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**EXPANDING UNDERSTANDING OF SERVICE  
EXCHANGE AND VALUE CO-CREATION:  
A SOCIAL CONSTRUCTION APPROACH**

Professor Dr. Bo Edvardsson  
Business School at Karlstad University  
Universitetsgatan 2, 651 88 Karlstad, Sweden  
Bo.edvardsson@kau.se

Associated Professor Dr. Bård Tronvoll  
Hedmark University College  
2418 Elverum, Norway  
bard@tronvoll.no  
Mob. +4790785568

Lecturer (Assistant Professor) Dr. Thorsten Gruber  
Manchester Business School at University of Manchester  
Booth Street West, Manchester  
thorsten.gruber@mbs.ac.uk

# Expanding understanding of service exchange and value co-creation: a social construction approach

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## **ABSTRACT**

According to service-dominant logic (S-D logic), all providers are *service* providers, and service is the fundamental basis of exchange. Value is co-created with customers and assessed on the basis of value-in-context. However, the extensive literature on S-D logic could benefit from paying explicit attention to the fact that both service exchange and value co-creation are influenced by social forces. The aim of this study is to expand understanding of service exchange and value co-creation by complementing these central aspects of S-D logic with key concepts from social construction theories (social structures, social systems, roles, positions, interactions, and reproduction of social structures). The study develops and describes a new framework for understanding how the concepts of service exchange and value co-creation are affected by recognizing that they are embedded in social systems. The study contends that value should be understood as value-in-social-context and that value is a social construction. Value co-creation is shaped by social forces, is reproduced in social structures, and can be asymmetric for the actors involved. Service exchanges are dynamic, and actors learn and change their roles within dynamic service systems.

**Keywords:** service-dominant logic, service exchange, value co-creation, social construction theories, structuration theory, social interaction, service system

## INTRODUCTION

Service-dominant logic (S-D logic) (Vargo and Lusch 2004, 2008a, 2008c, 2008b; Vargo 2009b) is an emerging school of thought within marketing and management that is open for further elaboration, refinement, and development. S-D logic holds that all providers are essentially *service* providers, who exchange service for service as the fundamental basis of exchange (Vargo and Lusch 2004). Vargo and Lusch (2008c) define service as the use of resources for the benefit of another party, which forms the basis for all exchange. S-D logic is underpinned by 10 fundamental premises (FPs), among which premise number 10 suggests that value is always co-created and is uniquely and phenomenologically determined by the beneficiary. Consequently, value is regarded to be idiosyncratic, experiential, contextual and meaning-laden (Vargo and Lusch 2008a; Vargo 2009a).

In focusing on the integration of operand and operant resources to support the activities and interactions through which a service occurs, S-D logic posits both providers and customers as essentially being *resource integrators* (Vargo and Lusch 2006; Vargo 2008) acting in networks embedded in service systems. Moreover, because S-D logic views goods as being merely vehicles for the provision of service, the provider cannot unilaterally create value but rather can only offer value propositions that provide the prerequisites for value (Flint 2006). In making the customer intrinsic to value creation (Merz et al. 2009), S-D logic adopts a process orientation rather than an output orientation (goods and services). This process requires the involvement of the customer in the co-creation of value. It goes beyond using the provider's output, such as products, services or information, to include resources in the customer's network as well (Moeller 2008; Vargo and Lusch 2008c).

Against this background, the present study seeks to broaden the current understanding of service exchange and value co-creation by applying some fundamental concepts of social construction theories (Berger and Luckmann 1967; Giddens 1984; Linton 1936; Merton 1957) to the framework of S-D logic outlined above. In doing so, the study notes that service exchange and perceptions of value are embedded in social systems in which customers and companies have already established positions and roles. These roles have implicit implications for how people perceive the norms and values of social reality, including their thinking and behavior with respect to the co-creation of value.

It can reasonably be argued that S-D logic is inherently compatible with social construction theories because, as Pels et al. (2009, p. 328) have observed, S-D logic essentially regards marketing as "... a social and economic process, and resources as 'becoming', not 'being'". However, as Pels et al. (2009) go on to observe, the social implications of S-D logic have not been fully explored, because research in this area has tended to focus on the central issue of value-creation between customers and providers, rather than the social setting in which this co-creation occurs. We develop this view further by emphasizing that customers are influenced by societal norms and values, which they also produce and reproduce through interaction with the world in which they live (Giddens 1984). By applying concepts from social construction theories—such as social structures and systems, interactions, positions and roles—to S-D logic, we position the customer in a social context as an intersubjective actor and resource integrator rather than as an individual actor. The social context constitutes a system in which service is exchanged for service and for how value is co-created. Different customers may perceive the same service differently, and the same customer might perceive the service differently between occasions in a different social context.

The aim of this article is to build on the existing S-D logic mindset and expand the understanding of service exchange and value co-creation by applying key concepts from social construction theories (i.e., social structures and systems, roles, positions, interaction and reproduction) to S-D logic. In doing so, we provide useful insights for the ongoing scholarly exercise of elaborating, refining and developing the important new marketing framework of S-D logic.

The remainder of the paper is organized as follows. The theoretical framework for the study is presented in the following section. This consists of two sections: (1) the principles of S-D logic; and (2) the principles of social construction theories. The study then describes how the key concepts of social construction theories relate to service exchange and value co-creation in a social context. The study then suggests four propositions for applying the key concepts of social construction theories to S-D logic, and how these relate to possible avenues for future research. The paper concludes with a summary of the main contributions and limitations of the study, and directions for future research.

## THEORETICAL FRAMEWORK

### Principles of service-dominant logic

As noted in the Introduction, the basic principles of S-D logic that are relevant to the present study can be summarized as follows. Service-dominant logic essentially states that service—defined as the application of resources linked to competence (knowledge and skills) for the benefit of an actor—is the basis of economic exchange. A key assumption in Vargo and Lusch’s (2004) S-D logic is that resources do not “have” value per se; rather, value is co-created with customers when resources are used. Consequently, Vargo and Lusch (2008a) state that value is uniquely and phenomenologically determined by actors on the basis of value in a certain context. Further, S-D logic suggests that value is always co-created with the customer during interaction with and activation of a set of resources (Vargo and Lusch 2004, 2008c). That is, both parties—the company and the customer—become resource integrators. The co-creation process at a university, for example, is the learning process, while the service is learning, rather than teaching or educational processes. Both student and professor use their resources in the co-creation of learning, and they receive support from resources in their network, which may include other students, professors, librarians, books and ICT systems.

Service-dominant logic posits goods and services as essential resources that are used in service provision—that is, customers evaluate the experience of goods and services as value-in-context (Vargo and Lusch 2008a). By introducing S-D logic, exchange is no longer bound merely by the transaction (Lusch et al. 2007; Vargo 2008). Vargo (2008, p. 214) argues that a “firm activity is best understood in terms of *input* for the *customer’s resource-integrating, value-creation activities* rather than it is in terms of its *own integration of customer resources for the “production”* of valuable output”.

Two broad categories of resources can be distinguished: (1) operand resources, which are typically physical (raw materials or physical products); and (2) operant resources, which are typically human (skills and knowledge of customers and employees), organizational (routines, cultures, competencies), informational (knowledge about markets, competitors, and technology), and relational (relationships with competitors, suppliers, and customers) (Hunt and Derozier 2004). Operand resources tend to be static in nature, while operant resources are dynamic and can be rejuvenated and replenished.

Competitive advantage is primarily created through operant resources, rather than through operand resources, because knowledge and skills operate on resources to solve problems, fulfill needs, and produce a favorable customer experience (Vargo and Lusch 2004). Service-dominant logic thus establishes a framework of reciprocal service provision in which value is dynamically co-created with customers as either “value-in-use” (Vargo and Lusch 2004) or “value-in-context” (Vargo 2008). However, research has implicitly regarded such “value” as an individualized (or even unique) perception that is apparently independent of the social context in which the reciprocal service provision takes place. In contrast, according to social construction theories, all activities, including value co-creation, take place within social systems; as such, value co-creation extends beyond the individual and subjective setting. Indeed, value itself must be understood as part of the collective social context.

The values associated with meaning and sign systems are briefly discussed in the literature on S-D logic (Vargo and Lusch 2008c, 2008b), but it is the contention of the present study that contemporary understanding of S-D logic can be elaborated, refined, and developed by paying more attention to the social context in which it operates. For example, a business dinner differs from a family meal in terms of location, food, and beverages because the roles of the people involved and because the whole social context of the two occasions is quite different. The social drivers associated with the two occasions thus become integral to differing perceptions of service and value-in-context.

The research on S-D logic would benefit from explicitly viewing the roles of operant and operand resources as embedded in social systems. Similarly, although S-D logic posits actors as “resource integrators” (Vargo and Lusch 2008c, FP 9), it can be put forward that such integrators are also invariably part of a social context, which actors also construct. This social context implies norms and values that exert a profound influence on both the service exchange and the value co-creation process. The actors’ perceptions of value and behavior in utilizing resources are determined by the boundaries of the social systems in which they are operating and their positions and roles within those boundaries. For example, the value-in-use that can be obtained by a wireless broadband service will obviously be restricted by the lack of a computer or telephone line (operand resources) and/or a lack of technical knowledge and skills (operant resources). Extrapolating from this simple example, it can be argued that both the

operand resources and the operant resources of every service exchange are embedded in a wider social system; drawing closer attention to this reality in the contemporary treatment of S-D logic is the subject of interest of the present study.

### **Principles of social construction theories**

Social construction theories are used to interpret the social world and to enhance understanding of how actors on a societal, group and individual level create, realize, and reproduce social situations and structures (Archer 1995; Berger and Luckmann 1967; Giddens 1984; Goffman 1963; Linton 1936; Mannheim 1936; Merton 1957). On the basis of social structures and systems, and on the interaction and continuous reproduction of these social structures, it is possible to understand the social reality and thus also service systems and value co-creation. Researchers in social sciences have developed theories about the social construction of reality (Archer 1995; Berger and Luckmann 1967; Gergen and Davis 1985; Gergen 2009). In this debate, Berger and Luckmann (1967) have raised the discussion of a subjective and intersubjective reality versus an objective reality. They noted that all knowledge is developed, transmitted, and maintained in social situations.

The origin of social construction theories can be traced to the interpretative social science paradigm (Berger and Luckmann 1967; Blumer 1969; Goffman 1963; Levin and Levin 1988) or the dialogical paradigm (Tronvoll and Edvardsson 2008), the latter of which is primarily concerned with explaining the process by which individuals explain the world in which they live. These paradigms have their philosophical roots in hermeneutics and phenomenology (Boland 1985). This means that the only way to understand reality is as a social construction that can be articulated as a result of human sensemaking activities (Walsham 1993). The paradigms thus describe the complexity of human sensemaking as the situation emerges (Kaplan and Maxwell 1994).

Similarly, social construction theories assume that humans have the potential to learn, adapt and make their own choices. Meaning is to be understood within social structures and systems. The explicit inbuilt meaning is dependent on how humans make sense of social interactions. To understand social meaning, it is necessary to recognize the unique features of specific contexts (Hoffman 1990), and through this, customer value. Peñaloza and

Venkatesh (2006) suggest that the term meaning captures both a phenomenological interpretation and a cultural context. Meaning is linked to language and social interactions, as well as to roles and positions within a social system. In this regard, Berger and Luckmann (1967) have contended that all knowledge is developed, transmitted, and maintained in social contexts and systems.

Social construction theories have relevance to marketing because they help to explain how shared understandings constitute a “social consensus” that shapes the perceptions and interactions of individuals (Deighton and Grayson 1995). These shared understandings are the threads that constitute the fabric of social reality (Deighton and Grayson 1995). They provide the context within which the activities of individuals become meaningful, and they “make up the prescriptive and proscriptive rules for social conduct and meaning ascription” (Deighton and Grayson 1995, p. 661). An example of a social consensus would be the expected behavior of restaurant guests (e.g., not to put their feet on the table, not to be rude to the waiter, to pay before leaving the restaurant). Using Giddens’ (1984) structuration theory, we are able to explain how the activities of individuals are influenced by these rules of social conduct, and how individuals reproduce them by acting in accordance with them.

Occasional references to social construction theories have appeared in the marketing literature. For example, O’Guinn and Shrum (1997) drew on social construction theories in noting that consumers construct their realities from the most readily available information. Richins (1994) referred to social construction theories in suggesting that the meanings of marketing images and symbols are shaped and reinforced through the socialization that comes from participation in shared activities. Palmer and Ponsonby (2002, p. 186) used social construction theories to understand the development of new marketing paradigms, and to emphasize “the difficulty of separating objective reality from personal interpretation”. According to these authors, because unwritten socio-cultural meaning systems define social behavior, new marketing initiatives must take account of the social context in terms of time, place and role. Similarly, Deighton and Grayson (1995) used social construction theories to identify five stages in the unfolding “seduction” of marketing. Holt (1995) utilized social construction theories to investigate consumption practices, while Blois (2003) examined the relationship between a major retailer (Marks and Spencer) and one of its key suppliers. Grewal and Dharwadkar (2002) drew on Berger and Luckmann’s (1967) seminal work to develop a comprehensive framework

of the institutional environment in which marketing channel research is conducted. Finally, in the context of the present study, it is noteworthy that Penalosa and Venkatesh (2006, p. 303) contended that *value* is a social construction; in this regard, they noted that this social construction of value occurs “prior to, during and after the actual exchange and use(s) take place”.

### **Applying key concepts in social construction theories to service-dominant logic**

As noted above, the fundamental concepts of social construction theories are social structures and systems, positions and roles, social interactions, and the reproduction of social structures, as a result of a process of ongoing internalization and externalization through interpersonal interactions. It is the contention of the present study that these concepts are important in shaping the social reality of actors engaged in exchanging service for service as they jointly co-create value in service systems. In other words, value co-creation necessarily follows *social structures* and takes place within *social systems* in which the actors (customers and companies) adopt certain *social positions and roles* as they *interact and reproduce social structures*. Each of these elements is discussed in more detail below.

#### ***Social structures and systems***

Various definitions of *social structures* have been proffered. Mannheim (1936, p. 45-46) defined a social structure as “the web of interacting social forces from which have arisen the various modes of observing and thinking”. Radcliffe-Brown and Forde (1950, p. 82) emphasized the role of human beings, defining a social structure as an “arrangement of persons in relationships institutionally defined and regulated”. Schooler (1996, p. 327) focused on the roles of people, defining a social structure as “the patterned interrelationships among a set of individual and organizational statuses, as defined by the nature of their interacting roles”.

The present study adopts Giddens’ (1984) terminology in understanding social structures as empirically unobservable rules and resources that directly influence social activities. In his theory of structuration, Giddens (1984) distinguished three dimensions in a social system: (1) “signification” (meaning); (2) “domination” (control); and (3) “legitimation” (morality). With regard to the first of these (“signification”), Giddens (1984) contended that individuals

communicate during social interaction by drawing upon interpretive schemes and semantic rules to understand the meaning of the communication, and in so doing, they reproduce the structure of signification. With regard to the second (“domination”), individuals exercise power by drawing upon the unequal distribution of resources (tangible and intangible) to reproduce the extant structure of domination. With respect to the third dimension (“legitimation”), individuals refer to social norms and values to evaluate the legitimacy of other people’s behavior, thus reproducing the “legitimate” structure.

Giddens (1984) regarded the observable regularities of social systems as being caused by the unobservable social structure that influences the activities of actors. However, such social systems exist only as long as they are constantly re-created through social activity. In this regard, it is important to note that individuals cannot create social systems; rather, they can only re-create or transform systems that are “already made in the continuity of praxis” (Giddens 1984, p. 171).

Language is an important element of social systems, and in particular it plays a significant role in the process of service exchange and social interaction. A linguistic and communicative system takes place in the co-creation, and it could be said that language becomes shared activities (Gergen 1985). Customers participate in their own construction of the world by reproducing the language, other forms of symbolic actions and the service interactions. Language and dialogue are in themselves conducted through social interpretation and intersubjectivity. By using language (following certain language rules), individuals thereby always automatically reproduce the language as a whole (Giddens 1988).

In the literature on S-D logic, the term “service system” appears frequently in the context of service exchange. Such a “service system” has many similarities with the “social systems” described above. According to Spohrer et al. (2007, p. 2), a service system is a “value-co-production configuration of people, technology, other internal and external service systems, and shared information (such as language, processes, metrics, prices, policies, and laws)”. Examples of service systems are cities, call centers, hospitals, and universities; the largest service system is the global economy, while the smallest is the persons engaged in service exchange. These systems survive, adapt and evolve through the exchange and application of resources with other systems. According to Vargo et al. (2008, p. 146), “service systems engage in exchange with other service systems to enhance adaptability and survivability, thus co-creating

value—for themselves and others”. Like social systems, service systems adapt and survive through interaction and the integration of resources that are mutually beneficial (Vargo et al. 2008). However, it is the contention of this study that explaining the role of social structures in governing the service exchange within service systems will contribute to further developing S-D logic in general and deepening the understanding of service exchange and value co-creation in particular.

### ***Social positions and roles***

A social position is an arrangement consisting of a set of roles that define the expected and actual behaviors of persons within a social system (Merton 1957; Schooler 1996). In addition to the implied roles, a position determines who or what is connected to the actor who occupies the position. In terms of service provision, the concept of “position” provides an indication of the positions that are designed for the customer within the provider’s service system, and the roles that the customer is willing and able to take within the provider’s social system. As Grönroos (1994) has noted, all exchanges and social interactions create certain positions for the actors within a network. According to Lusch et al. (2006), marketers have traditionally positioned themselves as being responsible for disposing of the output side of the firm. In contrast, S-D logic suggests that the best way to achieve the desirable position of offering efficient and effective marketplace solutions (Hunt 2000) is through *collaborative competence*, which enables a provider to adapt to dynamic and complex environments by absorbing knowledge from the environment, customers and value networks (Lusch et al. 2007). As noted above, S-D logic holds that a provider cannot create value for the customer; rather, providers can only position themselves through value propositions (Lusch et al. 2008).

The term *role* refers to socially defined expectations of individuals’ behaviors in particular social positions (Colton 1987). A role provides an individual with a complex set of identities, which become the source of individual interpretations of social situations (Blumer 1969; Stryker 1967). Position and role are thus closely related; however, a given role can fluctuate with changing social structures (and hence changing expectations), while position is not susceptible to such fluctuations. According to the goods-dominant logic (G-D logic), value is created by the provider and is distributed in the marketplace through the exchange of goods and money. From this perspective, the roles of “producers” and “consumers” are distinct,

with value creation being understood as an intrinsic aspect of the role of the provider (Vargo and Lusch 2008c). In contrast, according to S-D logic, the roles of producers and consumers are less distinct; moreover, value is co-created during interactions between providers and beneficiaries through the integration of resources and the application of competencies (Vargo et al. 2008). According to Lusch et al. (2008, p. 6): “The contextual perspective suggests that what firms provide should not be understood in terms of outputs with value, but rather as resource inputs for a continuing value-creation process”. Vargo and Lusch (2008a) contended that analysis of value creation in terms of a service system blurs the distinction between the role of the producer and the role of the consumer. According to S-D logic, all economic and social actors adopt the role of resource integrators (Vargo and Lusch 2008a, FP 9), although the customer is the prime integrator of resources, and the role of the provider is to support customers in co-creating value in context. It is the contention of the present study that this process not only involves differing knowledge and skills, but it also involves issues of social positions and roles in service systems.

### ***Interaction/reproduction of social structures***

All social interactions involve symbolic interactions, as individuals attach symbolic meaning to objects, behaviors, themselves, and others (Gopal and Pushkala 2000; Howard 2000; Mead 1934). As Colton (1987, p. 346) observed: “... human society is characterized by the use of symbols and meanings, and ... the meanings of various social and non-social objects or symbols are derived through the interaction process”. The literature on symbolic interaction has thus focused on how individuals interpret and make sense of their own social situations (Fine 1990; Prasad 1993), which is understood as a dynamic and emergent phenomenon derived from actual interaction processes (Gopal and Pushkala 2000; Schutz 1967). In terms of marketing, Flint (2006) has utilized symbolic interaction to analyze how customers generate value perceptions. According to this analysis, value is not static; rather, as customers engage in social interactions, value “emerges and morphs over time for individual customers” (Flint 2006, p. 356). Social situations, or moments of truth, are created by actors (Normann 1984) during social interactions. When customers or other actors are initiating interaction and co-creation, social construction theories emphasize that language is an important element of social structures. Abstracting from this, we can argue that communication is the core of social interaction and is a vital function in the transfer of information between the provider and the customer, as well as between

customers. In summary, when customers and providers interact, they do so on the understanding that their respective perceptions of reality are related. Acting upon this understanding, their shared knowledge of reality becomes reinforced.

Social interactions are learned and are reproduced in social structures. Social interactions embed triggers that give direction to customers, employees, or other actors, and may thus have a major impact on co-creation of service and value-in-context. Based on social structures, interaction, and the continuous reproduction of social structures, it is possible to understand the social reality. Individuals interact within social systems influenced by social structures, and reproduce social systems. The term *reproduction* refers to the perpetuation of a social system through processes of renewal (Lockwood 1998). Harris and Young (1981, p. 113) have referred to “the overall reproduction of a particular social formation”, while Edholm et al. (1977, p. 105) have noted that the structure of the relationships among the actors “... have to be reproduced in order that social reproduction as a whole can take place”. Beneria (1979, p. 206) adopted a resource-based view of social reproduction by pointing out that it implies the “transmission of control of resources from one generation to the next”. The implication of such notions of social reproduction is that social structures are both the conditions and the consequences of social interaction. Berger and Luckman (1967) argued that actors who interact in a social system form “mental models” of each other’s behaviors; over time, these models eventually become habituated into reciprocal roles that the actors play out in relation to each other, thus reproducing and institutionalizing social interactions. In this process of institutionalization, meaning is embedded in the social system and in society in general. According to this view, the individual’s values, beliefs and norms regarding reality become embedded in the institutional fabric of society. Social reality and social forces are thus said to be socially constructed. In terms of a service exchange, customers and providers draw upon the rules and resources (social structure) that enable and constrain mutual service provision. They thus draw upon a social structure, which they effectively reproduce in their service exchange. This process ensures the reproduction—and sometimes the transformation—of the relationship as part of the social system, across time and space.

### ***Summary of application of social construction theories to S-D logic***

Figure 1 illustrates how current thinking on S-D logic (especially with regard to service exchange and value co-creation) can be expanded by incorporating aspects of Giddens' (1984) structuration theory, thus placing service exchange, service systems, and value configuration in the wider social context.

At the center of Figure 1, the service exchange takes place between two parties (“customer” and “provider”), who are both resource integrators and beneficiaries of the exchange. This service exchange takes place in a wider value-configuration space because both parties are also involved in wider networks. These networks, and the beneficiaries themselves, can be understood as service systems that “survive, adapt, and evolve through exchange and application of resources—particularly knowledge and skills—with other systems” (Vargo et al. 2008, p. 146).

The dashed ellipses in Figure 1 (around all the service systems and the service exchange) indicates that the service exchange between the beneficiaries and the service systems are not separated from, but always embedded in, a wider social system that has an impact on them. Functional social systems are characterized by having social structures with clear purpose (meaning), role clarity (control), and transparency (moral rules) (Giddens 1984).

During mutual service provision, all value co-creating actors draw upon a functional service system in general, and upon rules and resources (that is, social structures) in particular, which enable and constrain the service exchange (illustrated by the dotted arrow emanating from “service structure”). This process then ensures the reproduction (and sometimes the transformation) of the social structure (illustrated by the dotted arrow emanating from “service exchange”). The arrows emanating from “service exchange” and “social structure” are dotted, as well as the square around “social structure” to indicate that both the structuration process and the social structures are unobservable.

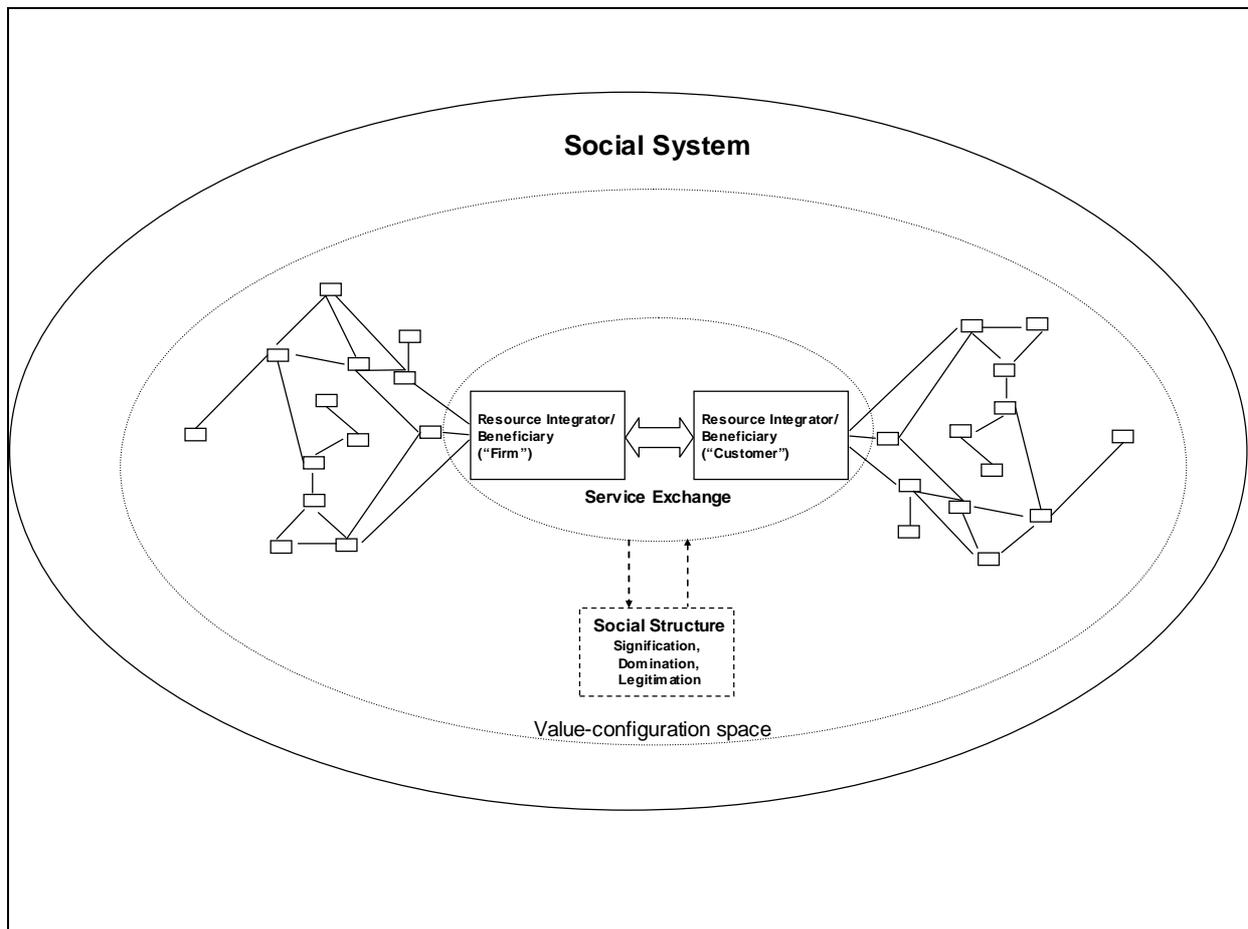


Figure 1 Expansion of S-D logic by incorporation of social structure and service/social systems (adapted from Vargo (2009b, 2009a)).

## PROPOSITIONS FOR APPLYING KEY CONCEPTS FROM SOCIAL CONSTRUCTION THEORIES TO S-D LOGIC

Four propositions are suggested for applying key concepts from social construction theories to S-D logic. Each of these propositions is discussed in more detail below.

### **Proposition 1: Value has a collective and intersubjective dimension and should be understood as value-in-social-context**

Vargo (2008) suggested that the term “value-in-use” should be replaced by the term “value-in-context”, to reflect the fact that value is interactive, relativistic, and meaning-laden in a given context. However, despite this recognition of the contextual nature of value, the literature on S-D logic may be developed further by paying explicit attention to the social

structures, systems and social forces that have a major impact on such value-in-context. The present study thus contends that “context” includes more than the resources that have been the focus of much of the literature on S-D logic. In other words, resources themselves should be understood as social constructions. Moreover, the actors involved in a service exchange use these resources within a social system. In short, social forces have a major impact on value co-creation, and on how value is defined and perceived.

According to social construction theories, the customers involved in the social exchange process are active in creating meaning (and thus value) from the process (Cheung 1997). Social construction theories thus contend that identical interactions between a customer and a provider might imply different social and personal meanings, depending on how such meanings are defined and understood in different social systems. The term “value-in-context” thus refers to a multifaceted phenomenon that is uniquely and socially constructed between particular subjects, including how value is perceived. Nevertheless, the existence of social structures and systems means that individual customers have many things in common, and they are often guided by similar social forces. In some instances, collective social forces will play a dominant role, but in other instances individual needs, preferences, habits and values will exert a strong influence during service exchange and value co-creation.

In this regard, Deighton and Grayson (1995), taking a social construction theories approach, have contended that the value of products depends upon the degree of social consensus about such value. According to this view, value is not only determined by individual perceptions of value-in-use, but also by wider social perceptions. The present study therefore contends that value-in-context should be understood as value-in-*social*-context. This perspective recognizes that an individual’s value perceptions are, at least in part, dependent on the relative position of the individual within the wider social context. For example, a person living in a village will accord greater value to a small car if no one else in the village has a car than if everyone else in the village possesses a large car (Alvesson 1994). In contrast, some service experiences (such as concerts or football games) might be considered more valuable when shared with a large number of other people. The notion of value-in-social-context is also apparent in the case of people valuing certain luxury items because other people desire them, but cannot afford them. The wider social context again influences the value perceptions of customers (value-in-social-

context). In summary, customers always compare themselves with others, and value perceptions are therefore always relative. As Ariely (2008, p. 3) observed: “Most people don’t know what they want until they see it in context ... Everything is relative”.

How can these new insights help organizations? Let us illustrate with an example from the performing arts industry. Theaters and the performing arts in general, are guided by social norms and values that have an impact on how theater productions are performed. They need to reflect current trends, lifestyles, needs, preferences and interests of both existing and potential audiences (Scheff Bernstein 2007). However, at the same time, performing arts organizations are also expected to challenge established social norms. This leads to the questions: What, then, constitutes good art or a good performance? What is value in such a (social) context, and how is it co-created and with whom? We argue that these questions cannot be dealt with if we only consider operand and operant resources; we also need to pay attention to, and develop a deeper understanding of, the structural dimensions in social systems (meaning, control and moral rules) and other actors in the surrounding social system. Social structures and actors, positions and roles are an important frame of reference, and the social context shapes the social system in which performing artists interact with their audiences and create experiences that touch them. Individual opinions may deviate from those of the majority, but the collective view often has a major influence on the development of what we, as individuals, perceive and communicate as good art. This illustrates that societal norms, values and habits should be considered in order to understand what is shaping various actors’ value perceptions as a basis for developing and managing value propositions, resource configuration as well as S-D logic informed marketing decisions.

### ***Directions for further research***

The principal research implication of the proposition that *value should be understood as value-in-social-context* is that more empirical studies are required on how service structures and systems form the basis for value co-creation in different social contexts, both at the collective and individual level. Empirical studies are also required on how value is perceived by different customers in different service contexts. For this purpose, researchers could seek to replicate the experiments conducted by behavioral economists, such as Ariely (2008), which

revealed the importance of the context on decision-making and value perceptions in various marketing settings.

**Proposition 2: The way in which resources are assessed depends on the social context**

Goods-dominant logic views the producer as the creator of value, and the customer as a user or destroyer of value, while S-D logic views both parties as resource integrators (FP 9) who jointly co-create value (FP 6). Although S-D logic emphasizes the primacy of operant resources as the fundamental source of competitive advantage (Lusch et al. 2007), resources are valuable only within particular social contexts. Such human resources are always embedded in socially constructed systems, and different customers do not necessarily use and assess resources or configurations of resources in the same way.

In designing the best service systems for service exchange, it is therefore necessary to pay attention to the actors' positions, roles and social interactions within social structures when designing resource constellations to realize value propositions. The customer's position within a social system, their role, their way of interacting, and the language used all represent resources, and these should be included when designing resource constellations to facilitate the realization of value propositions. For example, passengers in an aircraft are more likely to rely on information announced by the captain than on the same information provided by a cabin attendant; in other words, the provider's position within a professional group determines the meaning and value accorded to the service.

***Directions for further research***

The principal research implication of the proposition is that *resources are assessed on the basis of value in a social context* is that empirical studies are required in which value is co-created through the utilization of resources are examined in a variety of social contexts. For example, healthcare resources could be assessed by people representing different socio-cultural groups with a variety of positions, roles and knowledge about the healthcare system. Such a study could assess similarities and differences with regard to how different customers utilize their own resources, and how they assess the resources of the healthcare system. The outcome of such a study could be used to improve the design of healthcare processes that ensure more effective

resources utilization. For example, it could help in tailoring patient information for different target groups.

**Proposition 3: Service exchange and value co-creation can be asymmetric**

S-D logic emphasizes mutual service provision and value co-creation for the benefit of the actors involved (Vargo and Lusch 2008b). These benefits are not at all times shared equally as the social consensus in the marketplace is always a *compromise* between what the customer wants, what the provider wants, and what the institutionalized reality allows (Deighton and Grayson 1995). Peñaloza and Venkatesh (2006) have described this phenomenon in terms of the power relationships that exist among the various actors involved (customers, providers, and perhaps consumer groups). In particular, some individuals can be expected to behave opportunistically in any economic interaction that involves asymmetrically distributed information (Williamson 1973). Utilizing social construction theories, Deighton and Grayson (1995) contended that transactions can be arranged on a continuum: from trade with mutual gain, to persuasion, to fraud, and ultimately to theft by force. Deighton and Grayson (1995) also noted that ambiguity and asymmetry are important elements in “seduction”, which they defined as the transformation of a customer’s initial resistance to a course of action. Indeed, Deighton and Grayson (1995) contended that, without ambiguity, marketing has no role to play. The contrasting positions of the company and the customer (i.e., the company’s profit seeking motive versus the customer’s desire for fair value for money) may make service exchanges with fair gains for both parties difficult to achieve, especially if companies have information that customers do not have access to (information asymmetry). This may be illustrated with an example from a company that we are familiar with that sells branded stockings. This company decided to price stockings of the same quality according to the perceived luxury of the box: the stockings packaged in the more luxurious looking box were considerably more expensive for customers to buy than those in the regular box. Given that the company’s production costs for the stockings in each box were the same, and that it was only slightly more costly to produce the luxury box than to produce the regular version, the company’s profits attributable to the stockings in the luxury box were significantly higher than the profits on the stockings in the regular box. This example illustrates how companies can use information asymmetry to their advantage. If customers knew that the significantly higher retail price that they paid for the stockings

in the luxury box was not an accurate or proportionate reflection of the higher production costs of the luxury packaging, then they may have reconsidered their purchase decision. In other words, customers may perceive the luxury box to be more valuable than might be implied in the production costs.

Customers' value perceptions are also (subconsciously) influenced by the way companies present alternative offerings in a certain (social) context. For example, restaurants often deliberately include an entrée with a very high price in their menus, well aware that few people will buy it. This offering, however, provides a comparison and decision context that makes customers then confidently choose (Ariely, 2008).

The examples show the role information asymmetry plays for customers' value perceptions and behaviors. S-D logic informed marketers should be able to make better decisions, also in specific areas such as pricing, resulting in more favorable customer experiences and higher profitability for the company in the long term as customers may find out about companies' deceptive strategies and then may decide to switch to another provider.

#### ***Directions for further research***

The research implication of the proposition that *service exchange and value co-creation can be asymmetric* is that empirical research should pay more attention to issues of power and information asymmetries, including such phenomena as opportunism, deception, persuasion and seduction. Future research could focus on how power relationships influence service exchange and value co-creation, and how various actors perceive the value being created in the service exchange. Concepts such as role conflict and role ambiguity (House and Rizzo 1972; Kahn et al. 1964) should also be taken into account within S-D logic. For example, service personnel can be faced with situations in which it is difficult to facilitate a mutually beneficial service exchange, because specific customer demands (for example, a desire for specific customization) contradict the company's rules and regulations. These conflicting demands can then cause role conflict for employees (Wetzels et al. 1999), which can in turn lead to employee burnout tendencies (Singh and Goolsby 1995).

#### **Proposition 4: Service exchanges and actors' roles are dynamic in adaptive service systems**

According to S-D logic, the co-creation of value is inherently relational. In this regard, social construction theories can enhance understanding of service exchange and value co-creation, since it holds that all roles, positions, structures, systems and social interactions are dynamic in nature. Thus, incorporating Giddens' (1984) structuration theory, this means that all service systems are also always being continuously reproduced, and sometimes modified, through service exchange. Customers' experiences of several service exchanges will, over time, influence their perceptions and expectations of service value, and how they should exercise their role as co-creators of value. They thus develop a deeper understanding of service provision, while internalizing the social systems in which they are embedded. The position, role and interactions of customers within various social systems can have a major impact on the development of their operant resources, and on their ability to use operand resources during value co-creation. Moreover, to facilitate fruitful developments in their customers' positions and roles, other actors (especially front-line employees) might have to change their roles.

Although S-D logic does focus on dynamics, evolutionary development, and the emergence of complex adaptive systems (Vargo and Lusch 2004), further elaboration of this aspect of the conceptualization of S-D logic may contribute to the understanding of the mechanisms in value co-creation (Merz et al. 2009). S-D logic has introduced the notion of "adaptive competence" (Lusch et al. 2007; Vargo et al. 2008)—which refers to the ability of an organization to adjust to changing circumstances in its environment. It is of interest to further investigate the role of the social systems and social structures in this adaptation. In this regard, it is noteworthy that customers, employees, and other actors are increasingly interacting, innovating, and learning through the technologies and systems of social media such as Facebook and YouTube. This phenomenon has changed the social reality of customers, and it will consequently have a major impact on the evolution of dynamic service systems. In the current Web 2.0 era, customers are not only passively using, but also actively creating and sharing, web content, and they thus not only co-create but also co-produce value and shape service as well as social systems. Organizations will have to adapt to—and ideally pro-actively influence—this new social reality if they want to be able to continue to understand and manage service exchanges and co-creation of value with their customers in the future. In particular, the so-called

“word of mouse” (Breazeale 2009) will become increasingly important in marketing, as has been shown recently for example by the media attention created by the YouTube video “United breaks guitars”. This video has been watched by over 8.million users and is a major PR disaster for United Airlines. In the video, a customer, who happens to be a musician, performs a song in which he complains about baggage handlers destroying his Taylor guitar, and United Airlines not being willing to listen and compensate him for the costs he incurred.

### ***Directions for further research***

The research implication of the proposition that *service exchanges and actors’ roles are dynamic in adaptive, value creating service systems* is that future research should specifically explore the impact that social media have on customers, other operant and operand resources, and how companies can adapt to, and pro-actively influence, changing social realities. In particular, future studies should focus on how younger customers who are growing up with these new social media, use, share, and create web content in social (service) networks and interact with other users and companies. Other studies could examine how changes in the macro-environment (such as new laws and regulations) affect service systems and actors. An example would be deregulation or re-regulation of the telecommunications sector. Deregulation, for example, would most likely result in changes in service systems, such as increased service innovations, more competition and more choices for customers.

## **CONCLUSIONS AND FUTURE RESEARCH**

The aim of this exploratory, conceptual study was to expand the understanding of S-D logic (especially the concepts of service exchange and value co-creation) by the incorporation of key concepts from social construction theories (social structures and systems, roles, positions, interaction, and reproduction). Although the study presents no empirical analysis, illustrative empirical examples have been provided to demonstrate some of the implications of the extended framework of service exchange and value-in-social-context.

The study makes three specific contributions to the literature on S-D logic. First, the introduction of the concepts of social structures and social systems can enhance understanding of the mechanisms of service exchange and value co-creation. The study has paid attention to the actors’ positions and roles in dynamic social systems, and how these are influenced by

the dimensions of social structures: (1) meaning (signification); (2) control (domination); and (3) morality (legitimation) (Giddens 1984). Social structures are expressed through the norms, values and ethical standards that guide what is acceptable and unacceptable during interactions between individuals, which has implications for service exchange and value co-creation.

Second, the study has suggested four propositions for applying key concepts from social construction theories to S-D logic in general, and service exchange and value co-creation in particular:

The first proposition was that value has a collective and intersubjective dimension and should be understood as value-in-social-context. The study has shown that value co-creation and value perceptions cannot be fully understood unless due attention is paid to the positions and roles of the actors involved. It is also apparent that “context” includes more than resources *per se*; rather, actors utilize resources within a social system in various ways, and they are influenced by social forces that have an impact on resource assessment, the perception of value, and the process of value co-creation. Although collective social forces often play a dominant role, individual needs, preferences, habits and values can also have a significant influence, during both service exchange and value co-creation.

The second proposition was that the way in which resources are assessed depends on the social context. S-D logic emphasizes the primacy of the human resources; however, the present study contends that resources become valuable only in the social context of resources in action. The utilization of resources is thus always linked to actors who are embedded in socially constructed systems; moreover, the operant and operand resources that they utilize are also socially constructed. It is thus necessary to pay attention to the actors’ positions within social systems, their roles and social interactions with others, and the influences of social structures on service provision.

The third proposition was that service exchange and value-co creation can be asymmetric. Bilateral exchanges with mutual gain are only one form of transaction. More commonly, customers are not fully informed; nor are they necessarily “better off” following the service exchange. Social consensus in the marketplace is always a compromise between what the customers wants, what the provider wants, and what the institutionalized reality allows. The company’s motive to achieve profits and the customer’s desire for value for money

might conflict, thus making service exchanges with mutual gains sometimes difficult to achieve.

The fourth proposition was that service exchanges and actors' roles are dynamic in adaptive service systems. Providers should design service systems that are capable of adapting to the changes induced by customers and other actors within the system, as well as by the social forces outside the system. Customers, employees and other actors interact, innovate, and learn—especially through modern IT technologies and systems.

Third, the study has made several constructive suggestions with regard to future studies in this area. It is suggested that future research on S-D logic should focus on various aspects of the social reality (structures, interactions, positions and roles) in which the same service is exchanged. Comparing customers' co-creation processes and value perceptions in different social contexts, by varying customers' positions and roles, will allow the influence of social structures and forces to be explored.

As to future research in general, and empirical studies in particular, we suggest a combination of methods, including experiments, in-depth interviews, case studies, observations, simulations, and a self-reporting approach through which data is captured by customers in situ—i.e., data from customers in their own words, in their own situation, when the service is exchanged and the co-creation of value takes place. Moreover, researchers, trying to explain phenomena in social groups, still collect data predominately from individuals. This approach, however, excludes the social context from the study in general, and the relationships between all actors involved in particular. By contrast, social network analysis (Granovetter 1973) could offer researchers a well developed technique from sociology that takes the relationships between the actors in the social system as its unit of analysis, and therefore allows researchers to study complex networks.

This paper has focused on the potential contribution of social construction theories in establishing a deeper understanding of service exchange and value co-creation in S-D logic. Other related theories might also have a contribution to make in establishing a better understanding of S-D logic in the future. These include: “marketing and social construction” (see e.g., Hackley 2007); the emerging discourse of “markets-as-practices” (see e.g., Andersson et al. 2008; Kjellberg and Helgesson 2007); and the “sociology of the market” (see e.g., Hacking 1999). Examination of the potential contribution of these theories could facilitate the

further evolution of S-D logic, and move it towards a *social-dominant* logic of marketing, in which the exchange of services and the co-creation of value is firmly placed in a social context.

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