback from the market alerts the organisation to whether they are doing well compared to competitors (Vargo and Lusch, 2004), and this feedback assists strategic planning (Lovelock, 1991). Furthermore, in many organisations, employees have forgotten who they are servicing (Vargo
When taking on a service centered view of exchange, the goal is to customize offering, and treat the customer as a coproducer, maximizing customer involvement so the product best suits the customers’ needs (Vargo and Lusch, 2004) and marketers should ensure they play a key role in ensuring services are customer centric (Vargo and Lusch, 2004). This particularly relates to FP6, the most important FP for the paper. Literature suggests that organisations providing an entire host of services will develop the best relationships with customers (Rifkin, 2000), as the marketer becomes a buying agent (Vargo and Lusch, 2004). This is perhaps indicative of the decision made by Aussie Home Loans to offer a host of mortgage offerings as a broker, rather than simply providing a mortgage service to customers.

A superior understanding of customers allow the most innovative companies to outperform their competitors (Lusch, et al, 2006). Technology does not necessarily need to be better for it to be successful, it just needs to be customer focused. A service dominant logic can improve productivity, decrease customer alienation, and foster a marketing system aimed at improving society (Lusch, et al, 2006). To adopt a service dominant logic, firms needs to be able to work well with other parties (collaborative capability) and have a good knowledge of the environments (absorptive capability). In order to implement this philosophy, a strong understanding of core competencies is required, to match them with potential (and existing) customers. This is important to consider from a strategy perspective.

**Toward an empirical understanding of SD-Logic**

Since the 1990s, Services Marketing has increased in importance (Vargo and Lusch, 2004) and the use of Self-Service Technologies (SSTs) has increased (Bitner, Ostrom and Meuter, 2002). This paper examines S-D Logic from a SST perspective, particularly utilising the premise (FP6) that the customer is always a co-creator of value (Vargo and Lusch, 2006). Although this relates to SSTs, they are not examined in detail in Vargo and Lusch’s work. The author of this paper has a particular interest in the application and use of Self-Service technologies and hopes to evaluate SSTs in the context of Service Dominant Logic. Ultimately, a focus on processes develops and maintains customer and shareholder value (Vargo and Lusch, 2004). Collaborating with and learning from customers is essential within a service centred logic – value is defined by and co created with the customer (Vargo and Lusch, 2004) obviously having implications in regards to SSTs. This is why FP6 is the most important for the paper.

The producer and customer are often viewed as separate in marketing, however, when considering SSTs, “…the consumer is always involved in the production of value” (Vargo and Lusch, 2004: 11). This means the customer must use and repair the service themselves, based on their requirements (Vargo and Lusch, 2004), impacting on perceptions of service quality (Bitner, et al, 2002), particularly as most SSTs do not have service recovery systems in place (Bitner, et al, 2002). To engage in self-service, the customer must have sufficient skills and core competencies (Vargo and Lusch, 2004) or must have undertaken training on service use to make this self-service possible. Training, however, is often not available.

Services, within the framework that Vargo and Lusch (2004) propose, do not include non-tangible goods, or those that have been offered to enhance a good. As electronic banking is non-tangible, this could be seen to rule out this philosophy in regards to the project, however, further understanding of Service Dominant Logic indicates it is indeed relevant. Services involve the use of human resources for the benefits of others (Lusch, et al, 2006) and applying “specialized competences (knowledge and skills) through deeds, processes, and performances
for the benefit of another entity or the entity itself” (Vargo and Lusch, 2004). A narrow definition of services, it examines all business enterprises, applicable to all marketing offerings (Vargo and Lusch, 2004). Primarily this is concerned with operant resources (resources that produce effects – {Constantin and Lusch, 1994}) rather than operand resources (resources on which an operation or act is performed to product an effect – {Constantin and Lusch, 1994}).

Operant resources are often intangible – such as core competencies and organizational processes (Vargo and Lusch, 2004). Core competencies are higher order resources, compared to assets etc (Hunt, 2000) and can include network partners, skills and knowledge (Vargo and Lusch, 2004). As core competencies include “communication, involvement and a deep commitment to working across organizational boundaries” (Prahalad and Hamel, 1990) it is evident that core competencies are important in business relationships. Even customers are operant resources, as they participate in exchange and coproduction (Vargo and Lusch 2004) a premise that is definitely important when considering SSTs.

Within a service centred dominant logic, the “customer is a coproducer of the service” (Vargo and Lusch, 2004: 7) now evolved to the customer is always a co-creator of value (Vargo and Lusch, 2006). This links in well with the idea of SSTs as the customer is viewed as co-creator at each stage of the relationship, however SSTs are not examined in detail in Vargo and Lusch’s work. Within a goods context, discrete one-off transactions are viewed as central (Vargo and Lusch, 2004). This is in direct contrast to service dominant logic, and relationship marketing, which is why the two bodies should be examined together. Despite the focus of relationship marketing theory and S-D Logic in the literature, it is accepted that very few studies examine SSTs in a B2B context (Pujari, 2004) and to the best of our knowledge; none consider this use from a relationship-marketing and Service Dominant Logic viewpoint.

Some authors have questioned how organisations’ adoption of S-D Logic can be operationally measured (Gray, Matear, Deans and Garrett, 2007). Vargo (2007) agrees that empirical investigation is required, but warns researchers to carefully implement any research on S-D Logic. To explore S-D Logic in the context of Internet Banking with Business customers, a series of interviews have been conducted. Twenty-five business-banking customers were interviewed to examine the use of Internet Banking in their businesses and the impact on their organizational practices. For this study, one of the top four Australian banks was interviewed and questioned on S-D Logic premises. It was evident that S-D Logic principles needed to be more formally addressed within the organisation, however, some Foundational Premises (FPs) were informally addressed in terms of the bank’s strategy. From a customer perspective, respondents indicated that the use of internet banking was undertaken due to convenience, rather than feeling forced, however there were some service delivery problems needing to be addressed. Through the results from these interviews with business customers and the Bank, quantitative research will now be undertaken to empirically test the premise of S-D Logic in this context.

**Developing scales for testing S-D Logic**

In developing the quantitative stage of any marketing study, it is essential to examine existing research scales and adapt them where appropriate to answer the research question. The author of this paper has evaluated many scales in marketing in the development of the survey, but found that many of the scales were not relevant. For the research project, both qualitative and quantitative research is being conducted. The qualitative stage has been completed and
quantitative research will shortly be undertaken. Both relationship marketing and Service Dominant Logic will be examined in the survey. The survey firstly examines the customer’s relationship with their service provider (a bank in this context, but this is interchangeable) and then, using the funnel approach, moves into more specific questions about the service delivery, relationship marketing (trust, commitment etc) and finally concludes with S-D Logic questions. Although some pre-existing scales have been created, for the purpose of this paper, only new scales have been developed. Furthermore, emphasis is on all FPs, but a particular focus on the co-creation of value is provided. For example, some questions regarding S-D Logic include: (note: these are evaluated on a five point Likert scale)

<table>
<thead>
<tr>
<th>Statement</th>
<th>Comment regarding scale item</th>
</tr>
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<tbody>
<tr>
<td>My service provider (bank) makes me feel that I am involved in developing services with the bank</td>
<td>Relates to FP6: The customer is always a co-creator of value</td>
</tr>
<tr>
<td>My service provider is a good source of knowledge</td>
<td>Relates to FP4: Knowledge is the fundamental source of competitive advantage</td>
</tr>
<tr>
<td>I believe in the importance of service</td>
<td>Relates to FP5: All economies are service economies</td>
</tr>
<tr>
<td>My service provider (bank) is customer orientated</td>
<td>Relates to FP8: A service centred view is customer orientated and relational</td>
</tr>
<tr>
<td>My service provider (bank) has a superior understanding of my needs compared to its competitors</td>
<td>A superior understanding of customers allows the most innovative companies to outperform (Vargo and Lusch 2004)</td>
</tr>
<tr>
<td>My service provider (Bank) customises offerings to meet our needs</td>
<td>To maximize customer involvement, and enhance the relationship, the goal is to customize offerings (Vargo and Lusch, 2004)</td>
</tr>
<tr>
<td>My service provider provides a wide range of services</td>
<td>Literature suggests that organisations providing an entire host of services will develop the best relationships with customers (Rifkin, 2000),</td>
</tr>
<tr>
<td>My service provider (bank) focuses on establishing excellent relationships with my business</td>
<td>Relates to FP8: A service centred view is customer orientated and relational</td>
</tr>
<tr>
<td>My service provider believes in the importance of providing value to me</td>
<td>The customer is endogenous to the value creation process (Vargo and Lusch, 2006: 44)</td>
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</table>

Results for the quantitative stage of the study will go a long way toward evaluating the method of testing S-D Logic. If the results appear valid and reliable, they can be utilised by other authors attempting to test customer perceptions of S-D Logic. Nevertheless, this author believes both qualitative and quantitative methodology is important in testing S-D Logic. A particular focus on qualitative research will gain a greater understanding of the framework. This is particularly important because there has been limited testing to date, and therefore exploratory work is needed. Quantitative scale development is also required due to the importance of the work in marketing over recent years. While empirical testing of S-D Logic is welcome, researchers are cautioned in how they test it, because the use of S-D Logic can improve firm performance, even if not utilised in practice (Vargo, 2007). This paper does not list a series of scales for testing Service Dominant Logic, but it does provide scales, which will contribute to an understanding of the Foundation Premises of Service Dominant Logic.
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