

Service-Dominant Logic in Finnish Property Market

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Research Objectives

The purpose of this thesis is to examine the subsistence of Service-Dominant Logic (S-D Logic) in Finnish property market. The theoretical objectives for this thesis are to first isolate the most central concepts of S-D Logic and second, to discover salient S-D logic aligned value creation concepts suitable for business-to-business context. On basis of the theoretical review a theoretical framework is formulated. The objective of the empirical research of this thesis is then to discover the extent to which the most central concepts of S-D logic and S-D logic aligned business-to-business value creation is descriptive of Finnish property market. On basis of the empirical findings a modified framework is proposed.

Research Sample

In theoretical review, most recent S-D logic elicited marketing theory was examined. In empirical research, eight respondents from Finnish property market firms were interviewed.

Research Methodology

For this thesis, qualitative research was deployed. Data collection was based on interviews in which categories derived from theoretical review were assessed. In the data analysis, for the purpose of discovering salient themes and reducing bias, a structured five stage analysis was used.

Main Findings

The findings of this thesis show that Service-Dominant logic is descriptive of Finnish property market in terms of *networked value creation*, overall *dialogical* and relational orientation of exchanges between primary market actors, and *solutions* as the primary market offering. The subsistence of these three S-D aligned phenomena can be primarily seen as a result of the highly aggregate nature of the market and consequent institutional dialogue between the property market actors. On the other hand, the property market is closely rooted in G-D logic in terms of its *embedded value* emphasis, prevailing view of financial performance as *profit maximization* as opposed to learning mechanism, and prevailing view of customer as an operand resource to which offerings are *marketed to*. The subsistence of these three G-D aligned phenomena can be seen as a result of the dominance of the *development process of raw land into a finished property* which has traditionally been the most central value creation activity. Most notably, the property market appears to be in transition towards to service-dominant modus operandi due to market actors' efforts to shift their strategic focus in opportunities in latter stages of the property lifecycle. More specifically, the transition is evident in terms of conceptualization of *market offering* as property market actors have clearly strived to expand to *services* and *offerings*. Moreover, property market has accordingly shifted towards *market orientation* in response to increasing competition. Yet, the seeming path dependency resulting from the potent industry recipe of property market restrains adoption of completely S-D logic aligned value creation.

Keywords

Service-dominant logic, property market, value creation

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1. INTRODUCTION

The aim of this thesis is to examine the subsistence of Service-Dominant Logic (S-D Logic) in the Finnish property market. In this section, the background of this thesis is first outlined in terms of practical and theoretical relevance. Next, the purpose and research questions of this thesis are identified. Then, the central concepts of this thesis are defined. Finally, the structure of this thesis is outlined.

1.1. BACKGROUND

In recent years, there has been a growing recognition that in the future, Finnish economic growth must be based on services in rather than industrial production which currently constitutes the primary foundation of Finnish economy (e.g. Wilenius 2006; Tekes 2009). More recently, the global economic downturn has arguably further amplified this need as a variety of Finnish industrial sectors contingent on exportation have suffered from decreased demand (Bank of Finland 2009). Finland's far-reaching dependence on manufactured industrial goods is particularly alarming in respect to the growing global importance of service sector (Tekes 2009). In order for Finland to ensure its future long-term competitiveness as a small and open economy, new bases of competence must be found from development of services and services exportation, along with management and intensification of innovation processes and more effective use of globally produced knowledge (Tekes 2009). Furthermore, it has been argued that in order for Finland to develop such capacities, it is necessary to more effectively understand and anticipate customer wants (Tekes 2009).

Very much in line with the abovementioned imperative needs for change in the Finnish economy; Vargo and Lusch (see e.g. 2006) propose that today, service provision is the fundamental purpose of economic exchange and marketing, as opposed to making and distributing units of output. This notion is more widely known as Service-Dominant logic (S-D logic); it has been advocated as potentially unifying paradigm of market and marketing theory and practice, a general change in perspective, and a new lens on social and economic exchange (Vargo and Lusch 2004; Vargo 2008). What makes S-D logic a particularly intriguing theoretical perspective relative to Finland's need for new bases of national competitiveness is its expansive departure from product and production centered logic of business which has seemingly restricted success of several technologically advanced Finnish businesses up to this date. However, as a potential general theory, S-D logic is still very much a work in progress (Vargo and Lusch 2006); thus, as a normative guideline for best business practices (Vargo et al. 2008; Bolton 2006) it still requires more extensive testing in less-abstract and more grounded contexts.

As established above, while S-D logic seems to offer promise in terms of its possible application for Finland's attempts to shift towards service-centered economy, it still requires testing in regards to its

proposed principles in practical context to determine its “paradigmatic potency” (Vargo 2008). For this thesis, the specific context in which this paradigmatic potency tested is *Finnish property market*. The choice of *market* as the primary unit of analysis for this thesis is supported by Wilkie and Moore (2006) who argue that more aggregate conceptualizations of S-D logic are needed as opposed to explicit firm focus. Moreover, as observed by Venkatesh et al. (2006), to further advance marketing theory, *markets* should be studied as opposed to marketing to establish a common frame of reference for marketing theory and further depart the strongly United States centered focus of much of marketing discourse.

Here, *Finnish property market* refers to property investment, property development, and property use activities. Moreover, of the four prominent types of properties in the Finnish property market (i.e. office, retail, residential, and logistics properties); office properties are the emphasis of this thesis. At this time, office properties are a particularly interesting context because the increased economic uncertainty has resulted in decreased demand in office space and also, property users’ increased interest in cutting costs (KTI 2009). Furthermore, what makes the Finnish property market an interesting context for S-D logic study is its deep rooting in the industrial structure and practices of Finland, particularly in respect to construction sector which has suffered from the current economic downturn particularly heavily (Bank of Finland 2009). To sum, in both theoretical and practical terms, Finnish property market offers plenty of research prospects in terms of testing S-D logic and identifying new best practices, respectively.

1.2. RESEARCH PROBLEM

The purpose of this thesis is to determine whether evidence of new Service-Dominant logic of marketing advocated by Vargo and Lusch (2004) can be found in the Finnish property market. Thereby this thesis sets out to investigate to what extent S-D Logic is descriptive of value creation logic of firms in Finnish property market and also, whether S-D Logic could offer new perspectives for value creation in Finnish property market. Consequently, the research questions this thesis sets out to answer are the following:

Research Question

To what extent does Service-Dominant Logic subsist in Finnish Property Market?

Subquestions

- *What is the dominant business logic in Finnish Property Market?*
- *How is value conceptualized in Finnish Property Market?*
- *To what extent is value created in Finnish Property Market as advocated in S-D Logic?*

In this thesis, these questions are first addressed through an exhaustive review extant literature, in which S-D Logic is examined relative to its (1) potency as business logic, relative to its (2) conceptualization of value, and finally, in terms (3) value creation practices for a firm. In empirical research, these elements of S-D Logic are then examined in terms of their match to categories isolated in the theoretical review. The empirical research is based on qualitative research in which data is collected through interviews and analyzed through a structured five stage analysis for the purpose of discovering salient themes and reducing bias. In what follows, the central concepts for this thesis are defined.

1.3. DEFINITIONS

Service-Dominant Logic (S-D Logic) is a reoriented paradigmatic perspective on marketing and market which implies that *service* is the basis of all economic and social exchange; all businesses are service businesses and all economies are service economies.

Goods-Dominant Logic (G-D Logic) is the conventionally dominant logic of marketing and market which suggests that the purpose of economic activity is to make and distribute units of output (goods) which are embedded with utility (value) during production.

Service is the process of application of one's specialized competences (i.e. skills and knowledge) for the benefit of another social or economic actor.

Goods are instruments for service delivery.

Value is emergent in integration of an enabling (product) or a relieving (service) resource into the customer's own value creating activities. Thus, value is always *co-created* between the provider of service and its beneficiary.

Value co-creation is an activity in which firm seeks to mobilize other social and economic actors to integrate firm resources into their own value creating processes by *enabling* promises, *making* promises, and *keeping* promises.

1.4. STRUCTURE OF THESIS

This thesis is divided into five main segments. This introductory Chapter 1 has outlined the basic motivations and objectives of this thesis. Second, in Chapters 2-4 theoretical review is presented. Third, in Chapter 5, the methodology for this thesis is discussed. Fourth, in Chapters 6-9, the empirical findings are examined. Finally, in Chapter 10, conclusions are drawn and discussed in respect to their implications and limitations.

In Chapters 2- 4, relevant extant S-D logic theory for this thesis is reviewed. Chapter 2 introduces and outlines S-D logic in terms of its most central concepts. In Chapter 3, the concept of value is examined in respect to its different drivers in section 3.1, the context in which it is created in section 3.2. and the dimensions to which its determination is dependent on in section 3.3. Then, in Chapter 4, the dimensions of service-centered value creation are examined; enabling promises in section 4.1, making promises in section 4.2, and keeping promises in section 4.3. Finally, in section 4.4., a theoretical framework is proposed on basis of theoretical review.

After Chapter 5, in which methodology for this thesis is justified and outlined, Finnish property market is briefly described in Chapter 6. Then, in Chapters 7-9 the empirical findings of this thesis are examined. In Chapter 7, the conceptualizations of service and resources are discussed on basis of respondents' views. In chapter 8, the conceptualization of value among property market actors is discussed. Then, in chapter 9, value creation capabilities of Finnish property market actors are assessed on basis of the conceptual tools proposed in Chapter 4. Finally, in Chapter 10, conclusions of this thesis are presented, a modified business-to-business value co-creation framework is introduced, and managerial implications and suggestion for further research are presented.

2. SERVICE-DOMINANT LOGIC

This is the first of the three theoretical review chapters. The aim of this chapter is introduce and outline S-D logic in terms of its most central concepts. The chapter is outlined as follows. First, S-D logic is discussed in terms of its fit to extant marketing theory for the purpose of establishing a basic understanding of its proposed unifying potential. Next, different concepts of service are examined relative to their fit to S-D logic. Finally, the role of resources in S-D logic is outlined.

2.1. SERVICE-DOMINANT LOGIC AND MARKETING THEORY

The purpose of this section is to provide an overall view of S-D logic as a potentially unifying view of market and marketing. This section is organized as follows. First, the foundational premises of S-D logic are introduced. Second, most salient links between S-D logic and extant marketing theory are highlighted. Third, most prominent criticisms to S-D logic are discussed. Fourth, S-D logic's nature as a lexical evolution of marketing is examined. Finally, the common S-D logic conflicting misconception of services economy is introduced.

2.1.1. Foundational Premises of Service-Dominant Logic

In this section, the Foundational Premises (FPs) of Service-Dominant Logic are introduced. The original Foundational Premises introduced by Vargo and Lusch (2004) are an attempt to provide a pieced together view of the central ideas of the Service-Dominant Logic. Upon introducing the eight Foundational Premises, Vargo and Lusch (2004) have strongly emphasized that the offered S-D Logic

is “reorientation rather than reinvention”. Thus, the authors suggest that adoption of S-D Logic would not necessitate abandonment of most of the traditional core concepts, such as the marketing mix, target marketing, and market segmentation, but it would complement these with a framework based on the eight FPs. At the same time, S-D Logic has been described as an open-source evolution open for debate, for the purpose of genuinely making a collective effort to establish a new dominant logic (Vargo 2008). Sweeney (2007) notes that the strong following S-D Logic has gained, calls for operationalization and clear measures for S-D Logic principles, and argues that it is very challenging to do so with FPs because of their broadness.

In Figure 1, both revised and original FPs of S-D Logic are listed. According to Vargo and Lusch (2008), the guiding principle of revising the FPs has been to make as few changes as possible for consistency while making as many as necessary for clarity. Vargo and Lusch (2008) identify four salient themes which have emerged as a result of the open-source evolution; first, it was noted that the original FPs were overly reliant on Goods-Dominant Logic lexicon; second, the wording of the original FPs has been found overly managerial in their approach; third, the original FPs do not explicitly address the interactive, networked nature of value creation; and fourth, the original FPs are not sufficiently explicit in acknowledging the phenomenological and experimental nature of value creation. In what follows, each of the original FPs and their revisions are discussed in more detail.

Figure 1 Original and Revised Foundational Premises of S-D Logic

	Original FP	Modified or New FP
FP 1	The application of specialized skill(s) and knowledge is the fundamental unit of exchange	Service is the fundamental basis of exchange
FP 2	Indirect exchange masks the fundamental unit of exchange	Indirect exchange masks the fundamental basis of exchange
FP 3	Goods are a distribution mechanism for service provision	Goods are a distribution mechanism for service provision
FP 4	Knowledge is the fundamental source of competitive advantage	Operant resources are the fundamental source of competitive advantage
FP 5	All economies are services economies	All economies are service economies
FP 6	The customer is always a co-producer	The customer is always a co-creator of value
FP 7	The enterprise can only make value propositions	The enterprise cannot deliver value, but only offer value propositions
FP 8	A service-centered view is customer oriented and relational	A service-centered view is inherently customer oriented and relational
FP 9	Organizations exist to integrate and transform microspecialized competences into complex services are in the marketplace	All social and economic actors are resource integrators
FP 10		Value is always uniquely and phenomenological determined by the beneficiary

Source: Vargo (2008)

FP 1: Service is Fundamental Basis of Exchange

The first original FP states that the appropriate unit of exchange is the application of competences, or specialized human knowledge and skills, for and to the benefit of the receiver (Vargo and Lusch 2004). More recently, the original FP has been modified to “service is the fundamental basis of

exchange” (Vargo and Lusch 2008), because unit of exchange is closer to G-D Logic as it implies that units of output are exchanged, as opposed to S-D Logic view which revolves around process of service exchanged for a service. Underlying this first FP is the grass-roots level notion that each person’s skills are not necessary optimal for his or her survival, and thus specialization is more efficient for society and its individual members (Vargo and Lusch 2004). This FP is also an attempt by Vargo and Lusch (2004) to respond to Shostack’s (1977) call for shifting attention from the interpretation of the utility created by marketing to a marketing interpretation of the whole process of creating utility.

FP 2: Indirect Exchange Masks the Fundamental Basis of Exchange

The second original FP states that “indirect exchange masks the fundamental unit of exchange” (Vargo and Lusch 2004). Similar to the first FP, “unit of exchange” has been replaced with “basis of exchange” to shift from the G-D Logic based view of exchange revolving around units of output towards process view of exchange. Vargo and Lusch (2008) suggest that the underlying reasoning for this FP is that as service is provided through complex combinations of goods, money and institutions, the basis of exchange (services for services) becomes obscured. It can be argued that “mask” – perspective this FP effectively illustrates the nature of firms as abstractions of people dealing with other people and also blurs the distinction between business-to-business and business-to-customer exchange to some extent; in line with Gummesson (2004) who suggests that business-to-business marketing is essentially based on derived demand from consumers and thus is an antecedent to business-to-consumer marketing.

FP 3: Goods Are Distributing Mechanisms for Service Provision

The third original FP states that “goods are distribution mechanisms for service provision” (Vargo and Lusch 2004). This FP has not been modified since its original introduction. The underlying logic of this FP, according to Vargo and Lusch (2004) is that goods are not the common denominator of exchange; the common denominator is the application of specialized knowledge, mental skills, and, to a lesser extent, physical labor. Vargo and Lusch (2004) suggest that goods should be viewed as distribution mechanisms for services, or ultimately, provision of satisfaction for higher-order needs such as happiness, security, and accomplishment which are satisfactions beyond the basic functions of the product. Similarly, Prahalad and Ramaswamy (2000) propose the role of products as artifacts around which customers have experiences. This FP3 can be considered as one of the most central S-D Logic because it highlights the role of tangible products as embodiments of knowledge or activities (Normann and Ramirez 1993) in provision of experiential value, and therefore, implies the shift of managerial focus towards service as the primary process in value creation. However, Grönroos (2008) shows that Vargo and Lusch have underconceptualized the role of other elements as instruments of value creation which the Nordic School addresses; this is discussed in more detail in section 2.4.5.

FP 4: Operant Resources Are the Fundamental Source of Competitive Advantage

The fourth original FP states that “knowledge is the fundamental source of competitive advantage” (Vargo and Lusch 2004). FP 4 was modified by Vargo and Lusch (2008) to “operant resources are the fundamental source of competitive advantage” more recently as the operand and operant resource distinction has become more salient and familiar. Vargo and Lusch (2008) describe the comparative ability to cause desired change as the primary driver of competitive advantage. This FP illustrates the S-D Logic emphasis on development of intangible, dynamic, and idiosyncratic operant resources as the source of competitive advantage, drawing from Ballantyne and Varey (2006) who suggest that knowledge renewal processes operating at the micro (firm, employee) level are primary to competitive advantage. The role of operant resources as drivers of firm competitive advantage is discussed in more detail in section 2.3.4.

FP 5: All Economies Are Service Economies

The fifth original FP states that “all economies are *services* economies” (Vargo and Lusch 2004). This FP5 has been modified because Vargo and Lusch (2004) found “services economy” a misleading concept because it essentially defines service residually to goods from a G-D Logic perspective and thus builds on the fallacy that that services economy has only recently emerged (see section 2.1.5.). Vargo and Lusch (2008) have therefore revised this fifth FP to “all economies are *service* economies” which implies that *service* is only now becoming more apparent with increased specialization and outsourcing. Singular “service” is also aligned with S-D Logic view of service as a perspective on value creation (Edvardsson et al. 2005) which is discussed in more extensively in section 2.2.3.

FP 6: The Customer is Always a Co-creator of Value

The sixth original FP states that “the customer is always a co-producer” (Vargo and Lusch 2004). As implied by term “co-producer” this FP is strongly rooted in G-D lexicon. Consequently, Vargo and Lusch (2008) have more recently modified FP6 to “customer is always a co-creator of value” which more effectively illustrates the collaborative nature of value creation in which value is value idiosyncratically determined by the beneficiary. Also, the revised FP6 corresponds with FP3 which identifies service processes as common denominator of exchange as Vargo and Lusch (2008) note that the original co-production is a component of co-creation. FP6 acknowledges the role of customers as operant resources in value creation; this perspective is discussed more extensively in section 2.3.3.

FP 7: The Enterprise can not deliver value, but only offer value propositions

The seventh original FP states that “the enterprise can only make value propositions” (Vargo and Lusch 2004). More recently, Vargo and Lusch (2008) have revised FP7 to “the enterprise cannot deliver value, but only offer value propositions” for the purpose of clarifying the possible misconception of that once enterprise has made a value proposition, it is finished with its part of value creation

process. Vargo and Lusch (2008) argue that the purpose of FP7 is to instead convey that enterprise cannot unilaterally create and/or deliver value; central to this notion is the delineation of between consumers having to find not only embedded value (value-in-exchange) but also find that embedded value useful (value-in-use). Grönroos (2006) elaborates on this delineation, suggesting that the focus of marketing is value creation rather than value distribution, and facilitation and support of a value-creating process rather than simply distributing ready-made value to customers.

FP 8: Service-centered view is inherently customer oriented and relational

The eighth original FP states that “service-centered view is customer oriented and relational” (Vargo and Lusch 2004). This FP has been more recently modified by Vargo and Lusch (2008) to “service-centered view is *inherently* customer oriented and relational” for the purpose of better reflecting the idea that in S-D Logic is determined by the unique experience of that beneficiary and therefore, the logic is inherently customer oriented. The relevance of this FP is that in addition to highlighting customer orientation, it explicitly recognizes the relational process of value creation which entails elements such as interactivity and integration. Thus, FP8 corresponds with the notion that profits come from customer satisfaction rather than units of goods sold (Kohli and Jaworski 1990; Narver and Slater 1990). This FP also implies phenomenological quality of value (FP10) which is discussed in more detail in section 3.1.4.

FP 9: All Social and Economic Actors are Resource Integrators

The first version of the more recently proposed FP 9 states that “organizations exist to integrate and transform microspecialized competences into complex services that are demanded in the marketplace” (Vargo and Lusch 2008). However, drawing from Arnould’s (2006) notion that resource-integration role is equally applicable to individual and household as it is to firm, FP9 was soon revised to “all social and economic actors are resource integrators” (Vargo and Lusch 2008). While the term “actor” was chosen for the definition Vargo and Lusch (2008) suggest that “service systems” (Spohrer et al. 2007) more appropriately reflects the ubiquitous resource integration in a service economy (FP5) where specialized competences are exchanged (FP1). Service system view of resource integration is examined in more detail in section 3.2.2.

FP 10: Value is always uniquely and phenomenologically determined by the beneficiary

Finally, the tenth and the second more recently added foundational premise states that “value is always uniquely and phenomenologically determined by the beneficiary” (Vargo and Lusch 2008). FP10 was added as a response to the critique that the original FPs were not sufficiently explicit in acknowledging the phenomenological and experimental nature of value creation. As the emphasis of this thesis is on S-D Logic based value creation, the FP10 view of unique phenomenological determination of value is addressed in more detail in section 3.1.4.

As pointed out by Brodie et al. (2006), in order to thoroughly examine the validity of S-D Logic the starting point is to determine whether there is empirical evidence to support the Foundational Premises. Sweeney (2007) argues that in such examination it is crucial to note that S-D Logic is not ripe for use in isolation from other extant theoretical perspectives of marketing discourse. Furthermore, as pointed out by Archrol and Kotler (2006), mere semantic reorganization of concepts which does not genuinely advance our understanding of the underlying mechanisms and interconnections of marketing phenomena is more of a distraction than anything. Archrol and Kotler (2006) add that term *service* in particular could be such distraction but at the same time, acknowledge that “at the root of every consumption experience is indeed a delivered service” and that by shifting focus from goods as outputs to services as process could indeed be beneficial to marketing theory and practice.

Thus, to summarize, as suggested by Vargo and Lusch (2008) considering S-D Logic as a new “lens” for a more contemporary perspective on economic activity would be the most appropriate approach and the best way to counter the powerful G-D Logic paradigm that may have long restricted our vision. In what follows, the most recent marketing theories are discussed in respect to their contributions and influence on Service-Dominant Logic for the purpose of developing an overview of the current context in which marketing thought functions.

2.1.2. S-D Logic Links To Extant Marketing Theory

S-D logic aims to offer a unifying perspective that brings together extant marketing theory to form an entirely new logic for marketing thought. For this reason, it is important to discuss the most salient links between S-D logic and extant marketing theory. The five closely linked prominent theoretical discourses linked to S-D logic are the implied market and customer orientation of S-D Logic (e.g. Sheth et al. 2000), resource advantage and core competence theory, the cross-functional processes and network function of marketing, and S-D Logic alignment with postmodern trends and Consumer Culture Trends. These five theoretical connections are described in more detail in the following.

First, as pointed out by Vargo and Lusch (2004) due to its relational and value co-creating view of market exchanges, the S-D Logic is implicitly linked to the concept of market-oriented and learning organization introduced by Slater and Narver (1995). Correspondingly, S-D Logic is aligned with the customer-centric (Sheth et al. 2000) and market driven (Day 1999) views on the role of marketing. These concepts of customer-centric marketing and a learning organization are aligned with the observation of companies’ success from transforming from make-and-sell strategies to sense-and-respond strategies. Vargo and Lusch (2004) suggest that this sense-and-respond strategy places the firm into a continual process of market hypothesis formulation and testing in which outcomes become means of learning ways to serve customers better and improving their performance. According to Day (1994) this means that the firm starts viewing its business in terms of “self-reinforcing value

cycles” as opposed to conventional linear value chains in which value is simply embedded in the output.

Second, as discussed in section 2.3., one central aspects of S-D Logic is the shift from tangible operand resource focus to application of operant resources such as knowledge and skills (Vargo and Lusch 2004). Vargo and Lusch (2004) suggest that this operant resource emphasis corresponds with resource advantage theory of the firm (e.g. Conner and Prahalad 1996; Hunt 2000) and the core-competence theory of the firm (e.g. Day 1994). In the core-competence theory of the firm Hamel and Prahalad (1994) emphasize the role of intangible processes which are described as “bundles and skills and technologies”; bundles” are routines, actions or operations that are highly tacit and idiosyncratic in their nature. Considering the latter, S-D Logic emphasis on operant resources e.g. skilled and experienced employees as key factor in company success makes core-competence view of the firm as an especially pertinent theory.

Third, S-D Logic is also closely aligned with the embedded, cross-functional view of marketing introduced by Srivastava, Shervani and Fahey (1999) because as suggested by Vargo et al. (2008), S-D Logic forces a shift from product to process and brings about an expanded responsibility of marketing in increasing the market value of the firm through development of off-balance sheet assets such as customer, brand, and network equity (Vargo and Lusch 2004). Vargo and Lusch (2004) point out that this cross-functional, intraorganizational boundary-spanning also applies to the interorganizational boundaries of vertical marketing systems or networks. Normann (2001) suggests that shifts from product to process and from transactions and relationships enhance firm’s sensitivity the complexity of roles and actors in the networks firm operates in. The prominence of cross-functional and interorganizational aspects in S-D Logic is highlighted in Vargo and Lusch’s (2004) suggestion that channel intermediaries and network partners constitute the firm’s core competences that are organized to gain competitive advantage by marketing. This is closely linked to the seminal article “Marketing in Network Economy” by Archrol and Kotler (1999). The network emphasis of S-D Logic is discussed in more detail in section 3.2.

Fourth, the final prominent theory linkage highlighted in this section is a shift discussed by Cova and Salle (2008). These authors suggest that the conventional marketing philosophy of “market to” approach in which customer is seen as operand source and target of marketing activities has shifted to “market with” philosophy in which the provider, customer, supply chain (sic) partners collaborate in the marketing process. In S-D Logic discourse this collaboration is termed value co-creation (e.g. Vargo and Lusch 2004; Grönroos 2006). According to Cova and Salle (2008) the “market with” philosophy is closely aligned with Consumer Culture Theory (CCT) (Arnould and Thompson 2006). CCT discipline focus on consumption and marketplace behavior is linked to S-D Logic especially in

respect to the expanded consumption sphere introduced by Nordic School of S-D Logic (Grönroos 2006) and S-D Logic's close focus on customer value creation processes (Grönroos 2006). However, as shown by Arnould et al. (2006) S-D Logic still does not sufficiently address consumers' capacity to contribute to co-creation.

2.1.3. S-D Logic Criticisms

There are four notable criticisms to S-D Logic that are necessary to discuss here. First, Venkatesh et al. (2006) argue that the disciplinary focus of marketing should be on markets and that skills and knowledge are subordinate to meanings and values. Second, Wilkie and Moore (2006) argue that the increased balance between firm and customer implied in co-creation may not be as salient as suggested by Vargo and Lusch. Third, Lehmann (2006) criticizes S-D Logic, suggesting that servicing the society is secondary to financial performance that is driven by growth imperative of the firms. Finally, Archrol and Kotler (2006) argue that S-D logic may be more of a rhetoric debate than a genuine paradigmatic shift. In what follows, these four criticisms are discussed.

First, Venkatesh et al. (2006) argue that the starting point of marketing discipline should be the market as opposed to S-D Logic which focuses on role of marketing in value creation or set of activities that take place within the market. Venkatesh et al. (2006) suggest that the global market should be viewed as a "sign economy". This perspective moves the disciplinary focus of marketing to a more comprehensive and globally inclusive notion of markets as "sign systems"; sets of culturally constituted institutional arrangements (Venkatesh et al. 2006). Corresponding to this more comprehensive view is Wilkie and Moore (2006) suggestion that there is an excessive focus on the firm in S-D Logic, or at least an imbalance in relation to the other two parties and that the focus should be on an aggregate marketing system (AGMS) instead which consists of consumers, marketers, and government.

Venkatesh et al. (2006) note that because marketing is viewed as set of functions performed by the marketer to cater to customer needs, marketing discipline has become overly mechanist, functional and reductionist and doesn't address the rapidly changing realities of the marketplace. Venkatesh et al. (2006) also note that marketing has become mostly normative, trying to advice marketing managers to choose best strategies and by shifting focus to study of markets would not necessitate taking sides. Moreover, Venkatesh et al. (2006) argue that marketing has been strongly United States centered and that if markets were studied instead, the playing field would be leveled for researchers and global marketing would no longer be a mere extension of domestic marketing with an international flavor.

Furthermore, Venkatesh et al. (2006) argue that more important than skills and knowledge or goods and services emphasized in S-D Logic are the meanings and values underlying these two sets of

market symbols which together constitute micro elements of the world. According to Venkatesh et al. (2006) view of the market then becomes a mechanism for exchange of meanings and values for money, as opposed to skills and knowledge advocated in S-D Logic. Venkatesh et al. (2006) suggest that this view would allow for a more nuanced and comprehensive treatment of market instead of simply focusing on companies and customers. Correspondingly, marketers should focus on designing processes that facilitate customer involvement in constructing significations.

Second, Wilkie and Moore (2006) question consumers' motivation for interactive and integrative value creation implied by S-D Logic co-creation and suggest that while co-creation view is appropriate in the sense that it recognizes the process orientation of consumption and is particularly fitting for business-to-business relationships; consumers may in fact perceive co-creation as intrusive and enjoy spending anonymously instead. Moreover, Wilkie and Moore (2006) argue that innovations may be perceived more enthusiastically when there is no previous relationship. Wilkie and Moore (2006) also suggest that as opposed to what is implied by concept of co-creation, a significant information asymmetry remains between consumers and companies because marketers specialize in specific categories, possess expertise and experience to what is sold and the process and many times offer partial information to buyers. At same time, according to Wilkie and Moore (2006), marketers' self-interest is to fulfill sales targets and grow financial stream back to the firm while customers have to spread their attention to several categories, in limited time and financial resources and may not always be able to articulate their wants.

Third, Lehmann (2006) argues that for public for profit organizations the two objectives are marketing productivity and revenue growth. While S-D Logic suggests that firms exist because they provide service for the society and that firm financial performance is primarily a learning mechanism, Lehmann (2006) argues that firm performance is not a reward for fulfilling customer needs but the reason to connect instead. Thereby, satisfying and pleasing customers is often necessary but not sufficient condition. Lehmann (2006) adds that S-D Logic suggests a subservient view of relation between customer and firm while in reality, the task is to create demand and thus marketing logic is to use resources effectively to create changes that result in strong financial performance. Consequently, Lehmann (2006) argues that S-D logic is the dominant logic for non-profit firms but for marketing profession in for-profit firms which wants to "matter", the dominant logic must be financial results in general as well as growth. Correspondingly, from a similar growth imperative perspective, Ambler (2006) suggests that marketing should be seen as sourcing and harvesting of cash flow which aims at building brand equity to maximize long-term cash flow.

Fourth, Archrol and Kotler (2006) criticism on S-D Logic focuses exactly on the lexical aspects of S-D Logic; raising the question "can the service-centered view be articulated in ways that are non-trivial

statements?” Archrol and Kotler (2006) argue that it yet to be determined whether the goods-service dichotomy debate has substance or just a rhetoric debate. To illustrate this criticism Archrol and Kotler (2006) substitute goods for services in the four central premises S-D Logic (Vargo and Lusch 2004). The four central goals of service-centered view by Vargo and Lusch (2004) subjected to Archrol and Kotler (2006) critique are; (1) “Identify or develop core competences, the fundamental knowledge and skills of an economic entity that represent potential competitive advantage”; (2) “identify other entities (potential customers) that could benefit from these competences”; (3) “cultivate relationships that involve the customers in developing customized, competitively compelling value propositions to meet specific needs”; (4) “gauge marketplace feedback by analyzing financial performance from exchange to learn how to improve the firm's offering to customers and improve firm performance”.

Archrol and Kotler (2006) criticize the validity of S-D Logic as a paradigm, arguing that substitution of *goods* for *services* in the four goals listed above does not bring about inconsistencies or problems in meaning. The authors suggest that the supposed distinction between service-centered and goods-centered view is not based on a fundamental logic shift. The two main criticisms by Archrol and Kotler (2006) are that first, the four premises are not written in a way that recognizes pure services and services provided via goods, and second, they are more provider oriented than customer oriented than consumer oriented. Therefore, S-D Logic is suggested as a step backward from the current exchange paradigm because “application of specialized competences and knowledge to one’s own benefit” does not address the mutuality of interest between two parties in “end-to-end exchange-consumption relationship”. At the same time, Archrol and Kotler (2006) assert that while S-D Logic may not be ripe for a dominant logic, it is very useful for evaluating differences of services (sic) and goods orientation, relational and transactional view of customers, and nature of operand and operant resources in marketing decision making.

In addition to debate regarding S-D Logic’s capacity to constitute a new dominant paradigm, also G-D Logic has been argued to still possess substantial value. Grönroos (2008) notes that even though from consumption point of view, “every business can be considered a service business” there are still some customers that might “see and buy goods as goods and not as services”. Grönroos (2008) proposes that in such situations, value propositions should be developed and communicated accordingly. Moreover, Grönroos (2006) points out that when developing and applying models based on S-D Logic, the power of the concepts developed as part of goods-based models are not to be neglected (e.g. pricing and marketing communication using various types of media, as well as segmentation and target marketing). In addition, Grönroos (2006) points out that in situations where there are no ways for the marketer to intervene with the customer’s interaction with a product, G-D Logic based marketing models may be useful. However, Grönroos (2006) emphasizes that G-D Logic based marketing models are only useful where there is absolutely no customer contact beyond the physical

product. At the same time, as pointed out by Vargo and Lusch (2004), today even relatively discrete transactions come with social if not legal, contracts which are often relatively extended and which imply assurances that the exchange relationship will yield valuable service provision, often for extended periods.

2.1.4. S-D Logic as A Lexical Progression

The first central difference between S-D Logic and G-D Logic has to do with terminology. Vargo and Lusch (2006) suggest that the lexicon used in both theoretical discourse and managerial practice strongly reflect the underlying paradigm which directs the way commerce, marketing, and exchange in general are viewed. The significance of the strong lexical influence on marketing thought is strongly emphasized in much of the literature following the introduction of S-D Logic paradigm (e.g. Vargo et al. 2008; Vargo 2008). This lexical transformation is perhaps most effectively captured in Figure 2 adapted from Vargo (2008). Figure 2 shows the entire range of aspects that S-D Logic shift addresses and also acknowledges the transitional concepts that emerged from the service marketing theoretical discourse. In what follows the, the key elements of this lexical evolution are highlighted.

Figure 2 Tentative S-D Logic Lexicon

	G-D logic concepts	Transitional concepts	S-D logic concepts
1	Goods	Services	Service
2	Products	Offerings	Experiences
3	Feature	Benefits	Solution
4	Value added	Co-production	Co-creation of value
5	Profit maximization	Financial engineering	Financial feedback/ learning
6	Price	Value delivery	Value proposition
7	Equilibrium system	Dynamic systems	Complex adaptive systems
8	Supply chain	Value Chain	Value creation network
9	Promotion	IMC	Dialogue
10	To market	Market to	Market with
11	Product orientation	Market orientation	Service orientation

Source: Vargo and Lusch (2006)

In the left hand column of Figure 2, the goods-centric nature of the language of contemporary commerce can be seen: “product,” “production,” “goods,” “supplier,” “supply chain,” “value-added,” “distribution,” “producer,” and “consumer”. Arguably, these are all terms that are inherently familiar to all marketing students, practitioners and researchers alike. The strong contrast between S-D and G-D Logic becomes apparent when the parallel concepts of exchange are compared to one and another. Four broad shifts can be gathered from the table. First, the scope of an *offering expands* from G-D Logic to S-D Logic (rows 1-3); second, the nature and *role of value creation expands* from plain economic value (rows 4-6); third, the *context of value creation* shifts from linear thinking to a multidimensional constellation (rows 7-8); and finally, the of *provider-beneficiary dyad* becomes more balanced (rows 9-10). In the following, these lexical shifts are described in brief.

First, as suggested by Cova and Salle (2008), the reconceptualization of the firm offering (Figure 2, rows 1-3) can be described as a result of “an enlarged conceptual framework” in which “customer

solutions embody the new service-dominant logic” (Tuli et al. 2007). Thus, as pointed out by Grönroos (2006), the S-D Logic view of goods and products has evolved to “transmitters of service and ‘distribution mechanisms for service provision” and “as one type of resource alongside others, such as people, systems, infrastructures and information” (Vargo and Lusch 2004; Grönroos 1996, 2006).

Second, the nature of value creation has shifted from embedded value-added in manufacturing and profit maximization through optimal pricing to inviting customers to using the service processes by appropriate value propositions which the customer can expect to capture from the service (Grönroos 2006). Moreover, further expanding the value creation perspective from G-D Logic, Grönroos (2006) suggests that S-D Logic based marketing looks to implement service processes in a way that allows customers to perceive that value is created in their processes. This “value promise keeping” is known as value fulfillment (Grönroos 2006).

Third, in respect to the context in which value is created, the perspective has shifted from G-D Logic view of supply chain to the transitional concept of value chain, and ultimately the S-D Logic view of value-creation network or constellation. Gummesson (2006) proposed the concept of networks is so salient to marketing that it should be considered as the core -variable of marketing with relationships and interaction as its subcore-variables. Gummesson (2006) thus suggests that to move forward with S-D Logic marketing, many-to-many marketing should be adopted as the focus. Gummesson (2004) has defined many-to-many marketing as describing, analyzing and utilizing network aspects of marketing; thus, suggesting as opposed to conventional narrow focus, this approach addresses whole context of a complex world.

Fourth major shift illustrated in Figure 2 is the re-oriented marketing philosophy in provider-beneficiary dyad (rows 9-10). Payne et al. (2008) suggest that S-D logic also changes our view of communication from G-D Logic in which the customer is an operand resource (Vargo and Lusch 2004) and a “recipient of the stimulus sent by the communicating firm and analyze the behavioral response”. Payne et al. (2008) draw from Ballantyne and Varey (2006) and suggest that firms need to adopt a dialogical orientation in which the goal of marketing is to co-create value via dialog and learning between the provided and the customer. Payne et al (2008) further add that communications should aim to influence customer and supplier practices in a way that helps customers to utilize both their own resources and those of the supplier better. This implicitly corresponds with the suggested basic rule of marketing; marketing activities must take place where customers are where the customers are influenced by them (Grönroos 2006). In other words, the entire customer interface is dictated by the customer perception and thus it is the firm that needs to align itself with customer process by engaging in interaction, not vice versa.

2.1.5. Services Economy Misconception

Central aspect pertaining to differences between S-D Logic and G-Ds Logic discussed in this section is the misconception concerning the concept of national economies becoming “service economies”. Vargo (2008) argues that the perception of a services economy is mostly an aberration of G-D logic thinking and points out that in S-D Logic the application of special competences for the benefit of another party (service) is the foundation of all economic exchange. Therefore, Vargo (2008) states that even when tangible outputs such as goods are involved in exchange, applied knowledge remains the driver of economic activity. Thus, service is not anything that has suddenly emerged. Instead, the combination of (1) increasing ability “to separate, transport, and exchange information, apart from embodiment in goods and people” and (2) increasing specialization have created opportunities for service provision.

Vargo (2008) suggests that this increasing specialization, or as defined by Normann (2001), “liquification” and “unbundling” has not changed the nature of exchange of applied knowledge and skills. Instead, according to Vargo (2008) due to the goods-centered classification system (Vargo and Lusch 2008) the increasing portion of economic exchanges of specialized and applied skills and knowledge is classified residually to goods as a category of market offerings. For that reason, the illusion of suddenly emerged “services economies” has become prominent. This may have a limiting effect on marketing thought as it may blind practitioners and researchers from the fundamental nature of exchange and innovation opportunities (Vargo 2008).

As illustrated in this section, there are several distinctive dimensions to be understood about Service-Dominant Logic in order to understand its potentially unifying role. Most notably, the paradigmatic shift to S-D Logic and its foundational premises requires revision of the lexicon used by marketing researchers and practitioners. Also, S-D Logic is yet to fully substantiate itself as a legitimate dominating paradigm but has already offered highly useful expansions to conceptualization of economic exchange and marketing. Moreover, perceived recent emergence of “services economies” is a peculiarity resulting from the G-D Logic based classification of the categories of market offerings. In the following section, the concept of service is examined in S-D Logic context.

2.2. SERVICE IN SERVICE-DOMINANT LOGIC

The purpose of this section is to examine the concept of service in the context of S-D logic. As discussed in section 2.1.3, Archrol and Kotler (2006) criticized that S-D Logic may be more of closer to a rhetorical debate pertaining to goods-service dichotomy than a legitimate new dominating logic. At the same time, it was shown that lexicon may indeed have lot to do with the way economic exchange is viewed in marketing thought. Therefore, it is of utmost importance to examine the concepts and definition of both service (and goods) to determine the extent to which it is a false dichotomy, and to investigate a new, a more fitting classification and hierarchy of market offerings. This section is divided

as follows. First, the suggested false dichotomy of goods and services is examined and G-D Logic of view of service as a residual category of market offering is explained. Second, the concept of service as an activity and process from a provider perspective is examined. Third, the view of service as a perspective is explained. Fourth, the S-D Logic view of service as business logic is described. Finally, the Nordic School and Vargo and Lusch perspectives on service will be contrasted.

2.2.1. Service as Category of Market Offerings

The G-D Logic of view of service sees it as a residual category of market offering, as it essentially defines services as anything that is not a product. Edvardsson et al. (2005) suggest that this conventional goods and services dichotomy is largely based on the IHIP characterization in which service is defined according to its inseparability, heterogeneity, intangibility, and perishability. The IHIP view of service uses physical products as the frame of reference and this G-D Logic based. Edvardsson et al. (2005) argue that In the past, IHIP was widely used not only to build the research field, but also to defend service research when it has been criticized; the main two criticisms of IHIP are that it is based on anecdotal evidence and that it is too provider oriented. For instance, despite its arguable contribution to marketing theory, Shostack's (1977) widely cited article "Breaking free from product marketing" is mainly based on her practical experiences, as pointed out by Edvardsson et al. (2005). Thus Vargo and Lusch (2004) suggest that in order to characterize services more accurately, lens of the customer needs to be used.

Further relative to IHIP characterization of service, compelling arguments have been made against suggested perishability, inseparability, and heterogeneity characteristics in particular. Edvardsson et al. (2005) draw from Gummesson, observing that services are not actually perishable because they can be stored in systems, buildings, machines, knowledge, and people; memories may be stored in the customer's long-term memory for years, and they may direct perceived quality and future behavior. Thus, the way service, produced and consumed constitutes either a favorable or an unfavorable customer experience. Lovelock and Gummesson (2004) argue that not all services are simultaneously produced and consumed, and that many services are partly produced independent of the customer. Lovelock and Gummesson (2004) also argue that "it is inappropriate to continue to generalize about heterogeneity as being a distinct characteristic that sets all services apart from all goods". The concept of "servicescape" introduced by Bitner (1992) supports this as it highlights the role of the physical aspects of the environment; physical aspects can be standardized.

According to Vargo et al. (2008), the foundation of this goods and services dichotomy is built on the notion of "the product (good) embedded with utilities (exchange-value). Correspondingly, Vargo et al. (2008) point out that economic science has thus been grounded on a foundation of goods-dominant logic and nominal exchange value. According to Brodie et al. (2006) the shift from "goods *towards* services" suggested in S-D Logic needs to be empirically researched more extensively to determine

whether it supersedes the “goods *and* services” dichotomy. Brodie et al. (2006) suggest that Contemporary Marketing Practice (CMP) research has shown that the G-D Logic based “goods *and* services” perspective will still be useful for some firms that possess the sufficient flexibility and adaptability. The alternative view that has emerged in CMP is that firms that are now employing a variety of marketing practices and are in an evolutionary process in which S-D Logic is emerging; eventually S-D Logic will become the dominant logic. This suggests that the usefulness of S-D Logic shift from goods towards services is yet to be determined.

2.2.2. Service as Activity

As seen in section 2.2.1, the conventional G-D logic based IHIP classification of service has considerable limitations. However, despite the prominence of IHIP, perhaps a more fitting conceptualization of service has long existed. Grönroos (2006) has argued that a good represents a potential value or utility which requires activities to transform the potential value into real value for the beneficiary. This definition highlights the nature of service as a process and a customer activity and therefore also implicitly highlights the idea of value-in-use, discussed in section 3.1.2. According to Edvardsson et al. (2005), most scholars, including Vargo and Lusch (2004), consider services to be activities, deeds or processes, and interactions. In the following, the view of service as an activity is discussed.

Grönroos (2006) defines the service concept as “[. . .] a process that consists of a set of activities which take place in interactions between a customer and people, goods and other physical resources, systems and/or infrastructures representing the service provider and possibly involving other customers, which aims at assisting the customer’s everyday practices”. Edvardsson et al. (2005) have divided this definition into three core dimensions: (1) activities; (2) interactions; and (3) solutions to customer problems. This relational and process nature is supported by Normann (2001) who defines services as “activities (including the use of hard products) that make new relationships and new configurations of elements possible.”

Bitner et al. (2008) emphasize the dynamic and temporal nature of services and also highlight the possible deviations from a linear process stating; “[...] services are dynamic, unfolding over a period of time through a sequence or constellation of events and steps. The service process can be viewed as a chain or constellation of activities that allow the service to function effectively”. Grönroos (2008) points out that similar to consumers, also business customers also pursue everyday activities and that have to be supported by their own resources or resources acquired from outside sources. Gummesson (2002) states that the service encounter stands out as the most distinctive feature separating them (services) from goods”.

2.2.3. Service as Perspective

Even though activity view of service can be seen as useful, Edvardsson et al. (2005) argue that activity and process perspective definitions of service only capture the essence of services to the extent that they form a fruitful basis for managing services and creating value through their provision. Edvardsson et al. (2005) argue that service concept is more important for firms as a perspective than only as an activity. In the following the concept of service as a perspective is examined.

Edvardsson et al. (2005) define service as a perspective on value creation rather than a category of market offerings and suggest that “service has to be determined at a specific time, in a specific company, for a specific service, from a specific perspective”. Edvardsson et al. (2005) further suggest that co-creation of value with customer is the central aspect of service and that the nature of service can be characterized as interactive, procession, experiential, and relational. Similar to Grönroos (2006), also in this definition of service, the process and relational nature are emphasized. However, the idiosyncratic and experiential nature of service from customer perspective is highlighted. In an attempt to describe what service does for a customer, Edvardsson et al. (2005) suggest is to focus on “defining value-creation through service rather than services as market offerings” and to emphasize “value-in-use as defined and experienced by customers”. On this basis the authors define service as a “portrait” because the experience of service always depends on the perspective.

Gustafsson et al. (2003) stress the customer's perspective in need for a system of linked activities which support the customer in solving problems in which activities are linked seamlessly, thereby creating unique experiences. Similarly, Bitner et al. (2008) note that “all parts of the organization should be focused on the common goal of creating an integrated, memorable, and favorable customer experience”. Bitner (1992) has also shown with the servicescape model that much more than the impact of employees influence customer perceptions. These views strongly correspond with the cross-functional embedded role of marketing (Srivastava et al. 1999) and enterprise integration (Bolton 2006). Additional support is provided by Normann (1983) who implies the importance of the entire customer interface in suggesting the “successful service marketing becomes the responsibility of the part-time marketer for making customers satisfied”. Grönroos (2006) crystallizes service as perspective; “to manage service quality a customer consciousness has to permeate all business functions”.

Edvardsson et al. (2005) note that Gummesson (1995) and Grönroos (2006) have offered two alternative outcomes of service as perspective. Gummesson (1995) argues that consumers do not buy goods or services but “rather purchase offerings that render services which create value”. Grönroos (2001) on the other hand, emphasizes solutions to customer problems as opposed to value. This poses an interesting question on which of the two outcomes is a more fitting and useful conceptualization for service. Among earlier literature concerning the outcome of service and

customer's perception of service quality are the gap model by Parasuraman et al. (1985) and its subsequent expansion which took tolerance zones into account (Berry et al. 1991).

2.2.4. Service as Business Logic

Adopting a view of service as perspective on value creation implies shift toward more customer orientation. Grönroos (2008) elaborates on the effects of this shift on the business logic of a firm and suggests that firms should not be distracted by existing goods or services in their market offerings. Instead Grönroos (2006) suggests that firms should focus on understanding their customers' everyday practices and value-generating processes where goods and services are used. As a result, the primary focus of the firm becomes discovering ways to support potential customer value creation with different types of offerings and thus, new, Service-Dominant business logic is adopted.

Grönroos (2000) makes a distinction between a core service and enabling-facilitating and enhancing-supporting services, and also includes the service process which makes the offering available as a central service element. Furthermore, according to Grönroos (2000), as firm adopts service as a perspective and business logic and focus shifts to creating interactions, the firm's role in value creation extends from proposing value to value fulfillment by engaging the customer. Payne et al. (2008) effectively describe the outcome of this shift, noting "co-creation opportunities that suppliers have are strategic options for creating value".

Grönroos (2006) also makes a distinction between customer and provider perspectives of service as business logic. As described in previous paragraph, service as business logic from provider perspective refers to the firm seeing customer processes as opportunities to co-create value. Customer service logic on the other hand implies that by using resources provided by the firm together with other resources by applying one's own skills and knowledge customers create value of themselves in everyday practices (Grönroos 2006). Combining these two perspectives, Grönroos (2006) suggests that service as business logic means facilitating interactive processes that support customers' value creation in their everyday practices and that service is a value-supporting process while goods are value-supporting resources. This notion highlights the central role of customer resources in value co-creation. The role of resources will be discussed in more detail in the following section 2.5.

2.2.5. Nordic School Extensions on Service

Finally, albeit both being strongly aligned, Nordic School and Vargo and Lusch perspectives on service are not entirely identical in terms of their contributions to service conceptualization. Vargo and Lusch (2004) define service as "the application of specialized competencies (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself". The Nordic School definition used here is "a process where a set of resources interact with each other and

with the customer aiming at supporting the customer's processes in a value-creating way" (Grönroos 2006). In comparison to Vargo and Lusch (2004) view Nordic School of service can be argued as taking a slightly more expansive view of service as of consumption and the resources involved in a service offering.

In respect to Nordic School's expanded consumption contribution to service research, Grönroos (2006) attests that consumption has been traditionally seen as a black box in marketing and thus the market exchange has been the only way of observing consumption; "customers either buy again or do not buy again". Grönroos (e.g. 2006) in particular has extensively addressed the consumption process in part of the customer in efforts to examine the interaction mechanism in value co-creation. Second main distinction between the two service schools is that while Vargo and Lusch (2004) view goods as transmitters of service or service-delivery vehicles, Nordic School views goods as only one resource among others, e.g. people, goods and other physical resources, systems and/or infrastructures (Grönroos 2006).

To conclude this section, conceptualization of service was first long strongly influenced by the G-D logic based classification system in which service was residually defined as category of market offerings. At the same time view of service as an activity was defined by Grönroos (1979) three decades ago and it has become widely accepted among scholars. More recently, in the S-D logic discourse service as a perspective on value creation has emerged. In this view customer value creation facilitation becomes the key strategic opportunity for a firm which is brings about a significant adjustment in business logic from the G-D logic *modus operandi*. Thus, in the S-D Logic, perhaps the more appropriate dichotomy then becomes direct-relieving services and indirect-enabling services (goods). This notion also becomes evident in the next section of this thesis in which the role of operand and operant resources in S-D Logic is discussed.

2.3. RESOURCES IN SERVICE-DOMINANT LOGIC

The purpose of this section is to illustrate the role of resources in S-D Logic. This section is divided into five sections. First, the key differences between operand and operant resources are described. Next, the historical scarcity shift in resources is outlined to illustrate the background of operant resource emergence. Then, consumer (i.e. individual economic and social actor) operand and operant resources are examined. Finally, the of role operand resources in firm's competitive advantage is highlighted.

2.3.1. Operand and Operant Resources

The concepts of operand and operant resources are closely interlinked. Operand resources can be roughly characterized as something tangible. Constantin and Lusch (1994) define operand resources as resources on which an operation or act is performed to produce effect, and they compare operand resources with operant resources, which are employed to act on operand resources (and other operant resources). Vargo and Lusch (2006) define operand resources as tangible and inert resources. Hunt and Madhavaram (2006) define operand resources as typically physical. Arnould et al. (2006) define operand resources as tangible resources, especially goods or raw materials over which customer or firm has allocative capabilities to act in to carry out a behavioral performance.

On the other hand, operant resources can be broadly characterized as something intangible, infinite and dynamic such as skills or knowledge. Constantin and Lusch (1994) define operant resources as resources that are likely to be dynamic and infinite and not static and finite and produce effects (i.e. on operand resources). Arnould et al. (2006) define operant resources as resources that are often invisible and intangible. S-D Logic which views specialized skills and knowledge as the primary unit of exchange focuses on operant resources as the primary resource.

Vargo and Lusch (2004) identify five ways discussed here in which operand and operant resources distinguish S-D and G-D Logic. First, the primary unit of exchange shift from operand resources such as goods to benefits of specialized competences created by operant resources such as skills and knowledge in S-D Logic. Second, in S-D Logic, the role of goods shifts from operand resources to transmitters of operant resources and appliances for value creation process. Third, in S-D Logic, the role of customer shifts from recipient of marketing to a primarily operant resource which participates in co-creation of value. Fourth, in S-D Logic, value results from beneficial application of operant resources occasionally transmitted through operand resources and is determined by customer (operant resource) in use. Fifth, in S-D Logic, wealth represents the right to use operant resources in the future as opposed on G-D Logic in which wealth consists of controlling operand resources.

2.3.2. Emergence of Operant Resources

The evolution in the way resources are viewed can be best described as a perception shift in respect to scarcity of resources and shift from operand resource emphasis to operant resources emphasis. Vargo and Lusch (2004) suggest that in the G-D Logic world, resources were static natural resources or operand resources were drawn on for support and captured for an advantage. Thus, as natural resources are finite, political power and economic wealth was with those with most natural resources in possession. Hawken et al. (2007) suggest that along with primary focus on tangible or operand resources, the scarcity of labor fueled the Industrial Revolution. Thus, Hawken et al. (2007) claim that as industries were mechanized and economy exploded exponentially, labor shortages were created. Therefore the G-D Logic became rooted on logic of economizing on the scarcest resource of this time,

people and to date, a lot of businesses appear to be operating on the basis of this scarcity perspective. However, according to Hawken et al. (2007), the pattern of scarcity is shifting as people no longer are scarce but nature is, especially in industries that depend directly on ecological health.

Along with the aforementioned scarcity shift, the second major evolution in resource thinking is from operand to operant resources. In the post-Industrial Revolution G-D Logic world the focus has been on the exchange of operand resources which are defined as resources that an act or operation is performed on, such as goods (Constantin and Lusch 1994) or natural resources. Vargo and Lusch (2004) note that more recently, humans have begun to recognize the role of intangible or *operant* resources such as skills and knowledge were the primary resources in economic activity; everything is neutral or even a resistance until people learn what to do with it, thus resources are not but they become, resources themselves are not the inputs to production but only the services the resources can render. While operant resources have become more emphasized more recently, Vargo et al. (2008) note that both operand and operant resources are equally important as often operant resources can be transferred to the beneficiary by embedding them to operand resources such as goods.

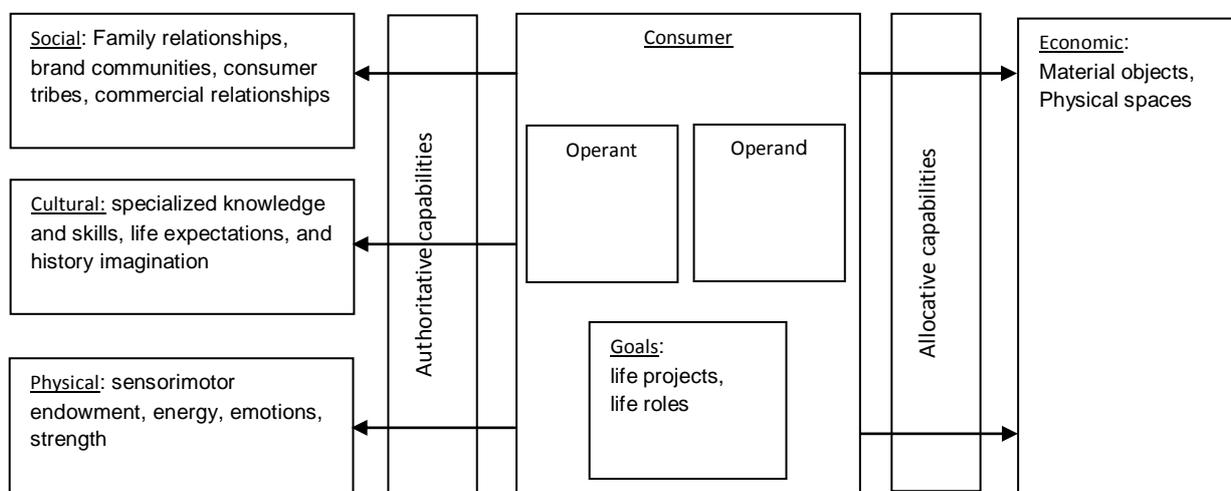
2.3.3. Customer Resources

Value co-creation is the central notion of S-D Logic and this thesis and it involves resource integration between service provider and beneficiary. Therefore, if indeed also individual economic and social actors (i.e. consumers, employees) can contribute to the value creation process it is necessary to examine the resources and individual actor draws from in this process. Vargo and Lusch (2004) suggest that the G-D Logic views customers similarly to operand resources, as something to be acted on and captured; in the English marketing lexicon and that this view is manifested in terminology such as “segmenting”, “penetrating”, and “promoting” to the market. Contrary to this view, as discussed in section 4.1.1, S-D Logic brings about a “bottom-up” perspective in which customer value creating processes became opportunities for value creation which implies centrality of customers as resources.

Thus, in S-D Logic, individual actors are no longer viewed as operand resources to be acted on but operant resources for value co-creation instead. Viewing customers as operant resources also makes the goods-services dichotomy outdated as shown by Gummesson (1995) who argues that customers buy offerings which render services which create value, instead of goods or services. Vargo and Lusch (2004) suggest that the shift in focus to services thus is a shift from the means and the producer perspective to the utilization and the customer perspective. However, while S-D Logic arguably has recognized customers as operant resources for co-creation, Arnould et al. (2006) argue that it has underconceptualized consumers’ value-creative competences.

Arnould et al. (2006) expand on S-D Logic view of customers as resources for value co-creation by introducing a distinction between a consumer's operand and operant resources (Figure 3). The goal of the framework is to develop a perspective which addresses the consumer view from an S-D Logic standpoint and to propose a model which is suited for a dialectical value creation and customer centric orientation of a firm. The framework highlights the central elements of an individual actor's resources one deploys and seeks to supplement through value co-creation with market offerings. The three broad elements of consumer's resources are his or her life roles and projects, operand resources, and operant resources. These three elements will be discussed in more detail in the following, respectively.

Figure 3 Consumer's Stock of Resources



Source: Arnould et al. (2006)

First, Arnould et al. (2006) emphasize the importance of the evolving life projects and life roles of a particular consumer in deployment of the stock resources one possesses. Arnould et al. (2006) describe life roles as subject to the stage of life and social context in which consumer deploys his or her resources. At the same time, Arnould et al. (2006) suggest that the consumer pursue a set of life projects. In pursuit of life goals and enactment of life projects, the consumer integrates his or her operand and operant resources with company resources.

Arnould et al. (2006) suggest that consumer operand resources include objects of which most have been acquired from exchanges with marketers. These objects can also include resources acquired through other means such as gifts, inherited possessions, found, and self-created objects. Operand resources may also be physical spaces consumers which consumers are in control of. Subject to social norms and legislation, consumers exert partial or full authority over these objects and spaces. These operand resources allow consumers to achieve goals based on distinctive deployments of firm operant resources.

According to Arnould et al. (2006), consumer's stock of operant resources includes social, cultural, and physical resources linked to cultural schemas such as conventions, traditions, recipes, habits of speech and gesture. In an effort to contribute to S-D Logic emphasis on operant resources, Arnould et al. (2006) elaborate on the three different types of operant resources; in the following social and cultural operant resources are discussed in more detail.

Social operant resources are perhaps the most prominent of the operant resources. This is because they have become particularly relevant for consumers recently with emergence of advanced information technology. Arnould et al. (2006) suggest that consumers draw on their social connections heavily when making brand choices and that consumers deploy both weak and strong social ties with others, thereby affecting both macro- and micro-level word-of-mouth processes. This is closely related to the suitability of many-to-many marketing approach proposed by Gummesson (2006).

Arnould et al. (2006) suggest that consumers' deployment of social operant resources is reinforced in consumer agencies which are consumer groups where a number of co-consumers can have a greater voice in co-creation of value through enhanced computer-mediated communication such as chat rooms and consumer-to-consumer marketing networks. Cova and Cova (2001) note that co-consuming communities can represent an important information resource as consumers can draw on other consumers for information on the offering and also, share cultural schema nuances as to how to use that offering creatively and interpret these experiences properly. Furthermore, Arnould et al. (2006) add that co-consuming communities often exhibit sense of moral responsibility which results in socialization of other co-consumers. Thus ritual activities in consumption-oriented communities facilitate, create, and reproduce community. Finally, co-consuming communities add meaning to consumption by adding celebratory ethos thereby building consumer operant resources. This suggests that a firm seeking co-creation opportunities should aim at facilitating creation of consumer communities in which the value density (Prahalad and Ramaswamy 2001) of the firm offering increases.

Cultural operant resources have been defined as varying amounts and types of knowledge cultural schemas, such as cultural, capital, skills and goals. Arnould et al. (2006) observe that cultural operant resources have impact on consumption of homes, food, and fashion; those with extensive cultural operant resource endowments would be primarily interested in abstraction, subjectivity, and self-expression whereas those with lesser cultural operant resources would focus on material aspects, functionality and traditions. Moreover, in addition to quantity of cultural operant resources, Arnould et al. (2006) argue that the quality of these resources varies.

As seen in this section, there are three prominent elements a consumer brings into a value co-creation process; consumer's operand and operant resources closely interact with each other and with those of firm's and thereby consumer's life projects and roles continuously evolve. As suggested by Arnould et

al. (2006), central to this dynamic process are cultural and social operant resources. This notion corresponds with Venkatesh et al. (2006) view of market as a sign system in which value and meanings determine exchange of skills and knowledge as well as goods and services. Arnould et al. (2006) argue that as consumers draw from their operant resources strongly influenced by cultural schemas (or meanings and value) to deploy operand resources, the firm “must be mindful of about the operant resources consumers possess and bring to the exchange process”. In other words, when seeking co-creation opportunities (Payne et al. 2008), according to Arnould et al. (2006), firm focus on consumer operant resources will help create value in use and anticipate consumers’ value desires better. It is necessary to note here that consumer’s stock of resources as a service beneficiary can also be seen pertinent to an individual economic and social actor’s other intermediary roles in value creation (e.g. employee of service providing firm). In the following section, the role of resources for a firm will be discussed in more detail from an S-D logic perspective.

2.3.4. Firm Resources

In this section, the role and nature of firm resources in resource integration will be discussed. In S-D Logic, the primary unit of exchange is operant resources; specialized competences such as knowledge and skills (Vargo and Lusch 2004). Constantin and Lusch (1994) define operant resources as often invisible and intangible resources that produce effects; from a firm perspective they are often they are core competences or organizational processes. As highlighted in section 2.2., the concepts of competitive advantage and operant resources are closely linked resource-advantage and core-competence theories of the firm. As suggested by Spohrer et al. (2007), in the S-D logic realm, value creation should be thought of as resource integration. Vargo et al. (2008) propose that in resource integration, firm offerings must be integrated with other market-facing (i.e., from other firms) and non-market-facing (e.g., personal/private and public) resources for value to be created. In the following, the role of firm (operant) resources as source competitive advantage is discussed in more detail.

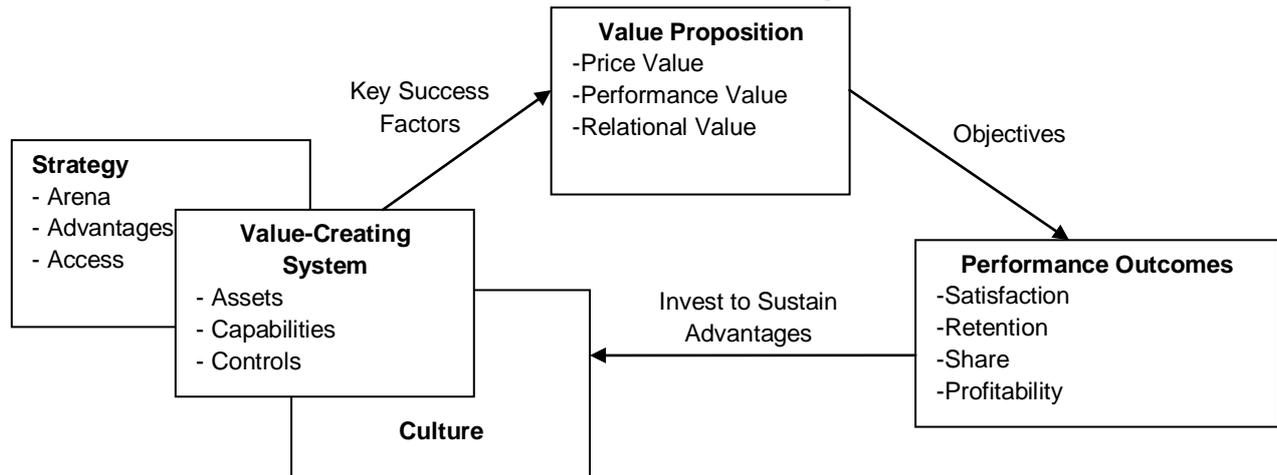
Hunt and Madhavaram (2006) make an attempt to use R-A theory as a theoretical foundation of S-D Logic and suggest competition is evolutionary, disequilibrating, dynamic process that involves firms using operand and operant resources in search of competitive advantage and superior financial performance. Hunt and Madhavaram (2006) suggest that for S-D Logic, competition is a knowledge-discovery process in which firms try to overcome competitive disadvantages and develop superior competitive advantage by innovating and thereby undergo organizational learning. Normann and Ramirez (1993) have found that firm investments in new knowledge may even become so large that a company's own offerings to its existing customer base are no longer adequate to recoup its investment. As a result, the new knowledge may propel companies into new businesses in search of new relationships with new customers. However, path dependency can be considered as limiting factor to this (Cohen and Leventhal 1990).

Hunt and Madhavaram (2006) further suggest S-D Logic conceptualizes resources more thoroughly by emphasizing operant resources such as competence as key source of value to the firm. As opposed to R-A theory, in S-D Logic the value of the (operant) resources is determined by the extent to which each resource contributes to firm's ability to produce efficiently and/or effectively market offering that has value to certain market segments (Hunt and Madhavaram 2006). This implies firm need to understand customer operant and operand resources (Section 2.3.3.) and ability to integrate own operant resources accordingly for the purpose value co-creation.

Hunt and Madhavaram (2006) show that primary task of a firm is to engage in a knowledge-discovery process which employs market feedback for organizational learning directed at developing a competitive advantage. In this process, Hunt and Madhavaram (2006) suggest that marketing has three objectives; (1) it should focus on operant resources as source of competitive advantage; (2) it should strive to maximize customer involvement in developing customized offerings; and (3) it should aim to the "predominant organizational philosophy" which initiates and coordinates a market-driven perspective on core competence of the company. Similar to Hunt and Madhavaram (2006) view of marketing as "predominant organizational philosophy", Day (2006) likewise suggests that marketing should be in general management responsibility. Day (2006) identifies three roles for marketing; (1) navigation through effective market sensing and information sharing to anticipate market opportunities and competitive moves; (2) articulation by designing and refining value proposition in prospect of gaining competitive advantage; and (3) orchestration by acting as the "glue", aligning all sources of advantage toward superior value and strategy.

The abovementioned perspectives on marketing by Hunt and Madhavaram (2006) and Day (2006) suggest that in discourse on firm resources the key question is how marketing (operant) resources can be converted into competitive advantage; if indeed S-D Logic was to be accepted as the new dominant logic it would bring about a significant shift on the way resource allocation and competitive advantage are conceptualized. Day (2006) proposes a framework (Figure 3) which distinguishes the operant resources that enable competitive advantage and their consequent positional and relative performance outcomes. It is important to note that the framework proposes a cyclical process in which competitive advantage is contingent on consistency and alignment of the operant resource. This corresponds with Hunt and Varadarajan (2006) notion of competition as a knowledge-discovery process.

Figure 3 Firm's Stock of Resources and Competitive Advantage



Source: Day (2006)

In Figure 3, *Strategy*, *Value-Creating System* and *Culture* form the operant resources that are the sources of firm's competitive advantage. Day (2006) suggests that the *Value-Creating System* includes assets such as networks, patents, and facilities that can be valued and exchanged. In order to deploy these *assets* advantageously, enabling *capabilities* are required. Normann and Ramirez (1993) have defined Value-creating system more broadly, describing it as focus of the firm in which different economic actors such as suppliers, business partners, allies, and customers work together to co-produce value. Central to this Normann and Ramirez (1993) view of value creation system beyond firm is reconfiguration of roles and relationships among actors involved to generate value.

Day (2006) states that successful deployment of the *Value-Creating System* requires *Strategy* which aligns the operant resources of the firm and gives direction by setting strategic priorities there by aligning sources of advantage toward superior value. Day (2006) suggests that this process of orchestrating knowledge for value creation corresponds with Vargo and Lusch (2004) view of fundamental source of competitive advantage. Normann and Ramirez (1993) have noted that strategy links together the only two resources that really matter in today's economy: knowledge and relationships or an organization's competencies and customers. In Figure 3, on the contrary to S-D Logic which views the role of market performance primarily as a feedback for learning (Vargo and Lusch 2004), Day's (2006) view of performance outcomes (satisfaction, retention, share, and profitability) appears to be more closely aligned with growth imperative view of Lehmann (2006).

In Figure 3, Day (2006) also notes the often idiosyncratic and interconnected nature of the combination of capabilities and assets in which individual resources are not advantageous in their own right. Normann and Ramirez (1993) have extended this view, stating that firm's combination of capabilities and assets can not only be integrated to each other or the customers' resources but to also broader public logic. Normann and Ramirez (1993) define this broad macro level integration as virtual metacompetence. According to Grönroos (2008), extensive integration to customer processes

and logic is also an opportunity to interfere with the consumption process, learn from the customers, teach them new skills and thereby become a *market-driving organization* (Carrillat et al. 2004). As a result, individual economic actor's operant resources (section 2.5.3) are supplemented and additional value may be created. In some cases, close resource integration can even shift the division of labor between firm and customer (e.g. IKEA) which consequently can raise profit margins for the firm (Normann and Ramirez 1993).

Day (2006) argues that advantageous deployment of firm's operant resources requires narrowing strategic focus to those assets and capabilities of the Value-Creating system that constitute key success factors for the customers. It can be argued that choosing these assets and capabilities is the core of value co-creation and resource integration as it calls for understanding of the customer's value creation process and operand and operant resources. Grönroos (2006) notes that firm does not only need resources to make promises about value for customers but also has to mobilize such resources, as well as such knowledge and leadership that are needed to develop, manage and implement chains of processes, interactions and outcomes which makes this value support possible.

However, Grönroos (2008) also notes that as a strategic decision, adoption of relational S-D logic can only be done if customers are buying the firm offering as value-creating process or can be persuaded to do so. If the offering is bought as resource developing a market offering based on G-D logic makes more sense. In other words, it can be argued that in some cases firm's customers may not be attracted to relational value creation (Grönroos 2008; Wilkie and Moore 2006). However, it can be argued that advantageous resource deployment is equally contingent on effective relational value processes as it is on the embedded value of the offering.

In respect to the cyclical competitive advantage formulation process in Figure 3, Day (2006) also highlights the prominence of path dependency; path dependency is tied to (operant) resources in the sense that firms build on what they know. Day (2006) points out the narrowed focus and choice of new strategic direction for supreme value creation must overcome the inertia caused by this path dependency. Day (2006) suggests that consequently, firms today are often unable to adopt strategic recommendations of S-D Logic and rather opt for product-centered transactional approach. Day (2006) offers several reasons for firms' reluctance to adopt service as perspective on value creation (Grönroos 2006); managers may feel firm is preempted by better-qualified rivals; managers may perceive firm as lacking financial or organizational resources to undertake the shift; the potential returns are too distant; and because managers may feel that with transactional price value strategy, bundling of the offering and complex relationship initiation is unnecessary. Day (2006) notes that if the *culture* of the firm is aligned with relational value strategy, adoption of resource integrating value creation suggested in S-D Logic would not cause inertia.

3. VALUE IN SERVICE-DOMINANT LOGIC

The aim of this chapter is to examine the concept of value in S-D logic discourse. This section is divided into three sections. First, different drivers (or sources) of value are examined. Then, the value creation context advocated in S-D logic is examined. Finally, the determination of value by the beneficiary is discussed.

3.1. VALUE DRIVERS

The aim of this section is to introduce the concept of value in respect to its different drivers. In this section, first this exchange-value will be discussed. Second, the relevance of use-value will be examined briefly in terms of its historical origins and more extensively in terms of its fit to S-D Logic. Finally, the most recent value view based on the notion that value is always uniquely and phenomenologically determined by the beneficiary (FP10; Vargo and Lusch 2008) is examined and future directions for appropriate value driver definition are discussed.

3.1.1. Value-In-Exchange

The purpose of this section is to examine the value-in-exchange concept of value. Grönroos (2006) notes that until today, value has then been traditionally viewed in the as embedded in a product that is exchanged on basis of value-in-exchange. This, according to Grönroos (2006) has strongly influenced marketing discipline as exchange and its facilitation has long been considered the central concept in marketing; the value for customers has inevitably to be embedded in what is exchanged (products). Venkatesh et al. (2006) suggest that much of marketing and economics literature assume that a market exists because of the exchange value which permeates all transactions. Consequently, Vargo et al. (2008) suggest that good embedded with “utilities” or value-in-exchange became the focus of neoclassical economics grounded in marginal utility theory and economic science became founded on G-D Logic. Moreover, Vargo et al. (2008) argue that from embedded value-in-exchange perspective the roles of “producers” and “consumers” are distinct, and value creation is often thought of as a series of activities performed by the firm. This corresponds with the notion of customers as mainly operand resources and also matches with Grönroos (2006) notion of black-box of consumption.

While it may appear that due to its strong G-D Logic foundations, value-in-exchange has lost its usefulness, it is important to note that value determined by exchange remains an important component in the co-creation of value (Vargo et al. 2008). Vargo and Lusch (2006) suggest that it is possible for value-in-use to exist without value-in-exchange, but only when there is no need to access resources from others. For instance, value-in-exchange is required for value creation once the resources needed cannot be attained naturally, such as breathing fresh air versus needing an oxygen tank (Vargo and Lusch 2008). Consequently, by recognizing that value-in-exchange provides means of exchange of specialized competences, for example, it can be defined as the negotiated measurement offered and received (e.g., money and value proposition) among exchange partners

(Vargo et al. 2008). Value-in-exchange, therefore, provides a way of measuring relative value within a context of surrounding systems.

As noted by Vargo et al. (2008), the process of co-creating value is driven by value-in-use, but mediated and monitored by value-in-exchange. Grönroos (2006) acknowledges that from a management perspective that value-in-exchange is easier to measure and observe in the short-term but emphasizes that the creation of value-in-use is more important value concept for a firm because real value of exchange can not be assessed before it has been determined whether value-in-use has been created for the beneficiary. On this basis, Grönroos (2006) acknowledges value-in-exchange as a function of value-in-use. In what follows, the more closely S-D logic aligned value-in-use concept is examined.

3.1.2. Value-In-Use

The purpose of this section is to examine the value-in-use concept of value. Prior to the formal development of G-D logic oriented economics focused on marginal utilities, use-value was commonly acknowledged as the basis of satisfaction and fulfillment in value (Vargo et al. 2008); value-in-use was originally recognized as a collection of things and the qualities associated with these collections and mainly satisfactions are purchased. The emergence of G-D logic oriented value-in-exchange and subsequent fall of inherently logical value-in-use into a peripheral concept resulted from the recognition of real value in the effort required to afford necessities and pleasures of life; thus value-in-use was the primary driver of value and nominal value-in-exchange was what was paid in market exchange (Vargo et al. 2008).

Vargo and Lusch (2006) suggest that “there is no value until an offering is used – experience and perception are essential to value determination”. Grönroos (2008) notes that as value is created by customers in their practices. Vargo et al. (2008) draw from Holbrook (1987), suggesting that value is derived with participation by beneficiary through use in process of acquisition, usage, and disposal. Consequently, Grönroos (2008) suggests that thorough understanding of people’s everyday practices is the starting-point for developing a customer-centric offering based on S-D Logic. Vargo et al. (2008) suggest that in creation of value, value is not created until the beneficiary of the value proposition has somehow integrated this new resource into his or her life. In other words, the beneficiary’s well-being has somehow been improved. It is important to note that as according to S-D Logic all social and economic actors are resource integrators (FP 8), resource integration and value creation can take place on multiple levels of aggregation, from an individual consumer and household to an entire service system (Spohrer et al. 2007).

Because S-D Logic considers value creation as relational resource integration between a variety of economic and social actors, the clear-cut interface between firm and provider expands and becomes

exponentially more complex. Vargo et al. (2008) emphasize that shifting locus of value creation from value-in-exchange to value-in-use requires transforming our understanding of value from one based on outputs to one based on processes that integrate resources of different actors. Grönroos (2006) points out that consequently, the marketer has to try to carefully design and manage as many elements of the interface as possible to ensure that the total experience of the customer creates as much value as possible. Emerging from the extended customer interface of resource integration is the notion of value-in-context (Vargo et al. 2008). According to Vargo et al. (2008), essentially the nature of exchange and value creation is ultimately very much contingent on the context in which it takes place. In discussion of many-to-many marketing, Gummesson (2006) also emphasizes this contextual quality of value. Similarly, Arnould et al. (2006) links S-D logic to consumer culture theory, which captures the critical role of the customer's context and network in value creation and determination.

3.1.3. Interaction Value

The aim of this section is to introduce interaction value which can be essentially seen as a subconcept of value-in-use because it is emergent in the relational value creation between provider and beneficiary. Berthon and John (2006) introduce distinction between interactive value component and noninteractive value component of an offering and identify different interactive value dimensions from customer's perspective. This perspective advocates a focus shift from entities in exchange (i.e. provider and beneficiary) to the interaction themselves which constitute the exchange. Berthon and John (2006) suggest that the value dimensions of interaction are especially relevant to understand as the basic units of offering are becoming increasingly discrete from the interaction itself. This corresponds with Venkatesh et al. (2006) notion of commodization in the sign system market in which the actors become increasingly separated from objects of use and their creation processes.

Berthon and John (2006) note that value-in-use is realized in interaction experience with the offering. Thus, interactions are central elements of value-in-use. In these interactions, specialized competences are exchanged between different economic and social actors (e.g. firm, customer, stakeholders) at the interface of the firm. Berthon and John (2006) suggest that the exchanges can be viewed as having interactive and noninteractive components. The noninteractive component can be seen as a stand-alone component and interactive value component as one dependent on the interaction of the exchange parties. The interaction intensity of the offering can be thus defined as extent to which the customer value of the relationship is determined by the interactions. According to Berthon and John (2006), central to this continuum, is the extent to which interactive component is necessary for obtaining value-in-use from the noninteractive component. On the contrary, it is also central to consider the extent to which the noninteractive component can act as a facilitator of the interactive component.

From a customer perspective, the interaction value varies on the aforementioned interaction intensity continuum on basis of seven value dimensions (Berthon and John 2006). First, content value refers to the quality of the outcomes and task fulfillment in a relationship. Second, control value is the extent to which the beneficiary directs the interaction. Third, continuation value develops as provider obtains, records, utilizes and deploys information of the beneficiary and thus integrates learning to the interaction. Fourth, customization is the extent to which the interaction is specifically tailored to the needs of the particular beneficiary. Fifth, currency value results from the timeliness of provider response to beneficiary requests. Sixth, configuration value refers to the extent the provider adjusts to the locational relevance of the beneficiary, in other words, space sensitive interactions. Finally, contact value refers to the extent to which the overall experience of the interaction provides value for the beneficiary. Of these seven value dimensions, contact value appears most closely aligned with S-D Logic as it highlights role of overall experience which is acknowledged by Vargo and Lusch (2006); “determination of value is subject to the perceived experience of the beneficiary”.

3.1.4. Phenomenological Value

As shown in section 3.1.2, value-in-use is suggested as the primary value driver in SD- logic discourse. The S-D Logic notion of value-in-use suggests that value is always determined by the beneficiary of service and derived with participation by beneficiary through process of acquisition, usage, and disposal (Vargo et al. 2008). In other words, Vargo and Lusch (2006) suggest that there is no value until an offering is used, and therefore, the determination of value is subject to the perceived experience of the beneficiary. Correspondingly, FP10 states that “value is always uniquely and phenomenologically determined by the beneficiary (Vargo 2008); this implies that value is phenomenological in nature and idiosyncratic in its determination by the beneficiary. Holbrook (2006) defines phenomenological value as “an interactive relativistic preference experience”; this definition is aligned with relational value creation perspective S-D Logic. This concept is discussed in more detail in section 3.3.

Key implication of adopting a phenomenological perspective of value-in-use and value-in-context is that value is derived from participation and determined by beneficiary in value co-creation in process of acquisition, usage, and disposal, as opposed to what is simply termed as consumption in G-D Logic (Vargo et al. 2008). Normann (2001) shows that this extended conceptualization of consumption process can be linked to two distinct contrasting definitions consumption; to *consume* means to destroy, use up, or waste; *consummate* means to complete or perfect. Vargo et al. (2008) suggest that while the term consummate is the S-D Logic perspective of consumption even though it is not explicitly used in S-D Logic literature.

Consequently, in creation of value-in-use or value-in-context, the service beneficiary becomes a value creator instead of a value destroyer and therefore, the purpose of value shifts from increasing wealth of a particular actor (i.e. firm) to increasing the adaptability, survivability, and system wellbeing of others through specialized competences (i.e. applied knowledge and skills) (Vargo et al. 2008). This notion highlights the suggested inherently ethical perspective of S-D Logic as it abandons the make-sell-discard-rebuy perspective of G-D Logic (Vargo and Lusch 2008) and also aligns S-D Logic with Hawken et al. (2007) who emphasize the need for reconceptualization of the way environment and economic value are thought of.

3.1.5. Business Customer Value

The purpose of this section is to explain the difference between drivers of value in business-to-business and business-to-consumers contexts. As shown in previous section, the basic notion of S-D Logic value is based on value-in-use which subsists in customer's everyday practices, not the object of output (Grönroos 2008). Consequently, the starting point of value creation to intended beneficiaries needs to be based on understanding of these everyday activities customers pursue for the achievement of his or her life goals (Arnould 2006). This view however is not limited to consumers only, as shown by Grönroos (2008) who notes that business customers also pursue everyday activities and processes (e.g. manufacturing, accounting, and advertising campaigns) that have to be supported by their own resources or resources acquired from outside sources. However, whereas goals of an individual consumers are limited to his or her life goals (Arnould 2006), for a business customer value needs to be created in accordance to a hierarchy of goals or desired outcomes (Bagozzi and Dholakia 1999; Woodruff 1997); thereby, provider firms value foundation needs support the attainment of the hierarchy the goals and minimize sacrifices along the way in everyday activities..

Moreover relative to value co-creation advocated in S-D Logic discourse, it needs to be noted that much of it focuses on end-customer despite the fact that value co-creation is most evident in business-to-business relationships (Flint and Mentzner 2006) where resource integration and relational orientation is inherent to all exchanges. Consequently, in business-to-business relationships, value is derived in processes in which the business customer manages its core value creating activities and its relationships with enabling suppliers. Grönroos (2006) argues that the relational and integration creation of value emphasized in S-D Logic is applicable even to situations where traditionally industrial products are exchanges because the extensive customer interfaces in these situations fulfill the characteristics of services more than they fulfill characteristics for goods.

On basis of the latter, it can be argued that business customers for business customers value exists in the offering itself and in the relationship with the provider; Woodruff and Flint (2006) distinguish between economic value and social relationship value of the business relationship. Similarly, Lapierre (2000) and Ulaga (2003) suggest that business customers value functional benefits, service benefits

and relationship benefits and tolerate certain monetary and nonmonetary sacrifices. Flint and Mentzner (2006) support this and argue that business customer interact with suppliers in attempts to achieve functional and relationship goals. However, as noted by Flint and Mentzner (2006) economic and relationship value sought by business customers are in continuous fluctuation; for provider, this requires close operational integration (Sawhney 2006) and a dialogical orientation (Ballantyne and Varey 2006). Relative to value changeability, Woodruff (1997) has suggested that business customer value is contingent also on the use situation and desired goals and end states. These two perspectives of value are aligned with the two salient concepts of value determination; customer value change dynamics (Woodruff and Flint 2006) and relativistic and reflexive value judgment (Holbrook 2006) discussed in section 3.3.

Relative to value determination and judgment in business-to-business contexts, here it should be noted that economic value is the dominant concept of value (Woodruff and Flint 2006). Woodruff and Flint (2006) characterize economic value as customers translating value into monetary equivalence; in business-to-business context, this pertains to business customer's calculations of the economic value of the offering to its own value creation processes. Woodruff and Flint (2006) observe that this is fitting to certain an extent in business-to-business context, but in the broader S-D Logic realm, the view is limiting as it ignores phenomenological aspects of value determination in part of the customer. Similarly, relative to business-to-business branding, Ballantyne and Aitken (2007) argue that the validity of traditionally hypothesized dominance of emotion in consumer markets, and logic and rationality in business-to-business markets should be questioned. Moreover, in line with the aforementioned distinction of economic and relationship value in business-to-business contexts (Woodruff and Flint 2006), Ballantyne and Aitken (2007) observe that "non-rational" aspects such as emotion and social dynamics is extreme because social relationships have been shown as source of trust and commitment in business-to-business exchanges.

As shown above, in S-D Logic discourse concerning business-to-business value creation, to a certain extent, there has been a convergence of the value from the offering and the value from the relationship. This suggests that for business customers seeking for enabling or relieving service that support the core value co-creation process, value could be provided by helping customer reduce the need for capital goods and thereby reduce the volatility in the turnover relative to capital goods which arguably is at the heart of the G-D Logic business cycle (Hawken et al. 2007). This ownership relieving value is conceptualized as non-ownership by Lovelock and Gummesson (2004) and continuous flow of value by Hawken, Lovins and Lovins (2007). Consequently, relative to service as value creation, Lovelock and Gummesson (2004) suggest that service allow the customer to create value for itself by gaining the right to use either operand (e.g. physical object, facilities) or operant resources (e.g. personnel expertise). Respectively, a value can be derived by a business customer both in terms of economic value and relationship value; as relief from capital invested in operand resources and

continuous value of value *as defined by customer*, arising from comprehensive maintenance and support services (Vargo and Lusch 2004; Hawken et al. 2007).

3.2. VALUE CONTEXT

As pointed out in the previous section, purpose of value proposed in S-D Logic is to increase the adaptability, survivability, and system wellbeing of others through specialized competences (Vargo et al. 2008). Edvardsson et al. (2008) suggest that this is a considerable shift from G-D Logic view of make-sell-discard-rebuy value creation which suggests that every company occupies a position on a value chain. According to Edvardsson et al. (2008), in G-D Logic the primary role of strategy is to position the firm in the right place on the value chain, with the right products and market segments, and right value-adding activities. Cova and Salle (2008) argue that in order to fully adopt S-D Logic, we must go beyond the notion of value chain in order to reach the notion of value creation network or constellation of actors. Normann and Ramirez (1993) have defined constellations of value as venues in which actors from the supply network and from the customer network come together to coproduce value. In what follows, this networked value creation perspective is examined in more detail.

3.2.1. Network as Core variable of Marketing

Lusch and Vargo (2006) argue that value networks and constellations mask the fundamental nature of exchange and value creation takes place within and between systems at various levels of aggregation (2008). Gummesson (2006) argues that the core variable of marketing is networks and the subcorevariables are relationships and interaction; networks consist of nodes and links (relationships) between them in which interaction occurs. Gummesson (2006) suggests that network theory can be applicable by anyone with varying levels of sophistication. Thorelli (1986) defines network as “two or more organizations involved in a long-term relationship. Archrol and Kotler (1999) define four levels of networks in marketing: internal, vertical, intermarket, and opportunity networks. Möller and Svahn (2006) distinguish between macro networks that have emerged spontaneously and are orchestrated by corporations, and strategic nets that are intentionally designed and built structures by firms for specific purposes. In the following, S-D logic’s networked view of value creation is discussed in more detail.

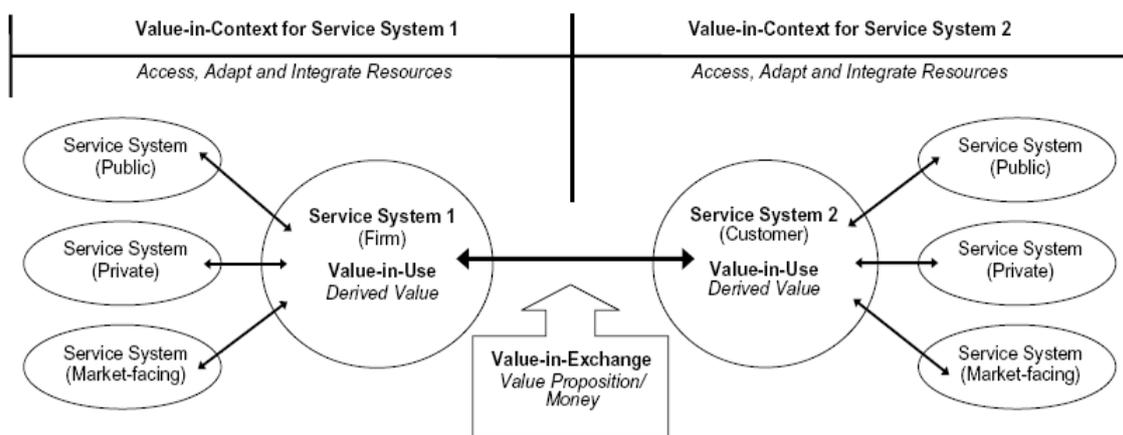
3.2.2. Service System

According to Vargo et al. (2008), in S-D Logic view of value creation value is created collaboratively in interactive configurations of mutual exchange, or service systems. Maglio and Spohrer (2008) suggest that S-D logic provides the philosophical foundation of service science, and the service system may be its basic theoretical construct. Maglio and Spohrer (2008) define service systems as value-co-creation configurations of people, technology, value propositions connecting internal and external service systems, and shared information (e.g., language, laws, measures, and methods). Vargo et al. (2008) suggest that a service system’s function is to make use of its own resources and the resources of

others to improve its circumstance and that of others. Spohrer et al. (2007) argue that service systems are connected through the proposition, acceptance, and evaluation of value.

Along the lines of S-D Logic view of value creation on various levels of aggregation and multiple dimensions of resource integration (Vargo et al. 2008; Vargo 2008), Normann (2001) has suggested that the smallest service system centers on an individual as he or she interacts with others, and the largest service system comprises the global economy and that every service system is both a provider and beneficiary of service that is connected by value propositions. Maglio and Spohrer (2008) further add that economic and social actors within service systems exchange competences (operant resources) along at least four dimensions: information-sharing, worksharing, risk-sharing, and goods-sharing. According to Maglio and Spohrer (2008), information-sharing often dominates in business consulting, work-sharing dominates in outsourcing, risk sharing dominates in insurance, and goods-sharing dominates in renting. Nonetheless, Maglio and Spohrer (2008) note that all four dimensions are present to some extent in almost all service systems.

Figure 5 Value co-creation between service systems



Source: Vargo et al. (2008)

Further, relative to resource integration between service systems Normann (2001) suggests that service depends on division of labor and effective co-creation of value, leading to complementary specialization and comparative advantage among participants. Similarly, Vargo (2008) argues that all parties uniquely integrate multiple resources for their own benefit and for the benefit of others. For this reason, Vargo and Lusch (2008) argue that both the extent of the market and the density of the network of interconnections is a function of the division of labor in society. Arnould et al. (2006) shows that the resource-integration role of the firm is equally applicable to individuals and households. As a consequence, Vargo and Lusch (2008) modified FP 9 to “all social and economic actors are resource integrators”.

3.2.3. Strategic Implications of Networked Value Creation

The extensive resource integrating value creation identified above has significant strategic implications. Vargo (2008) argues that the scope of value creation space which was limited to firm activities in G-D Logic is extended to all social and economic actors primarily as operant resources in S-D logic. As a result, Normann and Ramirez (1993) have argued that the key strategic task of economic actors (e.g. firm) becomes reconfiguration of roles and relationships among the constellation of actors in order to mobilize the creation of value in new forms and by new players. In respect to reconfiguration of relationships in industrial firms in particular, Gummesson (2002) argues that management of stakeholders around the customer is often the most important part of marketing. The importance of stakeholders (or customer network) is acknowledged by Webster and Wind (1996) who emphasize the role of influencers located around the customer who have an impact on purchasing decisions. A technique for acknowledging customer network in proposing value is introduced in section 4.2.3.

The reconfiguring role of strategy in networked economy also has significant implications on the role of customers. Grönroos (2008) suggests that as firms provide customers with resources for their use, they can be viewed as creators of a value foundation through a value facilitation process; the customers also bring a value foundation to the table. Adopting Arnould et al. (2006) view of customer resources, the value foundation can be seen as a stock of operand and operant resources. Thus, essentially, as pointed out by Vargo et al (2008) the role of customer as a service beneficiary in value creation is to co-create value through the integration of firm provided resources with other private and public resources as a value creator rather than as a value destroyer. However, as noted by Grönroos (2008), if the customers do not possess a sufficient value foundation for the value facilitating offering of the firm, the value-in-use will be non-existent or lower than otherwise. Similarly, Vargo and Lusch (2004), emphasize that in cases of self-service, the service beneficiary must have resources to make self-service possible. On the contrary, as pointed out by Prahalad and Ramaswamy (2004), as service beneficiaries (e.g. consumers, business customers) develop stronger value foundations it is possible that consumers start to systematically investigate companies, products, and potential experiences, thereby shifting the balance of power in the firm-consumer dyad.

Furthermore, Lusch and Vargo (2006) have extended the resource integration to include several elements that are not part of G-D Logic value creation and suggest that while social, ecological, and governmental surroundings are considered uncontrollable and exogenous to the process of value creation, the contextual nature of co-created value suggests otherwise. Vargo et al. (2008) argue that resources such as time, weather, and laws are integrated in the value creation process by all social and economic actors.

3.2.4. S-D Logic view of Market

As a result of extensive role of a broad range of actors in each value co-creating exchange, the view of market also needs to be adjusted. The view used here draws from views of Prahalad and Ramaswamy (2004), Arnould et al. (2006), and Venkatesh, Peñaloza, and Firat (2006). Prahalad and Ramaswamy (2004) argue that market should be viewed as a space of potential co-creation experiences in which individuals' constraints and choices define their willingness to pay for experience. Here, "individuals' constraints and choices" can be viewed as a combination of service beneficiaries' goals and projects and stock of operand and operant resources identified by Arnould et al. (2006).

While Vargo and Lusch (2008) suggest that the basis of exchange is the actor's specialized skills and knowledge, the view adopted here is one of Venkatesh, Peñaloza, and Firat (2006) who suggest that market should be instead used as a sign system in which value-in-use and value-in-exchange are derivations of sign value. View of market as a sign system suggests that as a result of commodization and consumerization, individual actors (or service systems) become increasingly separated from objects of use and their creation processes and from the process of production of the used object, respectively (Venkatesh et al. 2006). As a result, as suggested by Venkatesh, Peñaloza, and Firat (2006), market expands when actors use and buy more of means of their existence, or "signs" which are fundamental units of necessities strongly dictated by underlying values meanings of the society. As a consequence, markets can be seen as set of value co-creating conversations between service providers and beneficiaries, contingent to the cultural context and determination of beneficiary (Vargo et al. 2008).

Finally, relative to markets as forums for co-creation, Bitner et al. (2008) suggest, that today we live in an experience economy in which orchestration of memorable, even "transformational" experiences is central to differentiation of company offering and ultimately, sustainable competitive advantage. At the same time, in provision of transformational experiences it is necessary note that as pointed out by Gummesson (2002), ultimately value is a ubiquitous and integral part of life. As economic and social actors develop their operant resources through resource integration, firms should strive for transparency (Vargo and Lusch 2008; Prahalad and Ramaswamy 2004) in order to develop a relationship with a learning dialogue (Ballantyne and Varey 2006). The elements of service beneficiary experience and dialogical learning are discussed in more detail in section 4.3.

As seen in this section, in S-D Logic discourse, the realm of value creation takes a significant departure from the linear value creation in G-D Logic, to multidimensional resource integrating value co-creation that exists on various levels of aggregation. Central to this networked view of value creation are the resources of individual consumers that are arguably dictated by the meanings and

values of the particular culture exchanges take place in. Consequently, competitive marketplace performance of service providers is dependent on the ability to realize new means for resource integration through offering value foundations that support customer value creating processes. As a result, it is crucial to understand the sources of customer value. In what follows, the concept of customer value determination is examined.

3.3. VALUE DETERMINATION

The purpose of this section is to examine the concept of customer value in the context of S-D Logic. As noted by Edvardsson et al (2005), in S-D Logic, the focus is on value through the lens of the customer; and service is a perspective on value creation rather than a category of market offerings. Woodruff and Flint (2006) note that the proposed shift to S-D logic places significant emphasis on concept of customer value and that majority of customer value research emphasizes a seller's perspective and mainly focuses on firm's need to create and deliver value to targeted customers. Similarly, Holbrook (2006) observes that on the contrary to S-D Logic, prominent customer value concepts such as Lifetime Value of the Customer (e.g. Best 2004) and Economic Value of the Customer (e.g. Gupta and Lehmann 2003) which focus on retention of customers over time and value of a customer to the firm. Similarly, Lehmann (2006) suggests that customer lifetime value has potential to resonate with CFOs and CEOs as it places emphasis on future value of customers and thus aims at creating changes that result in strong financial performance. However, as noted by Woodruff and Flint (2006), for S-D logic to validate itself as a dominant paradigm, better understanding of value of firm's offering *as determined by the customer* has to be developed.

3.3.1. Relativistic Determination

As identified in FP10, S-D Logic is based on the notion that "value is always uniquely and phenomenologically determined by the beneficiary" (Vargo 2008). Holbrook (2006) defines phenomenological customer value as an "interactive relativistic preference experience". Holbrook (2006) further suggests that customer value is interactive because it involves relationship between a beneficiary (subject) and an offering (object). Customer value is relativistic due to three factors; because it is comparative and judged in comparison to another offering, because it is situational as varies from one context to another; and because it is personal as each beneficiary of service determines the value.

Woodruff and Flint (2006) note that preference judgment requires comparison. Most notably, preference is often relative to desired value in situational context and therefore service beneficiary are likely reflexive when making value judgments. Woodruff and Flint (2006) argue that this reflexivity often involves visioning where customer attaches desire value to the vision. Also, a variety of meanings can arise relative to offerings from person's interaction with possession; these meanings

can be public as they can be assigned by a social culture or a group in which case the object can have value independent from the perceptions of the customer (Woodruff and Flint 2006). According to Richins (1994), these meanings can also be private in that the particular object may be valuable due to its personal meaning to the person. Woodruff (1997) has made a distinction between desired and received value judgment. Relative to business-to-business context, it is hypothesized here that reflexive value determination in terms of comparison of desired and received value of the offering is contingent on the managerial cognitive system of that firm; more specifically the boundary beliefs and the perceived industry recipe (Tikkanen et al. 2005) among managers involved in acquisition.

3.3.2. Relativistic Value Types

Variety of typologies has been offered in respect to criteria for value judgment (Holbrook 2006). As suggested by Woodruff and Flint (2006), S-D logic advocates emphasis on the value of firm offering to a customer as opposed to value of the customer to the firm. Thus, the typology used here is one of Holbrook's (2006) who identifies three dimensions of customer value and then combines the three dichotomous dimensions of customer value into eight different types of customer value. Central to the variety of customer value dimensions and types is that any experience could contribute to many or even all types of customer value. In a broader value co-creation context, this corresponds with value density notion introduced by Normann and Ramirez (1993).

Figure 6 Relativistic Customer Value Dimensions

		Extrinsic	Intrinsic
Self-oriented	Active	EFFICIENCY (output-input)	PLAY (fun)
	Reactive	EXCELLENCE (quality)	AESTHETICS (beauty)
Other-oriented	Active	STATUS (fashion)	ETHICS (justice, morality)
	Reactive	ESTEEM (materialism)	SPIRITUALITY (rapture, ecstasy)

Source: Holbrook (2006)

According to Holbrook (2006), the first dimension delineates between extrinsic and intrinsic value; extrinsic value exists when an experience serves as a means to an end for the beneficiary and intrinsic value exists when an experience is value in its own right. The second dimension divides customer value into self-oriented and other-oriented value; self-oriented value is created when an experience is valued for the beneficiary's own sake, and other-oriented value is attached to reactions of others. Holbrook (2006) suggests that others can range from beneficiary's immediate family, friends, and colleagues to community, subculture and country, and to the nature and the world. The third dimension divides customer value into active and reactive value. Active value is created when a beneficiary manipulates an experience as the source of value. Reactive value occurs when the beneficiary is manipulated by the experience, in other words, the beneficiary responds to an experience or the experience does something to the beneficiary.

Efficiency is created when experience or an object is used as means to a self-oriented end; this is often measured as ratio of output to input (e.g. credit cards; “enjoy now, pay later”) or as difference between input and output (e.g. economic value) (Holbrook 2006). This is arguably the most widely acknowledged concept of value and also the dominating value concept in business-to-business relationships. Ravald and Grönroos (1996) note that customer-perceived value has been defined as the ratio between perceived benefits and perceived sacrifice and Prahalad and Ramaswamy (2004) note that customers pay according to their utility rather than according to the company's cost of production. Relative to business customer value, Zeithaml (1988) has defined value as a trade-off between what is received and what is given up. Ravald and Grönroos (1996) have conceptualized input and output as the perceived sacrifice includes all the costs the buyer faces when making a purchase: purchase price, acquisition costs, transportation, installation, order handling, repairs and maintenance, risk of failure or poor performance. The perceived benefits are some combination of physical attributes, service attributes and technical support available in relation to the particular use of the product, as well as the purchase price and other indicators of perceived quality (Ravald and Grönroos 1996).

Excellence is the extent to which an experience or an object is appreciated for its capacity to function as the means to an end, in other words the instrumental functionality or quality of an experience. Holbrook (2006) emphasizes that often this quality may be judged as admirable but not actually deployed (e.g. sports car and speed limits). This corresponds with Bagozzi and Dholakia (1999) and Woodruff (1997) emphasis on facilitation customer's attainment of goals and outcomes in business-to-business context as it is suggested as a means to end.

According to Holbrook (2006) status refers to beneficiary's consumption directed at influencing responses of some other relevant actor; an experience or an object intended to communicate favorable value (e.g. Rolex watch). Esteem is similar to status but is more reactive as it is based on the assumption that one's consumption of an experience or an object is likely to win approval from other relevant influential actors (e.g. Hermés tie that is too expensive to wear). Similarly, Grönroos (2008) observes that for an individual actor (i.e. manager, employee) value can be based on a feeling of being accepted or appreciated.

Holbrook's (2006) customer value typology also identifies very abstract types of value which can be considered as closely aligned with concept of higher-order needs. Play refers to the active self-oriented value of an experience or an object which offers enjoyment in its own right (e.g. a hobby). Aesthetics involves reactive self-oriented value of an experience or an object which is enjoyable in its own right (e.g. works of art). Ethics refers to consumption pursued for its effect on others, for example “green consumption”. Spirituality refers to reactive other-oriented experiences that are valuable in their own right, and pursued in hope of ecstasy such as perceived disappearance of self-other division in

meditation for instance. While Ballantyne and Aitken (2007) suggest that emotional aspects of value are also relevant to business-to-business buying, apart from ethics, these intrinsic value dimensions can be primarily considered end-states more pertinent to individual consumers.

3.3.3. Dynamic Determination

Woodruff and Flint (2006) argue that customer value has been overemphasized as a perpetual status and its process nature has been underemphasized and therefore, current understanding of customer value is inadequate to support S-D Logic. Woodruff and Flint (2006), highlight two salient process-related aspects of customer value determination; customer value change, nature of devaluing, context influence of value judgments, and valuation of non-product components. In discussion of these four aspects Woodruff and Flint (2006) essentially propose that in a relational exchange value flows between the exchange partners and each partner thus makes periodical value judgments on both desired and received value; in this relationship value can be both economic and noneconomic such as trust and values. These value judgments are also suggested to vary according to the context in which they are made.

Relative to customer value change, Woodruff and Flint (2006) note that in a business-to-business context customer's desired value is contingent to both internal and external events; especially internal changes such as organizational restructuring or new purchasing manager can have significant effect on value desired by the customer. Woodruff and Flint (2006) also highlight the role of emotion or tension (Woodruff et al. 2002) among managers in a firm and also, managers' strategies for getting service providers to comply with new desired value. Woodruff and Flint (2006) emphasize that marketing needs to take into account how initial value judgments take shape and more importantly, how they evolve in change processes. This suggests that value propositions as such are not to be viewed as static.

Woodruff and Flint (2006) also highlight the role of the context influence of value judgments, and argue that the circumstances in which customer value process take place is likely to have an effect on both desired and received value judgment. Most notably, Woodruff and Flint (2006) suggest the situation is in which an offering is first experienced may have an effect on later value change because it can build public or private meaning that connects the beneficiary to the offering. Woodruff and Flint (2006) note that valuation of different components of an offering varies; most notably, the valuation of the relationship maybe clearly different from valuation of the offering. In respect to variability of valuation, Woodruff and Flint (2006) also suggest that in relational exchange advocated by Vargo and Lusch (2004) roles of two exchange partners even overlap at times; service beneficiary and provider can act in both roles in a relationship.

Woodruff and Flint (2006) note that while customers can develop positive value judgments of an offering; it is also possible for the judgments to become negative as shown by Brendl et al. (2003).

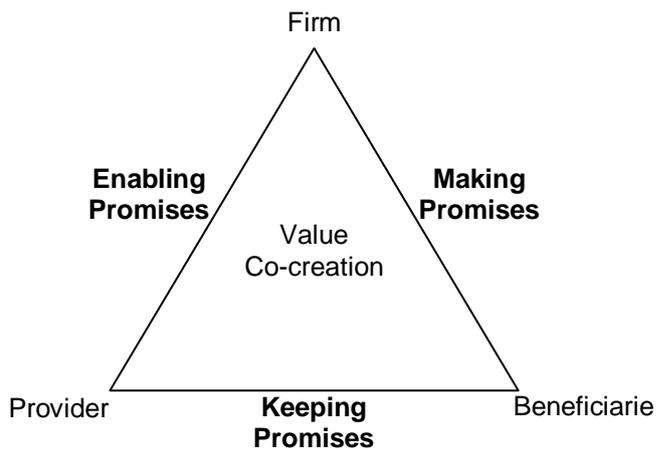
Woodruff and Flint (2006) suggest that devaluation can manifest itself in desired value over time or as a decline in the importance of certain needs and also as belittlement of certain features of the offering; customers' devaluation of certain products can be even encouraged as long as the supply relationship is not devalued. Grönroos (2008) also recognizes the potential negative value and emphasizes while created value can be measured in financial terms, for example through effects on revenues or wealth gained or through cost saving, value always has attitudinal components such as trust, affection, comfort and easiness of use.

4. VALUE CREATION IN SERVICE-DOMINANT LOGIC

The aim of the remainder of the theoretical review of this thesis is to identify conceptual tools and frameworks for a firm looking to adopt and deploy service as a perspective and business logic for value creation in business-to-business context. As identified in previous sections, S-D Logic value is essentially created by application and integration of operant resources among social and economic actors on various levels of aggregation, and always idiosyncratically determined by the beneficiary. On an aggregate level, service systems have been advocated as the primary creator of value and according to Spohrer et al. (2008), these service systems are connected through the proposition, acceptance, and evaluation of value. In these service systems, the role of the firm is then to propose and co-create value by providing service (Vargo and Lusch 2008) through integration of their operant resources into customers' value creating processes. Thus, as identified by Grönroos (2008), firms can essentially be viewed as creators of a value foundation for customer value creation processes through a value facilitation process; in both business-to-business and business-to-consumer exchanges.

The primary conceptual framework used to organize and synthesize the more grounded conceptual tools for the deployment "grand" S-D logic in remainder of this theoretical review is an adapted version of services marketing triangle (Figure 7). Brown and Bitner (2006) suggest service marketing triangle (Figure 7) as the conceptual framework in an attempt to identify best practices for a firm looking to adopt and deploy S-D Logic. It is utilized here because it provides a guideline that is broad enough to allow for deviation from and synthesis of extant literature, and also because it highlights the multiple actors and dimensions of marketing advocated in S-D Logic.

Figure 7 Service Marketing Triangle



Source: adapted from Bitner and Brown (2006)

First, traditional view of marketing as a communicating and promoting function is primarily concerned with all forms of *making promises*, or external marketing (Bitner and Brown 2006). This however, is only the first step of marketing as made promises must be kept. Thus, second, premier marketer is particularly focused on *keeping promises* which is also known as interactive marketing; this implies interaction and integration between providers and beneficiaries in value creation. Implicitly, it also highlights the notion that firm masks the exchange of specialized competences between service providing actors (i.e. employees) and beneficiaries. Moreover, in order to make and keep promises, the *promises need to be enabled* by operant resources of the firm (e.g. training, management, incentives). This is also known internal marketing. The firm can be either the company or one of its business units. The providers can be firm's employees, agents, or subcontractors that deliver firm's services.

Furthermore, due to S-D Logic emphasis on networked value creation, many-to-many marketing perspective advocated by Gummesson (2006) will be also used as guideline for organizing and synthesizing literature on value creation concepts offered in recent S-D Logic discourse. Many-to-many marketing perspective suggested by Gummesson (2004; 2006) states that the firm should first identify networks of relationships, differentiate the relationships, interact with network relationships, customize, and form learning networks. Also, it is relevant to note here that implicit to the aforementioned concepts of services marketing triangle and many-to-marketing is Lehmann (2006) critique to S-D Logic which suggests that the primary marketing logic is to use resources effectively to create changes that result in strong financial performance.

The remainder of the theoretical review aims to organize various value co-creation tools identified in most recent S-D Logic theoretical discourse under the three functions of S-D marketing identified in Figure 7. At the same time, the tasks of many-to-many marketing are considered as guidelines to include network perspective. The highlighted concepts focus on the resource integrating provider-

beneficiary dyad in which provider follows growth imperative. Furthermore, delineation between interactive and Noninteractive static value determined by beneficiary will be acknowledged. In what follows; first, promises enabling concepts are discussed; second, elements of making promises are highlighted; and finally, tools for keeping promises are examined.

4.1. ENABLING PROMISES

As identified by Brown and Bitner (2006), making and keeping promises requires enabling operant resources. The aim of this section is to highlight four hypothesized salient concepts that a firm management needs to internalize in order to make and keep promises as suggested by S-D Logic. First, the strategic perspective shift will be briefly described. Second, the implications of the extended customer interface created by solutions strategy will be discussed. Third, techniques for understanding extended customer interface are introduced. Finally, customer process implications on organizational restructuring are briefly highlighted.

4.1.1. Customer Activities as Strategic Opportunity

The strategic perspective shift which enables S-D Logic promise making and keeping crystallizes in the recognition that firm's offerings have value to the degree that customers can use them as inputs to leverage their own value creation (Edvardsson et al. 2008). Consequently, companies do not profit from customers but from customers' value-creating activities (Edvardsson et al. 2008) or practices. As a result, Grönroos (2008) suggests that a thorough understanding of customers' everyday practices has to be the starting-point for developing a customer-centric offering based on service logic. Therefore, Grönroos (2008) argues that a market offering based on service logic is a value-supporting process which includes resources and customer-firm interactions with the customers' value creation. In other words, firm may only offer assistance by engaging in customer value creation, not vice versa (Grönroos 2008). In other words, strategic planning of co-creation can be seen as an outside-in process as defined by Payne et al. (2008). Therefore, essentially, the customer becomes an operant resource.

Consequently, what is considered a strategic opportunity also changes. According to Payne et al. (2008), there are three prominent types of co-creation opportunities. First, opportunities may emerge due to technological breakthroughs (e.g. iPod impact on music consumption). Second, opportunities may emerge as a result of changes in industry logics which are often partly driven by the development of new channels for reaching customers (e.g. IKEA re-distributing activities to customer). Third, opportunities may be provided by changes in customer preferences and lifestyles. As a result, Payne et al. (2008) suggest that marketing focus shifts to understanding the potential for co-creating relationship experiences full understanding of where a supplier's offering fits within the customer's overall activities. Correspondingly, strategic positioning of the firm shifts to selecting which of the

customer processes the supplier wishes to support (Payne et al. 2008); the positioning within customer's value creation processes defines the scope of the value proposition.

According to Payne et al. (2008), the key implication of strategic planning which begins with customer's processes and proceeds to alignment of firm processes with those of the customer is that it offers a substantial advance on the traditional perspective of customer orientation. Payne et al. (2008) suggest that value co-creation demands a change in the dominant logic for marketing from making, selling and servicing to 'listening, customizing and co-creating'. As pointed out by Vargo et al. (2008) in this value co-creation process, firm's market-facing offering is ultimately integrated with other market-facing (i.e. other firms) and non-market-facing resources for value to be created. Consequently, it can be argued that firm focus shifts to solving customers' problems by offering solutions to the customer's *processes* and that thereby; the customer interface extends (Grönroos 2008). The role of solutions in bringing about extended interfaces is examined in the following section.

4.1.2. Solutions Strategy and Offering

The aim of this section is to introduce the central elements of S-D Logic instigated solution strategy and its main implications. Tuli et al. (2007) suggest that business-to-business solutions strategy can be deployed a set of four customer–supplier relational processes. These steps are closely aligned with the S-D Logic enabling strategic perspective shift described in the previous section. According to Tuli et al. (2007), in the strategy deployment process the firm first, needs to define the requirements (i.e. value creation processes) of its customer. Second, the firm should customize and integrate its offering to meet customer requirements (i.e. value facilitating processes). Third, the offering should be deployed to the customer and finally, firm should offer post-deployment customer support. Essentially, according to Cova and Salle (2008) this four step strategy deployment process can be viewed as an extension of the offering to include numerous services around the products. However, it should be noted here that this extension view is somewhat G-D Logic oriented view because it classifies services residually to goods.

Cova and Salle (2008) argue that with emerged solution strategies, the nature of the customer value propositions has also changed; solution approaches the focus moves from answering the customer's operational needs to helping a customer to develop his business in existing or new markets (solutions strategies). This can be also viewed as focusing on catering to the derived demand from the customer's customers (Gummesson 2006). Anderson et al. (2006) distinguish between two dimensions of solutions value. First, Mathieu (2001) have highlighted the degree of integration of the offering within the customer's value creation process. Second, Cova and Salle (2008) observe the degree of integration and bundling of solution offering elements with each other. More recently, Sawhney (2006) has similarly conceptualized solutions value as sum of (1) value of the offering that

makes up the solution, (2) operational integration of the solution, and (3) value of customization customer's specific needs.

The aforementioned solutions strategy has significant implications on firm profit margins and customer interface. Relative to profit margins, Sawhney (2006) argues that major reason for shift to solution strategies by industrial companies in particular has been to improve their competitive position and to protect their profit margins. Anderson and Narus (1999) have argued that by creating the greatest value for targeted customers, firms strive to generate profitability. According to Cova and Salle (2008), central to improved profit margins is firms' shift downstream, toward the customer. Wise and Baumgartner (1999) have characterized this downstream move as firms' attempt to tap into the valuable economic activity that occurs throughout the entire product life (value-in-use).

Grönroos (2006) argues that the major implication of firms' move downstream towards the customer and integration with customer processes is that customer interface grows. In other words, the number of touch-points between the firm and the customer increases beyond the requirements needed to support the goods. Consequently, as pointed out by Bitner et al. (2008), firm's ability to incorporate interfaces between customer and provider systems will be particularly relevant. In order to incorporate interfaces, Bitner et al. (2008) capability of process mapping, or service blueprinting will be valuable. Similarly, Grönroos (2006) has noted that organizational learning, which ultimately drives competitive advantage, necessarily involves a deep understanding of the content and form of encounters at the customer interface. In the following, tools for mapping customer interface are introduced.

4.1.3. Customer Interface Mapping

The aim of this section is to introduce basic tools for mapping customer interface which consists of various customer encounters. Payne et al. (2008) define encounters as exchanges in which the parties exchange resources and/or collaborative practices in which the parties jointly perform activities. According to Payne et al. (2008), mapping of customer, supplier and encounter processes aims to identify co-creation opportunities. Payne et al. (2008) suggest that customer process mapping provides a mechanism for identifying and organizing the micro-specialized competences highlighted in FP9 by Vargo and Lusch (2006) into complex service offerings demand in the market. In particular, it is important to note that because mapping acknowledges that encounters can occur either on initiative of the company or the customer, or both, it corresponds with Grönroos' (2006) basic "rule" of marketing; customers of a firm decide which firm resources and activities are marketing resources and activities. Prahalad and Ramaswamy (2004) support this and note that the interaction can be anywhere in the system, not just at the conventional point of sale or customer service.

Payne et al. (2008) note that various techniques for mapping customer processes have been previously suggested by researchers. According to Payne et al. (2008), these techniques draw from industrial engineering, flowcharting and business process re-engineering. Among most prominent techniques are process mapping, customer activity cycles, service-blueprinting, activity mapping, and customer–firm touch point analysis (e.g. Shostack 1984; Grönroos 2003; Sawhney et al. 2004). The mapping techniques and concepts emphasized here are service blueprinting (Bitner et al. 2008) in this section, value co-creation and mapping framework by Payne et al. (2008) in section 4.3.1. Prior to examining actual blueprinting (Bitner et al. 2008), it is necessary to first discuss different types of encounters and their role in value co-creation.

Relative to different types of encounters, first and foremost, it is important to notice that some of the encounters are more critical than others but at the same time, each encounter contributes to the whole service experience. Gremler (2004) has suggested that critical encounters are those that are most important for value co-creation. Payne et al. (2008) observe then that some encounters are necessary for building customer experiences, while others may be more pivotal for value co-creation and argue that pivotal encounters can be either positively critical or negatively critical. It can be hypothesized that encounter in early stages of relationships are particularly critical; Edvardsson et al. (2008) suggest that there are particular converters and inhibitors which are key factors creating the encounter dynamics. These are discussed in more detail in section 4.2.2.

Payne et al. (2008) propose a typology of three different ways in which customer processes need to be supported in encounters. First, there are emotion supporting encounters which involve elements such as themes, metaphors, stories, analogies, recognition, new possibilities, surprise, and design. Second, there are cognition supporting encounters which involve elements such as scripts, customer promises, and value explaining messages, outcomes, references, testimonials, functionality, and behavior. Third, there are action-supporting encounters which involve trial, know-how communication, and usage of the product. Consequently, Payne et al. (2008) suggest that firm needs to support the customer in each of the three ways identified through three different value co-creation facilitating encounters; communication encounters, usage encounters and service encounters. Moreover, Wikström (1996) acknowledges the role of contextual elements in encounters; perceived uncertainty and perceived benefits (efficiency); situational variables created by the environment; and the complexity and quantities of exchange.

As pointed out earlier in this section, the two central customer value creation process mapping techniques used in this thesis are blueprinting (Bitner et al. 2008) and integrative mapping framework proposed by Payne et al. (2008). Here, in discussion of enabling promises –dimension of service marketing triangle (Figure 7) (Brown and Bitner 2006), it is more appropriate to examine blueprinting

as Bitner et al. (2008) suggested its role is as a (internal marketing) tool for depicting respective roles of providers (i.e. employees, managers) in concrete terms relative to service delivery and value co-creation with beneficiaries. In section 4.3, which addresses keeping promises –dimension, the integrative mapping framework proposed by Payne et al. (2008) is examined in more detail as it addresses the processes in further stages of value co-creation both from provider and beneficiary perspective.

Despite the somewhat differing perspectives on customer process mapping, the purposes of blueprinting and integrative mapping are more or less similar. According to Payne et al. (2008), purpose of mapping techniques is to (1) highlight opportunities, (2) identify failure points, (3) improve service enhancement, (4) re-engineer processes, and (5) support differentiation. According to Sawhney et al. (2004), the evaluation of customer-activity chain must ultimately represent an end-to-end temporal sequence of logically related activities. For consumers, these activities can center on a stage of life, the pursuit of a specific interest or the ownership of a specific asset. It is important to note that these activities closely correspond with Arnould's (2006) view of customer stock of resources identified in section 2.5.3. For businesses, Sawhney et al. (2004) suggest that activities can center on a business process or a set of assets, or firms resource base. Relative to customer processes with an offering, Berthon and John (2006) distinguish three sequential phases; before consumption, after consumption, and after consumption.

According to Bitner et al. (2008), there are five components of a typical service blueprint. The division of these blueprint components according to lines of interaction, visibility, and internal interaction corresponds to Vargo et al. (2008) delineation between market-facing and nonmarket-facing resources. The basic service blueprint framework can be seen in Figure 8 below. The notable limitation of the framework is that conceptualizes service as an activity as opposed to perspective or business logic which are advocated by S-D Logic. However, the framework helps in conceptualizing the different levels of interface relative to actual encounters. Most importantly, the value of the perspective offered in the framework lies in the sequence in which different levels are addressed; as suggested in S-D Logic customer actions should dictate the way in which the different levels of firm actions and processes are aligned. In what follows the five components of the blueprint are described in more detail.

Figure 8 Service Blueprint Levels

Physical Evidence	
Customer Actions	<i>Line of Interaction</i>
Visible Contact Employee Actions	<i>Line of Visibility</i>
Invisible Contact Employee Actions	<i>Line of Internal Interaction</i>
Support Processes	

Source: Bitner et al. (2008)

According to Bitner et al. (2008), the first step is to determine customer actions which include all steps of actions the customers take as part of the service delivery process to determine the value proposition of the offering. These activities can be considered as a combination of customer's everyday practices (Grönroos 2006) and stock of resources (Figure 3). Bitner et al. (2008) suggest that physical evidence component refers to all of the tangibles that customers are exposed to that can influence their quality perceptions; or "servicescape" introduced earlier by Bitner (1992). Visible contact employee actions or onstage actions are those actions that occur as part of a face-to-face encounter with customers. Bitner et al. (2008) suggest that every time the line of interaction (or customer interface) is crossed via an encounter, a moment of truth has occurred. This can be argued as overly simplistic view because as shown by Gremler (2004) and Payne et al. (2008) certain encounters are more critical to value co-creation than others.

According to Bitner et al. (2008), underlying visible encounters are invisible contact employee actions which are the encounters that are separated from the onstage actions by the very important line of visibility; everything that appears above the line of visibility is seen by, while everything below it is invisible to the customer. Finally, support processes are those processes that are needed for the service to be delivered; it is crucial that these processes are illuminated and connected to encounters support customer-focused service execution. Shostack (1984) has characterized the role of subprocesses as to ensure the functionality of market-facing processes and as to correct possible errors taking place at customer interface in encounters. Thus it is crucial to identify the fail points particularly in critical encounters to ensure the value proposition (Bitner et al. 2008). Relative to solutions which are suggested as fitting strategy for business-to-business context here, Sawhney (2006) and Davies et al. (2006) similarly notes that solutions capability is dependent on firm's ability to develop its back-end units to support the market-facing "front-end" solutions.

As seen above, the customer value process mapping tool used here to identify relevant aspects of enabling promises –dimension of Service-dominant value creation, is a rather simple concept. Nonetheless, as pointed out by (Bitner et al. 2008) because it forces a marketer to consider questions

such as “when does the service start and stop from the customer’s point of view?” (Bitner et al. 2008) and perhaps more importantly, “are our processes aligned in a way that creates maximum value for the customer?” blueprinting is key step in adopting and deploying S-D logic. This is to say that with shifting strategic focus to understanding customer value creating processes and role of customer encounters as significant source value, particularly the G-D Logic based functional organizational structure arguably begins to appear rather myopic because of its internal efficiency emphasis. In the following, the implications of customer process mapping as enabling marketing tool is discussed in more detail.

4.1.4. Customer Interface Alignment

The primary central implication of service blueprinting and customer value creation process mapping relates to organizational structure and learning. Bolton (2006) observes that many business leaders believe that *enterprise integration* is the key to business success; value creation calls for utilization of business processes that cut across traditional organizational functions or silos. Payne et al. (2008) argue that customer process mapping takes this idea one step further by entirely dismissing the silo mentality by challenging the boundaries between supplier and customer. According to Payne et al. (2008), as different customer encounters are often delivered by different organizational functions planning should emphasize a cross-functional view. This corresponds with cross-functional marketing view advocated by Srivastava, Shervani, and Fahey (1999).

Moreover, relative to enterprise integration, Bitner et al. (2008) argue that blueprinting promotes a conscious decision on what consumers see and reveals all of the encounters that are critical in meeting customer needs. Consequently, service blueprints are first and foremost customer-focused as they allow firms to visualize the service processes and respective roles of different enabling providers (e.g. employees) from the beneficiary’s perspective. In particular, because service blueprinting results in a visual rendering of the service process and an underlying aligned organizational structure, Bitner et al. (2008) argue that it is a highly useful as a strategic tool in the new service development and transfer of knowledge across the organization and over time, thereby driving organizational learning. Ultimately, as noted by Sawhney (2006), by focusing on solutions, the traditional organizational structure shifts to one in which front-end at the customer interface assumes profit-loss-responsibility from traditional product functions.

The second central implication of service blueprinting as enabler of value co-creation pertains to innovation and growth. Sawhney et al. (2004) argue that understanding of customer activities which can be facilitated through customer value process mapping, is the foundation for exploring services-led growth opportunities. Sawhney et al. (2004) suggest that similar to product-centric growth strategies (e.g. product line and brand extensions) customer-activity chains can be extended, filled,

expanded or reconfigured with new services. Bitner et al. (2008) argue that with common frame of reference provided by service blueprints provides a platform for innovation and reinforces the emphasis on the whole beneficiary experience as opposed to singular encounters. Thereby, Bitner et al. (2008) suggest that “fuzzy front end” service development process becomes more efficient and precise. Finally, Payne et al. (2008) suggest that in addition to facilitating growth through innovation, customer process mapping which focuses on cumulative contribution of encounters to co-created value, forces firms to adopt a long-term view of customer relationships which has not been customary due to the short-term financial goals driven by Western capital markets.

4.2. MAKING PROMISES

The aim of this section is to examine making promises –dimension of services marketing. As pointed out earlier, this dimension is a traditional view of marketing as a promoting function to customers. However, to move forward with S-D Logic in business-to-business context, and S-D Logic concepts of (1) value exchange as a relational process and (2) resource integrating networks as the primary venue of value exchanges, this section will focus on relationship initiation (Edvardsson et al. 2008) and customer network value proposition development (Cova and Salle 2003) perspectives of proposing value. Here it is important to note that as observed by Grönroos (2008), value proposition primarily aims to help the customer to understand the value facilitation process offered by the firm; it is up to the customer to incorporate this value facilitating process in value fulfillment process where value-in-use is realized.

Relationship initiation and networked value creation perspectives are relevant to address here because with adoption S-D Logic the goal of the business becomes mobilizing social and economic actors to take advantage of extended value foundation of the firm in their own value creation processes (Edvardsson et al. 2008). Consequently, in S-D Logic the only suggested true source of competitive advantage is the ability to conjure up the entire value-creating systems and make them work. Central to making value-creation systems are value propositions, which are suggested as means to establish connections and relationships among service systems by Vargo et al. (2008). As a result, the requisite trait of a value proposition should be its effectiveness in making the customer understands the value potential of the firm offering to one’s own value creation processes (Vargo and Lusch 2004). As shown in Figure 5, in networked value creation, as value proposition connect different actors and value systems usually an exchange of money and value proposition (Vargo et al. 2008); money functions as a commensurable measure of value-in-exchange that allows determination of the value proposition relative to other offerings. As shown by Day (2006) (Figure 4) value proposition can propose price value (value-in-exchange), performance value (value-in-use), or relational value.

4.2.1. Understandable Value Foundation

Storbacka and Lehtinen (2001) argue that firms may offer assistance but customers produce value for themselves independently. Therefore, the firm's role in value creation, the proposition of value and provision of service, are intermediary to the value co-creation process (Vargo et al. 2008); firm's value proposition is the value foundation to be used by customers (Grönroos, 2006). Grönroos (2006) argues that only if the customers accept this value proposition during consumption as their value foundation and possess sufficient resources themselves value fulfillment in the form of value-in-use will be realized. According to Flint and Mentzner (2006), in exchange of value propositions in business-to-business context, knowledge is central to co-creation; companies create value when they make not only their offerings more intelligent but their customers more intelligent as well.

Moreover, it has to be reemphasized here that in value proposition design firm must recognize that a predetermined value proposition corresponding exactly to what he would like to sell or do as consideration the stakes of the customer and his network must be taken into account (Cova and Salle 2003). Also outside of an individual firm-customer dyad, a firm must continuously reassess and redesign their competencies and relationships (i.e. value proposition) to keep their value-creating systems responsive (Edvardsson et al. 2008). Equally importantly, value propositions should be developed and communicated according to customers' perception of the offering; some customers still may see and buy goods as goods and not as services (Grönroos 2008).

4.2.2. Relationship Initiation

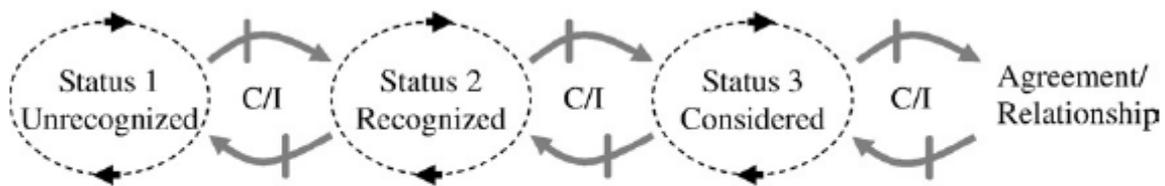
As defined by Vargo et al (2008), value propositions establish connections and relationships among service systems. This suggests that initiation of relationships is central to S-D Logic based value co-creation between service provider and beneficiary. Edvardsson et al. (2008) argue that ability to initiate new business relationships is crucial for business growth and survival and consequently, businesses should be viewed in terms of initiating and managing relationships instead of selling and developing products and services. Oliva and Kallenberg (2003) support this and argue that residual consideration of services of services as add-ons and initial services as give-aways must be abandoned in order to develop capacity to value services and how to sell, deliver and bill them.

Consequently, adopting service as a business logic and relational focus on value creation, traditional selling techniques and processes become inadequate for initiating value co-creating relationships (Edvardsson et al. 2008). Thus, Edvardsson et al. (2008) observe that the traditional sales process is no longer explanatory of exchange because the offered output no longer is the key value-creating factor. Edvardsson et al. (2008) observe that traditionally sales subprocesses have been conceptualized as; (1) pre-call planning, (2) getting into contact with prospects, (3) presenting the product or service, (4) persuasion and overcoming objections, (5) closing sales, and (6) following up. While make-sell-discard-rebuy perspective of G-D Logic (Vargo and Lusch 2008) essentially ends at

the latter subprocess (following up), S-D Logic value co-creation resource integration process begins from there primarily because the real value of an exchange for the firm cannot be assessed before it has been determined whether value-in-use for the customers has been created or not (Grönroos 2008).

Edvardsson et al. (2008), suggest that in order to initiate a relationship that ultimately leads to a resource integrating value co-creation in the long-term, instead of strictly focusing on selling, firm must recognize that there are three key dynamics in relationship initiation (Figure 9); status, converter, and inhibitor. In the initiation process, converters gives energy and direction to the initiation process and move the process closer to a business agreement while inhibitors block or hinder this development (Edvardsson et al. 2008). The notion of status does not presume that a automatic steady linear process. Instead, it presumes that the initiation process may linger at any time in a certain situation and also that relationship initiation may start from different positions; which is also implied in the notion of multidimensional resource integration in value constellations among service systems (Maglio et al. 2007).

Figure 9 Relationship Initiation for business-to-business relationships



Source: Edvardsson et al. (2008)

The three statuses identified by Edvardsson et al. (2008) in Figure 9 relate to the provider status as determined by the customer. *Unrecognized* status is defined as situation when parties do not know each other and more importantly customer does not know the buyer. *Recognized* status emerges when either one-sided or mutual awareness of the business opportunities between the two parties arises. In *considered* status representative of both companies discuss and co-develop the objectives and scope of the relationship. In this stage trust building is particularly important both on personal and company level. Considered status transforms to relationship when an agreement is reached. Even though a contract may mean less contact after initiation stage to certain business customers, Edvardsson et al. (2008) note that it is relationship nonetheless to some extent. Ballantyne and Aitken (2007) observe that this inevitably relational nature of exchange transforms the time-logic of marketing to open-ended with post-sales value-in-use emphasis.

Edvardsson et al. (2008) identify three converters which can speed up or slow down the process from one status to another; time, trust, and service offering. Converters strive for a change from one status

to another, either backwards or forwards. Time refers to timing of specific activities and timetables. This roughly corresponds with currency value dimension of a relationship which results from the timeliness of provider response to beneficiary requests (Berthon and John 2006). The second converter, trust, functions as insurance in case of unexpected events, difficulties and changes. Edvardsson et al. (2008) suggest that to advance relationship relative to trust as a converter, firm should create references by building respectable own network and deploy integrated marketing communication. Duncan and Moriarty (2006) argue that central goal of integrated marketing communication is ensure message consistency; the standard of the service should but constant (e.g. brand values, mission, position) although the specifics may vary according to the customer. Particularly in respect to recognized status, firm brand is essential as a communicable and representative evidence of the firm offering (Ballantyne and Aitken 2007).

Nonetheless, excluding communicable meanings and credibility associated with a firm brand, Edvardsson et al. (2008) argue that particularly business-to-business professional services generally lack 'search properties'; verifiable attributes. Consequently, substitute indicators such as factual information or explicit experience must be used for reference. Edvardsson, Gustafsson, and Roos (2005) argue that because past performance is usually used as the predictor of future performance, there is a need to create ways of 'test-driving the service'. Similarly, (Payne et al. 2008) note that for development of value propositions for value-in-use, use of prototyping may become more widespread as it involves observing how customers relate to products and services, and to the 'meanings' embedded in them. These ideas essentially suggest that prototyping is an instrument for co-creating a value proposition.

The third converter, service offering, appears as the most expansive converter as it implicitly refers to the entire offering of the firm. According to Edvardsson et al. (2008), service offering refers to the distinctive differential service competence and concept and consists of firm's ability and motivation to adapt this competence to beneficiary's requirements. This converter is aligned with various relational value dimensions identified by Berthon and John (2006); customization, the extent to which the interaction is specifically tailored for a particular beneficiary; configuration, the extent of adjustments to the locational relevance of the beneficiary; and continuation, the extent to which provider collects, utilizes and deploys information of the beneficiary and it to the interaction. Edvardsson et al. (2008) observe that the basic service offering is important as a hygiene factor. However, Edvardsson et al. (2008) note that the capability and interest to adapt and develop the contents and delivery conditions in a process together with the buyer is more crucial; in other words, provide relational value.

Edvardsson et al. (2008) also identify three inhibitors which hinder the process to proceed or reverse; inhibitors strive for status quo and may block or at least hinder change in status. The inhibitors are

image, risk, and bonds. Bonds are the explicit or implicit factors which create relationship inertia. These bonds can be structural or perceptual and they may result in preference and stability between seller and buyer. This inhibitor in particular seems fit for the relativistic determination perspective of customer value advocated by Holbrook (2006). The second inhibitor, risk, refers the perceived seller's reliability in fulfillment of service offering and beneficiary's estimation of difficulties in the co-operation process. This is aligned with content value dimension of a relationship which refers to the quality of the outcomes and task fulfillment in a relationship (Berthon and John 2006). Also perception of risk is arguably also highly contingent on beneficiary's determination and as such, it can be seen as a form of negative value discussed by Grönroos (2008).

The third inhibitor, image, refers to the buyer's overall perception of the seller and also, beneficiary's overall perception of the provider in respect to direct encounters but also previous experience and other's experience (Edvardsson et al. 2008). This is aligned with contact value dimension of a relationship; the extent to which the overall experience of the interaction provides value for the beneficiary (Berthon and John 2006). This inhibitor is central to S-D Logic as it addresses the prominence of the overall experience as a source of customer value. Also, the explicit recognition of previous experiences and experiences of others as drivers of perception of overall experience in this inhibitor corresponds with Woodruff and Flint (2006) notion of later value change triggered by early experiences. Accordingly, Payne et al. (2008) assert that communication and value propositions should also be adapted to reflect the length and history of the relationship as for instance, long-term customers who are familiar with the supplier may be better able to build their learning whereas new customers may need a totally different type of communication scheme. Similarly, relative to business-to-business branding, Ballantyne and Aitken (2007) note that as a relational asset, brand value is also contingent on past, present and future interactions with stakeholders.

4.2.3. Customer Network Value Proposition

The aim of this section is to introduce the concept of customer network value proposition in business-to-business context. According to Cova and Salle (2008), S-D logic based customer value proposition, must integrate the idea of a network and/or a constellation on the side of the customer. Consequently, Cova and Salle (2008) assert that customer value proposition needs to be accompanied by customer network value proposition. Cova and Salle (2008) draw support for this from Tuli et al. (2007), who suggest that marketing solutions may be structured as a network mobilization and that relational process focus leads to the formulation of a customer network value proposition, respectively.

Flint and Mentzner (2006) note that business buying decisions often involve a buying center, thus relevant value perceptions of all actors relevant to buying decision need to be acknowledged in value propositions. Similarly, Gummesson (2002) management of actors beyond the control of marketing

and sales is often the most important part of marketing particularly for companies producing goods and services of infrastructural character. Furthermore, considering the increasing exchange of specialized competences, a single company rarely provides everything anymore (Edvardsson et al. 2008). Therefore, it can be argued that central to a value proposition is an explicit consideration of the firm offering to the value creation process of the customer relative to its network.

The emergence of customer network value proposition draws from Mathieu’s (2001) delineation of the components of the offering on the basis of its direct recipient. First, the offering (i.e. value proposition) can be set to ensure the proper functioning of the product and or facilitate the client’s access to the product: this is defined as service supporting the *supplier product* (SSP) by Cova and Salle (2008). Second, the value proposition can be designed to support particular initiatives and advance the mission of customer organization; this is defined as service supporting the *customer’s action* (SSC) by Cova and Salle (2008). Thus, SSP and SSC differ from one and another by their relative position downstream toward the customer; SSC is closer to S-D Logic notion of value facilitating process.

In an effort to expand the SSC view Tuli et al. (2007) divided SSC to deployment and post-deployment; deployment refers to the “delivery of the integrated solution and its installation into a customer’s environment” and post-deployment support refers to deployment of new solutions in response to evolving requirements of a customer. This implies that expanded view of value proposition is very context contingent; for this reason, Cova and Salle (2008) note that service supporting customers network (SSCN) are difficult to integrate in a consistent definition of a value proposition. This corresponds to the notion that the specifics of a value proposition may (and should) vary according to the customer (Duncan and Moriarty 2006).

Figure 10 Customer Network Value Proposition Development

Number	Steps	Keypoints
1	Identify actors in customer network	Identify visible and invisible actors
2	Target actors in customer network	Set up basis of selection of the actors
3	Identify mobilizing factors of targeted actors	Identify stakes of each actors
4	Set up approach for targeted actors	Use third party access to targeted actor
5	Set up value co-creation approach	Integrate resources from own supply network

Source: Cova and Salle (2008)

Cova and Salle (2008) propose two-stage value proposition process; the stages of customer network value proposition can be seen in Figure 10 above. First, co-creation of value is carried out between the supplier (and supply network) and certain customer network actors. Second, co-creation of value is carried out between the supplier and his network and the customer and his network. According to Cova and Salle (2008) central to this process is developing the value proposition is to do it in a way that not only (Bagozzi and Dholakia 1999; Woodruff 1997) facilitates the attainment of the hierarchy of

goals within the customer firm but also in the activities of actors in customer's network. Accordingly, Cova and Salle (2008) extend notion of buying center (Webster and Wind 1996) as influencers located around the customer to include anyone, internal or external, who influences the decision.

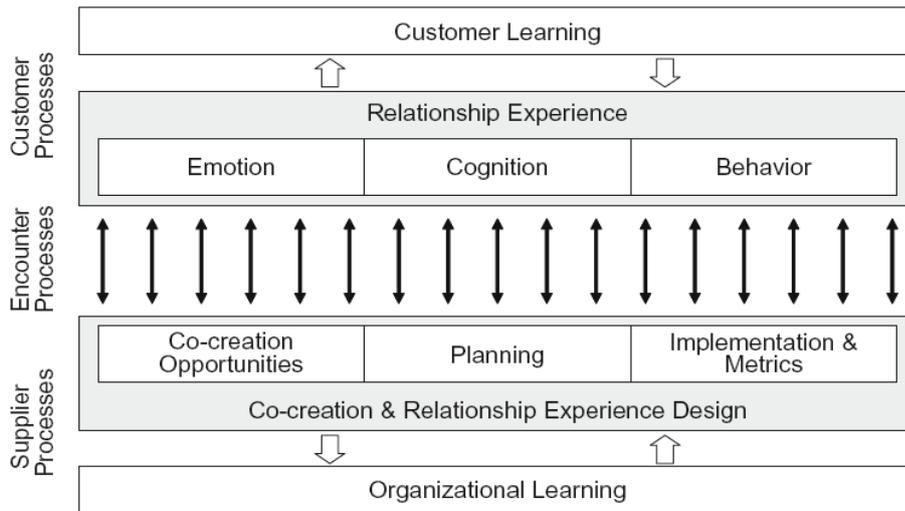
4.3. KEEPING PROMISES

The aim of this section is to highlight the elements of keeping dimension of service marketing triangle that are relevant to S-D Logic in business-to-business context. Sheth and Uslay (2007) suggest that value creation is the goal for marketing and that customer value is value-in-use. Grönroos (2008) suggests marketers are no longer restricted to making value propositions only but can engage itself in customers' value fulfillment as well. Accordingly, Grönroos (2006) has noted adopting S-D logic means not only making promises about value, but also facilitating value fulfillment which is perhaps the most integral element of service marketing triangle. Whereas value proposition should be a suggestion of value, value fulfillment should fulfill the expectations of suggested value through co-created value-in-use (Grönroos 2006). Consequently, keeping promises may be characterized as most relevant dimension of value creation from customer perspective. In this section, promise keeping is discussed on basis of integrative value co-creation framework (Figure 11) proposed by Payne et al. (2008). The three main components of this framework this chapter focuses on are (1) facilitation of customer experience, (2) customer learning through operant resource enforcement, (3) and provider's organizational learning which ultimately drives competitive advantage.

4.3.1. Integrative Process

Payne, Storbacka, and Frow (2008) and Woodruff and Flint (2006) argue that while customer value has been researched extensively, relatively little is known about how customers engage in co-creation. In an effort to address this gap, Payne, Storbacka, and Frow (2008) propose a process-based framework for management of co-creation of value (Figure 11) which consists of three main components: customer (service beneficiary) value-creating processes, supplier (service provider) value-creating processes, and encounter processes. The service provider's goals in integrative value co-creation are twofold. First, the provider needs to provide experiences which customers perceive as helpful for more effective utilization of their own resources. In order to create such experiences, the firm needs to have effective processes, resources and practices for managing relationships with customers and other relevant stakeholders (Payne et al. 2008).

Figure 11 Integrative value co-creation framework



Source: Payne et al. (2008)

Central to aforementioned relationship management capacity are encounter processes which are the processes and practices of interaction and exchange (Payne et al. 2008). As discussed in section XX, in business-to-business contexts, solutions strategy extends the customer interface (Cova and Salle 2008); understanding of these encounters becomes a crucial enabling factor for value co-creation. In keeping promises, firm has to manage these front-end encounters through its market-facing or customer-facing (Davies et al. 2006) resources and align its back-end processes to support these encounters (Sawhney 2006).

There are three different types of encounters, a provider must be able to manage (Payne et al. 2008); (1) usage encounters which refer to customer practices in using a product or service and include the services which support such usage; (2) service encounters comprise customer interactions with customer service personnel or service applications; and (3) communication encounters which are primarily aimed at to connect with customers, and promote and enact dialog. Through these encounters, provider should be able to support cognition, action, and emotion of the beneficiary (Payne et al. 2008); these three types of support are discussed in more detail in section 4.3.2 of this chapter.

Upon facilitating favorable experience for the beneficiary through effective encounter management, the enabling or relieving offering of the firm should facilitate customer learning through improved operant resources. Respectively, through the integrative value co-creation process the provider firm engages in organizational learning which then enhances firm's own operant resources and builds up competitive advantage. These two outcomes of integrative value co-creation between provider and a beneficiary are described in sections 4.3.3 and 4.3.4 of this chapter.

4.3.2. Supporting Relationship Experience

The three elements of customer relationship experience identified by Payne et al. (2007) are emotion, cognition, and behavior. These three elements can be characterized as sources of relational value which has been suggested as the second main component of value in business-to-business contexts along with economic value (Lapierre 2003; Ulaga 2003; Flint and Mentzner 2006; Woodruff and Flint 2006). Bitner et al. (2008) argue that customers cannot help but have experiences, and all services create experiences; thus firms must move into the realm of customer experience management. Ballantyne and Aitken (2007) argue that “non-rational” aspects such as emotion and social dynamics are prominent also in business-to-business exchanges as social relationships have been shown as source of trust and commitment in business-to-business exchanges. Therefore, value should not be considered to reside in the object of consumption but in the experience of consumption (Payne et al. 2008). Consequently, firm must be able to orchestrate the entire customer interface to facilitate value creation through the customer experience (Prahalad and Ramaswamy 2000).

Payne, Storbacka, and Frow (2008) argue that customer value-creating processes vary in respect to the customer of the offering; whereas a business-to-consumer relationship, the processes are the resources and practices which customers use to manage their activities, in a business-to-business relationship, the processes are ones which the customer organization uses to manage its business and its relationships with suppliers. Three components of relationship experience identified in Figure 11 are emotion, cognition, and behavior; Payne, Frow and Storbacka (2008) argue that these elements are interdependent and involve the customer in thinking, feeling and doing as an integral part of their role in value co-creation. By understanding these experiential elements pertinent to value-in-use, the firm can shift the focus of marketing communications from attention seeking to dialog with customers in support of their experiences and learning processes (Payne et al. 2008). This dialogical orientation of marketing is also advocated by Ballantyne and Aitken (2007) and Duncan and Moriarty (2006).

The first element, *emotion* is suggested to extend beyond attitudes and preferences and conceptualized as an umbrella term “for feelings, moods and affect-based personality characteristics (Payne et al. 2008). Consequently, emotive goals are suggested as those that aim at provoking interest in the customer. This implies that emotive goals are closely linked to value propositions and visioning of desired value. Therefore, it can be argued that Holbrook’s (2006) typology of customer value as interactive relativistic preference experience provides a useful platform for designing emotive goals. It is important to note that in business-to-business contexts, the emotional experience of those involved in acquisition and use of an offering are contingent to both internal and external events and emotional tension among different managers (Woodruff and Flint 2006).

The second element, *behavior*, is suggested as the actions that stem from and result in experiences. Payne, Frow and Storbacka (2008) argue that behavior analysis used for designing action-based goals for triggering customer responses should emphasize experiences that emerge from use of the offering as opposed to processes that lead to purchase decisions. It can be argued that behavior dimension should be the most important consideration of relationship experience design, because emotion and cognition lead into actions in part of the beneficiary of the offering.

The third element of customer experience, *cognition*, should be seen from both an information-processing approach that focuses on memory-based activities and also processes that are more sub-conscious and private (Payne et al. 2008). Through cognition, the customer is engaged in goal-directed activities such as searching for information, evaluating available options, and deciding whether or not to buy a particular product or service (Payne et al. 2008). Thus, cognitive goals include educating the customer the offering (Payne et al. 2008). As shown in section 4.2.1., value proposition is essentially the first step of cognition-supporting, as seeks to make the value creation facilitating resource of the firm understandable for the intended beneficiary in terms of its value-in-use potential. Overall, cognition dimension of relationship experience can be as the most salient element of exchange of specialized competences which is advocated as the core premise of S-D Logic because it involves knowledge generation in part of the customer. Hence, cognition also drives the ultimately outcome of integrative value co-creation advocated by Payne et al. (2008); customer learning. In what follows, customer learning is discussed in more detail.

4.3.3. Customer Learning

As noted in section 2.3.4, operant resources are suggested as the primary source of competitive advantage for a firm in S-D Logic. Consequently, customer value creation process for learning can be defined as a series of activities performed by the customer to achieve a particular goal through cognition (Payne et al. 2008). These value creation activities can be assisted through enabling product or a relieving service. Normann (2001) argues that customer's ability to create value is the amount of information, knowledge, skills and other operant resources that they can access and use. Similarly, Payne, Frow and Storbacka (2008) note that customer learning are contingent on the customer's ability to integrate its own operant resources with the facilitating resources of the firm offering. Payne, Frow and Storbacka (2008) also add that customer's learning is contingent on motivation and consequently note that there are three different levels of learning with varying complexity; (1) remembering, (2) internalization and (3) proportioning.

The first two simplest types of customer learning are seemingly, more closely related to making promises dimension of service marketing. *Remembering*, the simplest form of learning is defined as primarily relating to customer attention rather than a competence to process emotions and information (Payne et al. 2008). Arguably, relative to traditional marketing communication (making promises) aims

at increasing the offering's status among potential beneficiaries as *recognized* (see section 4.2.2.). Ballantyne and Aitken (2007) argue that in contemporary business-to-business marketing remembering is primarily achieved through brand-mark which provides a "cognitive file" and aid to memory on the firm's offering. *Internalization*, the second level of customer learning identified by (Payne et al. 2008) is a cognitive process in which customer interpret and assimilate messages and experiences. Through internalization, the customer is encouraged to take some kind of stand based on their experience. Payne, Frow and Storbacka (2008) argue that internalization is prominent goal of brand-building activities aimed at building consistent and memorable associations with an offering. Ballantyne and Aitken (2007) observe that in business-to-business context, building of associations of brand meaning requires both interaction and use of the offering. This corresponds with the concept of relativistic and reflective value determination proposed by Holbrook (2006).

Proportioning, the third form of customer learning identified by Payne et al. (2008) appears most closely S-D aligned learning process as it involves the most extensive operant resource integration in part of the customer. Proportioning is suggested as a form of double-loop learning in which customer integrates its operant resources with the value foundation of the firm through reflection of own processes relative to their engagement with the firm offering. Ultimately, proportioning can be seen as the primary instrument for firms to "drive the market" as reflection in part of the customer may trigger new activities or disengaging from existing practices, and new forms resource utilization. Proportioning can thus ultimately shift an individual customer's life goals and projects (Arnould et al. 2006) or business customer's strategy (Day 2006), in addition reinforcing the operant resources.

With more extensive integration of operant resources between service providing firm and beneficiary customer, exchanges based on exploitation of information asymmetry in part of the providing firm should be ideally entirely abandoned. Relative to information symmetry and balance between firm and customer relative to a particular offering, Prahalad and Ramaswamy (2004) argue that the goal of value co-creation should be to facilitate access and transparency of information. Moreover, in constructive dialogue which ideally then leads to a favorable experience and operant resource reinforcement, mutual interest and rules of engagement must be clearly defined (Prahalad and Ramaswamy 2004). Relative to information symmetry and transparency, Archrol and Kotler (1999) have taken an even further point of departure and suggested that marketing can become a customer-consulting function for a long-term relational value creation based on informing the customer which operant resources to focus on in exchanges in the market.

Furthermore, relative to extended integration it has to be noted here that efforts to support customer learn are not only an altruistic goal for a firm but also means to change within the customer's attitudes and preferences. Payne, Frow and Storbacka (2008) argue that customers are likely to develop a

preference for that supplier and engage in repeat purchase as result of 'value-in-use' and learning the customer experiences. Consequently, with enhanced customer learning, retention of customers increases over time and value of a customer to the firm increases. This seller oriented view customer value has also been emphasized as the primary goal of marketing based on the S-D Logic contrary growth imperative (e.g. Lehmann 2006).

4.3.4. Organizational Learning

Integrative value co-creation is also suggested as means for the provider firm to enhance its operant resources (Payne et al. 2008) and thereby also its competitive advantage. There are two prominent considerations advocated in S-D Logic discourse relative to organizational learning that are highlighted here. First and foremost, firm's can improve their value creation capacity by welcoming marketplace performance as means for learning (Vargo and Lusch 2004). Secondly, in addition to financial feedback from marketplace, central element of organizational learning is the transformation of tacit knowledge into prescriptive knowledge (Payne et al. 2008). Moreover, underlying these two concepts is firm's overall perspective on marketing as a dialogical processes where value is emergent in learning through value-in-use (Ballantyne and Varey 2006).

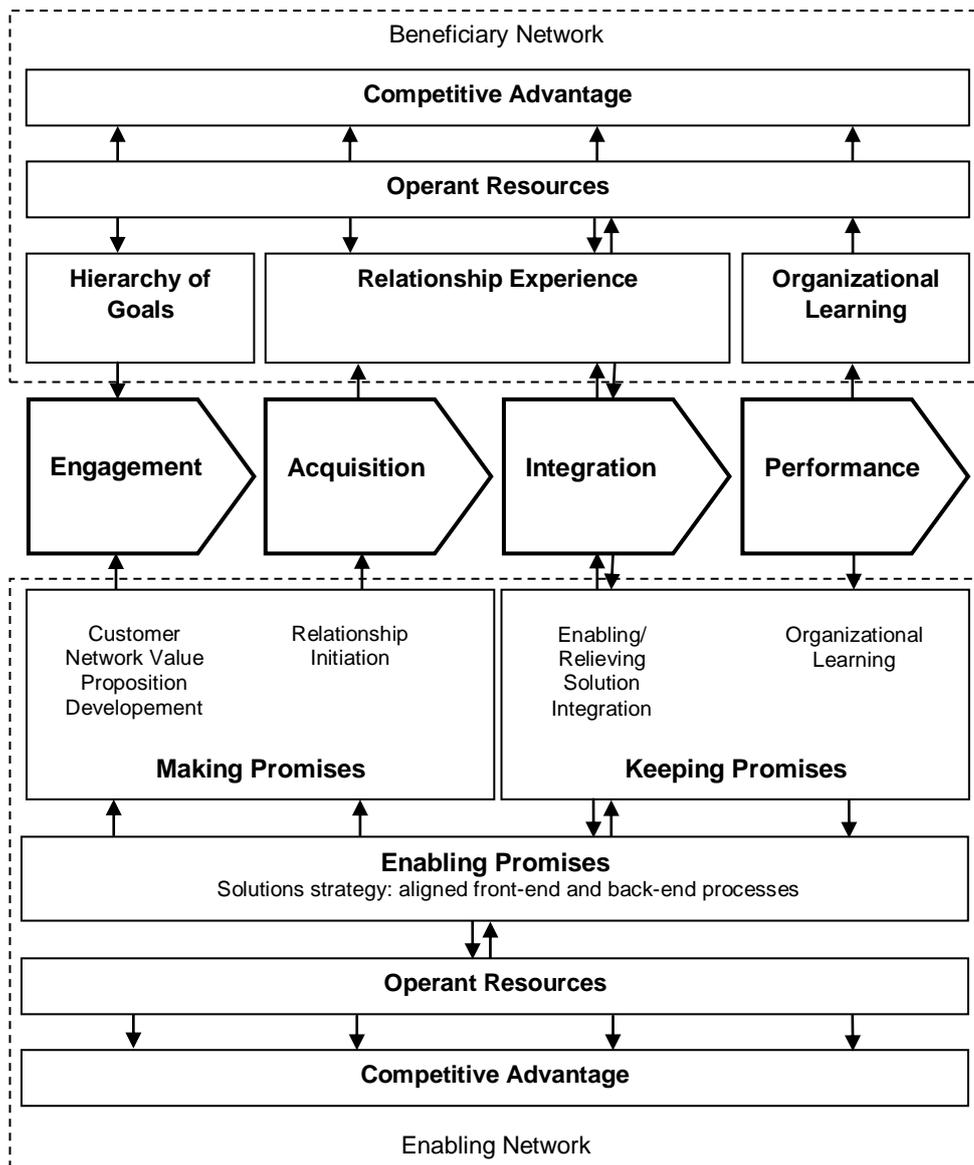
First, relative to appreciation of marketplace performance as a learning mechanism, Vargo and Lusch (2004) argue that firm mainly knows whether its value proposition effectively mobilizes network actors from the marketplace feedback as financial performance. Consequently, marketing becomes a continuous process which engages in dialogue with a variety of social and economic actors aimed at improving the operant resources of the firm (Vargo and Lusch 2004). Consequently, in business-to-business contexts in particular, exchange of value propositions focuses on available co-creation opportunities and knowledge. Laczniak (2006) suggests that S-D Logic emphasis on marketplace performance as learning mechanism is inherently ethical because it goes beyond financial accounting measures and consequent short-term profit maximization.

Second, relative to conversion of tacit knowledge to explicit prescriptive knowledge as primarily organizational learning mechanism, Payne et al. (2008) note that whereas organizations may have considerable tacit knowledge concerning their customers, these organizations must develop means of capturing and utilizing knowledge in value co-creation with customers. Payne et al. (2008) further add while customer value processes may be more complex in business-to-business contexts, business customers may be more knowledgeable about their own value-creating processes as result of well-developed key account management structures that contain high levels of 'prescriptive' knowledge. Consequently, it may be argued that a firm operating in a business-to-business context should design its knowledge management to gather abstract and generalized propositional knowledge and transform it to prescriptive knowledge such as techniques and processes (Payne et al. 2008). In respect to

solutions strategy advocated in section 4.1.2, this information transformation dynamic should flow from front-end encounters to supporting back-end processes. Similarly, Payne et al. (2008) note that firms should design their knowledge management activities and infrastructure around value co-creation processes, as opposed to information technology capabilities (e.g. CRM systems).

4.4 THEORETICAL FRAMEWORK

Figure 12 Business-to-business value co-creation framework



As discussed in previously in this theoretical review, S-D Logic value creation is fundamentally based on resource integration between social and economic actors on all levels of aggregation. The theoretical framework proposed here depicts value creation between two firms engaged in a business-to-business relationship. The three primary elements of this framework are the *customer interface* which includes four critical customer encounters; *engagement*, *acquisition*, *integration*, and *performance*; (1) *beneficiary value-system* which includes the value beneficiary firm's utilization

processes, resources, and beneficiary network; and (2) *provider value-system* which includes provider firm's value creation processes, resources, and enabling network. In the following, the function of (1) *beneficiary value-system* and (2) *provider value-system* is described in respect the interface between the two actors; this is also the order in which the framework should be interpreted.

In *engagement*, the goal of the provider should be to mobilize the intended beneficiary to utilize its resources and make its offering *recognized*. This should be done by communicating a value proposition which makes its value creation facilitating foundation (value-in-use) understandable to the beneficiary relative to its own value creation processes. At this stage the provider needs to formulate its value proposition in accordance to the hierarchy of the intended beneficiary firm's goals which are contingent on the operant resources and goals of the internal (i.e. buying unit, employees) and external network (e.g. customers, stakeholders). Underlying this procedure is the provider's *enabling* capacity to map customer processes and willingness to align its processes accordingly.

In *acquisition*, the goal of the provider should be to initiate a relationship with the intended beneficiary as opposed to selling an output. In this stage of value co-creation, the firm should try to advance from *recognized* stage gained in *engagement* to *recognized*, *considered*, and *agreement* through effective employment of status advancing *converters* (i.e. time, trust, service offering) and avoidance of status restraining *inhibitors* (i.e. image, risk, bonds). Underlying this procedure is the provider's *enabling* capacity is to offer relationship experience through which relational value is transmitted through operational integration and as support to beneficiary cognition, behavior and emotion; in addition to economic and functional value.

In *integration*, the goal of the provider should be to fulfill its value proposition that was communicated to *engage* the intended the beneficiary. Value fulfillment (integration) occurs when the beneficiary integrates the *enabling* (operand; product) or *relieving* (operant; service) resource (value foundation) of the provider to its own value creation processes. Underlying this procedure is the provider's *enabling* capacity to align its supporting back-end processes for maximum value creation at the front-end customer encounters. At this stage of the relationship, the provider should begin the tacit-prescriptive knowledge transformation/transmission to initiate organizational learning.

Performance is the outcome of the preceding relationship and resource integration between the provider and the beneficiary; the criteria for performance can be based on financial accounting measures of marketplace performance, but more importantly, it should be based on the fulfillment of beneficiary's hierarchy of goals and the value-in-use experienced by the beneficiary organization its employees, and the beneficiary network. Consequently, ultimately resource integration between provider and beneficiary in a business-to-business relationship should result in enhanced operant resources are suggested as the primary driver of competitive advantage in S-D Logic.

5. METHODOLOGY

In this chapter, the chosen methodology for the empirical data collection and analysis is described and justified. Eriksson and Kovalainen (2008) define methodology as the set of theories of how research proceeds; it includes methods, procedures, and techniques that are used to collect and analyze data. Consequently, in what follows, the choice of qualitative research method is first discussed briefly. Then, the data collection procedures for this thesis are discussed. Finally, data analysis methods for this thesis are and limitations of the findings are discussed.

5.1. CHOICE OF METHODOLOGY

In order to understand choice of qualitative research methodology it is useful to contrast it with quantitative research. Silverman (2006) argues that qualitative research is suggested as method for hypothesis-testing and social construction of meanings for interpretive social science whereas quantitative research operates in the positivist realm and focuses on hypotheses testing relative to social structure and facts. McCracken (1988) states that while quantitative research aims to isolate and define categories as precisely as possible and determine relationship between them with great precision, qualitative research seeks to isolate and define categories during the research process. In other words, qualitative researcher expects the nature and definition of analytic categories to change during the course of a project. On basis of the aforementioned, it may be concluded that the delineation of qualitative and quantitative research closely pertains to the division between positivist and constructivist research.

However, this thesis draws from Perry (2004) (Appendix 1) who lists multiple sound arguments for each of the three primary research paradigms (i.e. positivism, constructionism, critical theory) but strongly advocates realism is most suitable paradigm for marketing research. According to Perry (2004), the realism paradigm is suitable for study of marketing phenomena because researchers are not objective and isolated from the research in the way positivists are; unlike constructionists they are not involved participants who are passionately involved in creating the finding; and unlike critical theorists they are not concerned with transforming mental frameworks. Furthermore, Perry (2004) attests that social science realists work with causal tendencies rather than causal certainties, and findings can be therefore considered epistemologically “probably true”.

While the methodology of this thesis is more closely aligned with constructivism paradigm and chosen due to its “do-ability” and “want-to-do-ability” (i.e. interviews) (Marshall and Rossmann, 2006), in the final stage of the deployed analysis technique by McCracken (1988) dimensions of realist systematic combining (Dubois and Gadde 2002) will be used as a underlying guideline. This is done for the purpose if answering Perry’s (2004) suggestion of use of case-studies as a realist research methodology and because of Dubois and Gadde’s (2002) suggestion that interaction between a

phenomenon (i.e. Service-Dominant Logic) and its context (i.e. Finnish property market) is best understood through in-depth case studies.

5.2. RESEARCH SAMPLE

In this section the empirical data sample for this thesis is outlined. First the sample selection is briefly justified. Then, the sample organizations are briefly introduced.

5.2.1. Sample selection

The choice of respondents for empirical interviews was based on delineation of four segments which vary from one and another according to their hypothesized distinct value creation perspectives and processes relative to business properties. Consequently, the sample selection was primarily based on the researcher's own deliberation; this has been suggested as suitable means of sample selection because qualitative research aims at developing an in-depth understanding of a phenomenon and because such understanding can be developed to a certain extent on basis of discussions with only few respondents (Hirsjärvi and Hurme 2000).

5.2.2. Sample organizations

McCracken (1988) argues that for qualitative research, the respondents should be perfect strangers and few in number and should have special knowledge of the topic under study. Consequently, for the interview sample representation was sought from firms that are (1) owners, (2) developers, or (3) users of properties. The intended respondents were primarily senior level executives who were able to offer their perspectives on the studied phenomenon as 'reflective practitioners' (Payne et al. 2008). The respondents were first emailed an interview request and then contacted by telephone for scheduling the interview time. In the following, the sample (1) *property owner*, (2) developer, and (3) *user* firms and the respondents are briefly introduced, respectively.

Sponda is a property investment company listed on the NASDAQ and OMX Helsinki. The total leasable area of Sponda's investment properties is about 1.5 million m² and consists of office and retail space and logistics properties. In the end of 2008, the value of the property portfolio is EUR 2.9 billion. Sponda specializes in ownership, development, and letting of commercial properties in the largest cities of Finland and Russia. Sponda operations are organized into four business units: Investment Properties, Property Development, Real Estate Funds and Russia (www.sponda.com).

Senate Properties is a government owned enterprise responsible for managing and letting the property assets of the Finnish state, including university, office, research, cultural and other properties. Senate Properties' business areas are responsible for their own respective customer segments; construction projects, property acquisitions, strategic planning and land use affairs (www.senaatti.fi).

SRV is an OMX Helsinki listed construction company that provides end-to-end solutions in which it assumes responsibility for the development, construction and commercialization of projects. SRV had revenues of EUR 537 million in 2008. During the financial year 2008, approximately 89 percent of SRV's net sales were generated in Finland. SRV operations are organized into three business units; business premises, housing and regional, and property development (www.srv.fi).

YIT is an OMX Helsinki listed construction company that provides solutions for all sectors concerning technical building systems, construction and industry services over the entire life cycle of properties. In 2008, YIT had revenues of EUR 3.9 billion and operating profit of EUR 260 million. YIT Group's operations are organized into three business units: building and industrial services, construction services Finland and international construction services. (www.yitgroup.com).

ARE is a building services, contracting and property services company owned by family business Onvest Oy. ARE provides technical solutions aimed at offering a functional and productive property for the customer. ARE's operations are organized into three business units; contracting services (building system contracting and industrial services), renovation services, and property maintenance services. In 2007, ARE had turnover of EUR 212 million (<http://www.are.fi>).

SOL is a family owned service company providing cleaning, facilities management and laundry services (www.sol.fi).

Stockmann is a listed retailing company. Stockmann's operations are organized into four business units; department store division, the fashion chains Lindex and Seppälä, and distance retail Hobby Hall. In 2008, Stockmann had revenues of EUR 1.88 billion and operating profit of EUR 121.9 million (www.stockmann.com).

S-Group consists of regional cooperative enterprises and **SOK** (Suomen Osuuskauppojen Keskuskunta). S-Group's operations are organized into five business areas; supermarket trade, department and specialty stores, tourism and hospitality, automotive trade, and agricultural trade. In 2008, SOK had revenues of EUR 8.9 billion (www.s-kanava.fi).

5.3. DATA COLLECTION

In this section, the data collection for this thesis is described. First, means of reducing bias are highlighted. Then, the subsequent questionnaire deployed in data collection is discussed. Finally, the actual interview procedure is discussed.

5.3.1. Bias Reduction

For this thesis biases were reduced through McCracken's (1988) inquiry procedure. According to McCracken (1988) reducing bias requires manufacturing of distance between the interviewer and the subject of research. McCracken (1988) suggests that distance must be manufactured in order to not become blinded by the familiarity of the research subject and proposes a four-step method of inquiry. In this method, first, analytic categories are reviewed through literary review. Second, one's own cultural categories are reviewed to gain awareness of one's own preconceptions of the subject. Third, the interviews are conducted. Finally, the data collected is analyzed and analytical categories are developed.

The two first steps of McCracken's (1988) four step procedure address this challenge. The first step, review of the analytic categories and interview design refers to an exhaustive review of the literature (McCracken 1988) the researcher to sharpen his or her ability for surprise; researcher who is well versed on the literature has a set of expectations that the data can defy. Thus, according to McCracken (1988) a thorough literature review is a way to manufacture distance and a critical process in which the researcher becomes the master of the previous scholarship, not its captive. The ideal output of an effective literature review then is an inventory of categories and relationships that can be examined in interviews (McCracken 1988). The second step, review of the cultural categories and interview design aims at gaining a more systematic awareness of the researcher's own personal experience (biases) with the research topic thereby distancing oneself from it (McCracken 1988).

5.3.2. Questionnaire Design

Once a foundation has been established through literary review and through critical assessment of one's own preconceptions, the interview procedure can be designed. The two primary elements of the actual collection of data are questionnaire construction and the actual interview procedure. McCracken (1988) argues that there are four main functions for questionnaire; first, it ensures that the researcher covers of the terrain in same order for each respondent; second, it is used to manufacture distance through care and schedule of the prompts; third, it is used to establish channels and for the direction and scope of discourse; and finally, it is used to allow the researcher to fully focus on the respondent's answers. At the same time, McCracken (1988) notes that the interviewer must be able to utilize the contingency of the interview and pursue opportunities that may emerge during its course. Thus, the questionnaire mainly serves as means to ordering data on basis of theoretical review and thereby relieving the interviewer to focus on answers which maintain opportunities for variability in the interview resulting from emergent themes (McCracken 1988). Consequently, McCracken (1988) notes that the final questionnaire contains "grand-tour questions" addressing the central themes that emerged from theoretical review and prompts which will be used to elicitate emerging information; questionnaire is primarily "a rough travel itinerary which provides direction but doesn't specify precisely what will

happen at each stage or long the stages will be". Also Jankowicz (2005) and Marshall and Rossmann (2006) acknowledge the prominence of emergent data in qualitative interviews.

5.3.3. Interview Procedure

In the actual interview the most important consideration is that the primary objective of a qualitative interview is to allow the reflective practitioner (Schön 1983) to tell his or her story in their own terms (McCracken 1988). Thus staying as unobtrusive as possible and moving the respondent to talk without overspecifying the substance or perspective of the interview is crucial (McCracken 1988). Silverman (2001) argues that central to qualitative interview procedure is the researcher's ability to ensure that all topics are covered and that relevant aspects are probed for more in-depth answers. Relative to beginning of the interview, McCracken (1988) suggests that the interviewer must demonstrate that he or she is accepting and curious but not inquisitive and prepared to listen to all responses with interest. To do so, the opening inquiries should be simple autobiographical questions. After that, the designed grand-tour questions in the constructed questionnaire should be deployed by deploying prompts and respondent should be allowed to speak on the topic sufficiently to generate sufficient data for the analysis (McCracken 1988).

McCracken (1988) states that qualitative methods are most effective when they are used to discover how the respondent sees the world. This makes it essential that the response is elicited in as unobtrusive way as possible. Consequently, McCracken (1988) argues that at crucial moments in the interview the entire success of the research depends on the ability to draw information precisely right manner. Jankowicz (2005) notes that interviews involving value laden subjects call for effective elicitation which requires linguistic and personal intuition and flair and also, sensitivity towards the possible subjectivity of the interviewee in respect to his or her own biases. Reducing bias then involves ability to elicitate responses and preparation though careful design of sequence and avoidance of inadvertent omissions of questions (Jankowicz 2005).

McCracken (1988) identifies two main forms of prompts for elicitation; floating prompts and planned prompts. Berg (1995) conceptualizes these two prompt types as unscheduled and scheduled prompts. McCracken (1988) suggests that floating prompts are those inquiries which employ repeat of respondent's last remark in an interrogative tone, or in a slightly more forthcoming fashion by asking to specify or elaborate on the remark, for instance. Planned prompts are those inquiries which the elicitation is more structured as opposed to spontaneous floating prompts which are intended to elicit emergent themes in the interview. McCracken (1988) lists four planned prompts which need to be used if categories of theoretical review do not emerge spontaneously; first, contrast prompt which aims at getting the respondent to describe key distinction between two categories; second, category questions in which the respondent is asked to define different aspects relating to the category (e.g.

key actors, central action, dramatic structure, consequences of good and bad performances); third, asking the respondent is to recall exceptional events in which the research topic phenomenon surfaced; and fourth, auto-driving in which the respondent is asked to comment on provided stimulus.

5.4. DATA ANALYSIS

According to McCracken (1988) the objective of the analysis is to determine the categories, relationships and assumptions that inform the respondent's view of the world general and the topic in particular. Analysis is the fourth and final stage of McCracken's (1988) four-stage inquiry process and it aims discovering analytical categories that emerged from the interviews. In addition to maintaining the distance that was manufactured in earlier stages of the procedure, it is important to for the researcher to consider the epistemological stand he or she takes in respect to the validity and reliability of the data. Silverman (2006) argues that authenticity is a more salient issue for qualitative research than reliability; the aim is to gather an authentic understanding of the respondents' views and experiences relative to the research subject. Consequently, in pursuit of an authentic account, the perspective deployed in the empirical analysis of this thesis is one advocated by Silverman (2006); the collected interview responses are informed statements by individuals whose experiences are under investigation. Therefore, the interview responses do not to be analyzed as true or false accounts of reality but as displays of perspectives instead (Silverman 2006). In what follows the five stages of analysis (McCracken 1988) are described.

McCracken (1988) lists five stages of analysis for long qualitative interview data. First, the utterances are treated in their own terms, ignoring their relationships to other aspects of the text. This creates observations. Second, the observations are developed first by themselves, and then according to the evidence in the transcript, and finally according to the previous literature and cultural review. Third, the interconnections of the observations are explored in respect to the evidence in the transcript and previous literature and culture review. At this point, the attention moves away from the transcript, toward the observations themselves and transcript is only used to check ideas as they emerge from the contrasting of observations. Fourth, the observations are subjected to collective scrutiny to determine intertheme consistency and contradiction. Finally, the patterns and themes from several interviews are subjected to a final process of analysis. In the following these stages are described in more detail.

In the first stage, the objective is to determine whether the *utterance can be treated as an entranceway* (McCracken 1988). In this stage it is crucial to avoid making the assumptions and understandings that one typically makes in a normal situation. At this stage, it is very important for the researcher to use self as instrument and be open for the stream of associations arising from the stream of utterances as this associational activity is one of the more powerful analytic devices at ones

disposal. Berg (1995) argues that in process of coding utterances, the researcher should frequently make notes of the ideas which emerge from the data. Nonetheless, as pointed out by McCracken (1988) in stage one has to however avoid premature closure and neglect of possibilities.

Relative to the initial stage of analysis, Berg (1995) suggests that in (content) analysis seven different elements can be considered as utterances; words which are the smallest unit; themes which can be simple sentences; characters are individuals relevant to the research subject; paragraphs which are used rarely due to difficulty of coding the various elements within; items which are the whole unit of respondent's message; concepts which are groupings of words in conceptual clusters; and finally, semantics which pertains to the overall sentiment of the response. Berg (1995) also notes that in "open coding" of utterances the researcher must ask the data specific and consistent set of questions to focus on issues pertinent to the study. Also, Berg (1995) suggests that the data should be analyzed minutely; one should begin with more inclusive wide concepts and then proceed to more narrow and systematic concepts.

According to McCracken (1988), the first objective the second stage is to *extend the observations from first stage beyond their original form* to uncover further implications and possibilities. Then, second, these observations are used as a lens for reflecting back to the transcript to determine whether any relationships or similarities can be detected. Third, the observations are examined in respect to one and another. It is important to look for trends for identity and similarity, and also for contradictions and oppositions in order to keep all of the patterns established early in the research process. As pointed out by Silverman (2006; p.205) it is of utmost importance for the researcher to avoid formulating polar oppositions in the categories and keep in mind that most of the found phenomena can not be considered as detached from the social context in which they subsist.

In the third stage, the objective is to again develop the observations in their own terms independently from other observations for *discovering a broader field of patterns and themes* (McCracken 1988). This stage is also known as categorization (Berg 1995). In this stage speculation for a better, more appropriate and exacting context and general properties should be undertaken (McCracken 1988). Berg (1995) argues that development of categories must derive from inductive reference concerning patterns that emerge from the data. Relative to researcher's inclination to make assumptions Silverman (2006) argues that a qualitative researcher must particularly avoid treating neither the respondent's responses nor single elements of data as entire explanations.

In the fourth stage, the objective is to *form judgment on the interviews* which have generated comments and comments on comments (McCracken 1988). According to McCracken (1988) the researcher should seek for general themes implicit in the material by looking into each of themes and thereby establishing a foundation from which the interrelationships between the themes can be

derived. Redundant themes should be considered residual at this stage and the remaining pertinent formulations should be organized into corethemes and subcorethemes. However, McCracken (1988) also notes that at this stage, one must remember to observe the themes in respect to whether any of the redundant themes may offer relevant alternate perspectives.

In the final stage, the conclusions and *themes from the fourth stage are reviewed* for the purpose of finding bases for theses. In this stage, the cultural categories have been fully addressed and thereby transformed into analytic categories. Thus, the researcher no longer speaks from one's own perspective but from an analytic social sciences perspective. In McCracken's inquiry process (1988) the fourth and fifth stages may be seen as the primary platform for abductive mobilization (Dubois and Gadde 2002) of new theoretical perspectives for improved understanding of a phenomenon. Consequently, in these concluding stages of empirical data analysis for this thesis, systematic combining (Appendix 2) (Dubois and Gadde 2002) was used as a supporting instrument for analysis. The ultimate objective of systematic combining is to match theory and reality; there are four elements to this process; framework, empirical world, theory and the case (Dubois and Gadde 2002). First, through matching the researcher goes back and forth between framework, data sources, and analysis; it is important to note that there is no obvious pattern to this. Similarly, McCracken (1988) notes that the exact path from data to observations, conclusions, and scholarly assertion cannot and should not be fully specified.

5.5. RELIABILITY AND VALIDITY OF FINDINGS

The aim of this section is to discuss the limitations of this thesis. In what follows, reliability is discussed first and then validity.

5.5.1. Reliability

Reliability of research has been defined as the repeatability of the findings (Silverman 2006; Hirsjärvi and Hurme 2000). In other words, repeatability pertains to the extent to which the findings of the research are dependent of the context in which it was studied. Also, repeatability is partly linked to the author's objectivity and own biases resulting from one's own background and interests (Grönfors 1982).

In data collection for this thesis, the reliability of the findings was strengthened through careful design and utilization of a questionnaire (Vilkka 2006; McCracken 1988) and by recording and transcribing the interviews (Silverman 2006). In data analysis for this thesis, five-stage abductive analysis proposed by McCracken (1988) was deployed along with systematic combining (Dubois and Gadde 2002) of the empirical findings with the theoretical framework and theory.

The reliability of the findings for this thesis is limited in five ways; (1) only one respondent was interviewed from each sample firm; (2) not all of the major firms in property market were interviewed; (3) the interviews were limited to top level executives; (4) the respondents may have been inclined to

provide answers which were presumed satisfactory and acceptable; and (5) the analysis of the findings may have been influenced by the researcher's affirmative views relative to fittingness and value of S-D Logic as a business logic. Moreover, some of the value and value creation concepts drawn from extant theory have been originally designed for business-to-consumer contexts; thus their fittingness may be limited in business-to-business context of this thesis.

5.5.2. Validity

Validity refers to the accuracy of the research findings in terms of their effectiveness in illustrating and explaining the social phenomenon under study (Silverman 2006) and the accuracy of the concepts deployed in research in depicting what they are intended to depict. Also, while in quantitative research validity concerns the discretion in hypothesis-testing, in qualitative research validity is more closely linked to structural aspects of the research as opposed to hypotheses; in other words, does the research address the phenomenon in terms of those concepts that are relevant to it (Hirsjärvi and Hurme 2000).

For this thesis, the validity of the research was enhanced through an exhaustive review of extant literature concerning the subject of the research, and deployment of McCracken's (1988) five-stage analysis process. It has to be noted however, that despite the latter, the validity of is limited as Service-Dominant Logic is emergent as a theoretical paradigm and thus its primary subconcepts (i.e. service, operant resources, value, value creation) examined in this thesis are also yet to be sufficiently scrutinized. In addition, the validity of the research findings is limited in three ways; (1) the findings are based on views of individual respondents from sample organizations; (2) the analysis of findings was contingent on the researcher's own cognitions and perceptions; and (3) property user perspective was only limitedly represented.

6. FINNISH PROPERTY MARKET

The purpose of this section is to provide a brief overall view of Finnish property market which is the context in which S-D Logic is studied for this thesis. This section is organized as follows. First, the main actors in property market are identified and described relative to their main functions in the market. Then, office property market is discussed in respect to the primary office property types and their respective market practices.

6.1. PROPERTY ACTORS

There are four prominent types of property areas and actors in the property market. The primary functions are property investment, property development and property services which are discussed in the section. The fourth main function in the property market is property use; this function consists of

four primary types; office, retail, residential, and logistics properties. As this thesis primarily focuses on office properties; these are described in section 6.2.

6.1.1. Property Investment

Property ownership in Finland can be divided into private and public sectors. In the private sector, property investment and ownership in Finland involves four primary types of actors; (1) institutional investors (e.g. Varma, Ilmarinen, Tapiola), (2) listed property companies (e.g. Sponda, Citycon, Technopolis), (3) non listed property companies (e.g. VVO, Sato), and (4) international investors (e.g. RBS Nordisk Renting, NIAM, Wereldhave) (KTI 2009). Of these four types of investors, institutional investors represent the largest proportion of ownership with 38%, followed by international investors (27%), and listed and non-listed property companies (12% each). Also in the private sector, some large corporations that use properties are also significant owners (e.g. SOK, Kesko).

In addition to the aforementioned private investor types, considerable extent of property investment and ownership takes place in the public sector where Finnish government has concentrated majority of its property ownership to government owned Senate Properties which is the largest property owner in Finland, with approximately € 5.6 billion portfolio consisting primarily of offices, university buildings, prisons, and cultural buildings. In addition, in the public sector, municipalities are significant owners regionally; it has been estimated that municipalities own approximately 90% of their premises (e.g. offices, schools, healthcare centers) (KTI 2009).

Recently, new practices in property investment processes have resulted from developments in the Finnish property market, most notably increased internationalization and introduction of new actors. Consequently, involvement of specialist services in property transactions, particularly those involving international actors has increased. In the largest investment transactions, these services include due diligence, analysis, advisory, corporate finance and investment banking expertise whereas smaller transactions specialized are in a more limited role. However, it is suggested that with current market downturn the need for specialist services (e.g. legal, technical, financial and tax) increases in all transactions (KTI 2009). Moreover, relative to market cycle's role in investment practices and processes, it is argued that in more active years, bidding contests are more widely used for larger investment transactions. However, with the current downturn, the bidding contests have decreased in number and also, the number of participant in bidding contests has decreased. Also, the duration of bidding contests has elongated and consequently, number of original participants may have withdrawn (KTI 2009).

6.1.2. Property Development

In the Finnish property market is that there are not many players specializing solely in property development as the primary actors involved in property development include construction companies, property owner-users and property companies. Due to the current economic downturn and consequent slowdown of the property market and the tightened financing requirements, business opportunities in property development have narrowed and involved actors have become increasingly cautious. The most prominent actors in property development are construction companies such as NCC, Skanska, YIT, SRV, Palmberg and Hartela. The second prominent actor involved in property development are property owner-users (e.g. SOK, Kesko) due to their ability to leverage their bargaining power with local municipalities due to their strong employing and tax revenue effect. Third, also involved in property development are development consultants that are primarily involved in planning of the concept and coordination of cooperation among involved parties.

Moreover, of property investors identified in section 6.1.1, property companies and institutional investors have also been involved in property development. Of listed property companies, particularly Sponda, Citycon and Technopolis have been active in property development their own core areas (i.e. property types). Relative to institutional investors involved in property development, traditionally the property development strategies have been conservative. Yet, it is suggested that these investors have become increasingly involved with property developers in early stages in of property development project to gain access to best assets in upward market situations (KTI 2009).

6.1.3. Property Services

Three prominent types of property services in Finnish property market have been identified; (1) *asset and property management services*, (2) *advisory, valuation and transaction services*, and (3) *financial services*. The role of these services in the property market is suggested as entry facilitation for new property investors and users and also, enablement of new property management strategies for these actors. *Asset and property management services* (1) are defined as large investors' outsourced property management and tenant relationship management resources; some of these actors focus on property management only whereas some offer advisory and consultancy services as well. The largest actors in this service area are Finnish Ovenia and Realia and international Aberdeen and Newsec. Also, in this service area are Finnish Lassila & Tikanoja and SOL as well as international actors such as ISS.

Advisory, valuation and transaction services (2) are offered both by property management companies and specialist actors; these services have become more prominent in recent years due to the increased liquidity of the market. Of the firms offering asset and property management services (1),

Newsec, Oventia and Realia also offer valuation, advisory and transaction services (2). Moreover for these services, Finnish Catella Property Groups is a prominent provider.

The third central type of property services is *financial services* (3); while property financing has traditionally been managed by banks in Finland (e.g. Nordea, OP Bank Group, Sampo), several specialized real estate finance banks (e.g. Eurohypo, HSH Nordbank and Aareal Bank, SEB Merchant Banking, Royal Bank of Scotland) have entered the property financing sector more recently. Due to current economic downturn, the availability of financing from these service providers has become increasingly stringent (KTI 2009).

6.2. PROPERTY TYPES

Office properties are one of the four prominent property types in the Finnish property market, along with retail, residential, logistics properties. Offices generally represent a significant portion of the Finnish institutional property investor's portfolios' total volume; it is suggested that currently this portion is approximately 45% (KTI 2009). In terms of area, majority of the total Finnish office volume of 10–11 million m² is situated in the Helsinki metropolitan area (8 million m²). Other prominent office concentrations are situated in Tampere and Turku.

For office properties, varied ownership and finance strategies are applied. Those companies which require only limited space (e.g. professional services) are beginning to deploy increasingly sophisticated workplace strategies (i.e. space usage, user experience). This development has also resulted in increasing demands relative to ownership, finance, and flexible solutions. Also, the office property market is suggested as highly cyclical; depending on the competitive situation both actors in property market seek to leverage their bargaining power. For instance, in current economic downturn, it is suggested that potential property occupants for office properties aim at negotiating for lower rents, rent-free months in the beginning of the lease, or tailored custom modifications to the office property. Office properties can be divided into three main types; (1) *multi-tenant properties*, (2) *single-tenant properties*, and (3) *business parks* (KTI 2009). These are briefly described in the following.

6.2.1. Multi-tenant properties

Multi-tenant properties are the most common type of office property, these are typically situated in city centers and specific office concentrations outside city centers. For these properties, rents are typical gross and indefinite lease terms are applied to contracts with tenants; in case of gross rents (i.e. property owner pays for the land rent, insurance, property taxes and most service expenses) the cost risk entirely carried by the property investor and thereby it is essential for the property investor to use highly effective property developers and property management services (KTI 2009).

6.2.2. Single-tenant properties

Single-tenant properties are also a prominent office type; single-tenant buildings used typically for company headquarters. For single-tenant properties, fixed lease terms are commonly applied; these terms can be long in their duration, ranging from 10-20 years. In these situations net rents (i.e. base rent; separate charge for services) are usually deployed as opposed to gross rents used in multi-tenant buildings (KTI 2009).

6.2.3. Business park properties

Business park properties are larger properties which allow for flexible agreements and extensive services for occupant customer firms; including reception, security, cleaning, catering, postal services and meeting facilities. Also, these properties are usually developed at sites with good traffic connections for the purpose of attracting a wide range of tenants. For business parks, the applied rents are usually net rents with base rent and separate service charges; the rent agreements are usually fixed term, ranging between 3-5 years. This property type has become increasingly prominent in recent years (KTI 2009).

7. SERVICE-DOMINANT LOGIC IN FINNISH PROPERTY MARKET

The aim of this chapter is to examine two salient paradigmatic concepts of S-D Logic; concept of service and role of resources. Service is analyzed here because shift to S-D Logic from G-D Logic essentially transforms view of service from a category of offerings defined residually to goods, to a perspective and logic on value creation. Role of resources is analyzed here because S-D Logic shifts resource emphasis to operand resources to operant resources and because S-D Logic value co-creation is based on resource integration between service provider and beneficiary.

7.1. SERVICE

The aim of this section is to assess the conceptualization of service in companies by contrasting the definitions identified in extant literature and the findings of interviews with case companies. As shown in section 2.2, service has four major conceptualizations along a continuum in which the extent of customer use-value emphasis grows. In the most G-D Logic oriented view, service can be seen as a (1) *category of market offerings* (Edvardsson et al. 2005); after that, as an (2) *activity* (Grönroos 2006); then, as a (3) *perspective on value creation* (Edvardsson et al. 2005); and ultimately, as a (4) *business logic* (Grönroos 2006). It can be argued that these four conceptualizations also vary relative to their fit to S-D Logic; *service as a business logic* (4) is the view most closely aligned with S-D Logic.

In order to understand the extent to which service is conceptualized as a perspective and logic on value creation rather than a residual market offering, it is useful to consider how property is understood among the interviewed respondents. Based on FP 3 (Vargo and Lusch 2008), S-D logic

based of business property business property would be a distribution mechanism of service provision, or value foundation for customer's value creation process (Grönroos 2008). Among the sample companies, it was evident that the perspective of the firm on the property varied in correlation to the scope of activities which linked the firm to the property as an offering for customers. The two primary perspectives that emerged were view of property as a product to be rented to the customers or, as facilitating conditions for the core business of the customer firm. These two perspectives roughly correspond with service as a category of market offerings, and service as business logic, respectively.

Relative to service as business logic, all respondents more or less acknowledged the role of property as customer process supporting facility. Among *property developers*, the scope of activities is the most extensive and seemingly also service was implicitly recognized as business logic among these companies. Here, scope of activities refers to the fact that firms which develop business properties from "scratch" (i.e. zoning, construction) are most extensively integrated to a broad network of social and economic actors and also have to consider sources of value for multitude of actors. In other words, for the nature of a property developer's offering is expansive as it is strongly linked the surrounding infrastructure and consequently, the broader societal and economic goals dictated by the governmental legislative and regulatory bodies. These goals are inherently aligned with S-D Logic because they are designed to increase the adaptability, survivability, and wellbeing of the broader society. Consequently, property developers inevitably have to take genuine interest in creating value for the overall value system in which the property is developed and thereby adopt service a perspective on value creation. Respectively, as property development requires involves a complex set of specialized skills and competence, the primary source of competitive advantage for property developers arises from the ability to align and coordinate these complexities and transform them into integrated solutions for beneficiaries of business properties as value foundations.

The potential value of service as a business logic was also recognized among *property investors* as it was characterized as the very focus of the business by respondents. However, seemingly, there is strong S-D Logic limiting path dependency among property owners due to a highly potent industry recipe which stresses properties mainly as an operand source of revenue and primarily, and an output in which majority of its value is contingent on its location. This view however, can be considered fitting to S-D logic relative to undeveloped land owned by property investors to the extent that these areas are viewed as instruments for service provision to the broader value-system (i.e. municipality). Despite the explicit acknowledgement of service as the primary focus of business, conceptualization of service was closer to category of market offerings view among respondents, as services were primarily acknowledged as extensions to the actual property (i.e. cleaning, maintenance, security). On the other hand, there was some evidence of service as perspective on value creation in that changes in organizational structure and processes were identified as an opportunity for value creation as opposed to development of the properties per se. A concrete manifestation of this recognition was property

investors' apparent deployment of account management and partial organizational structure alignments towards customer segments with similar needs.

Service as an activity view also emerged in the discussions with respondents. Seemingly, service as an activity emphasis (i.e. supporting customer's everyday *practices*) was most prominent in those business areas in which the firm's services were directly linked to the end-user of the property (i.e. property tenant); each of the respondents mentioned lifecycle thinking as a guideline in business planning. Lifecycle thinking among property developers and investors alike seems to have emerged from the recognition of business opportunities in areas of maintenance, facilities management, and other property use supporting services. Central to this notion of everyday process support is facilitation of *uninterrupted, continuous experience* in which the property user is enabled to focus on its core business without and disruptions or discontinuities. The importance of uninterrupted execution of daily processes was also acknowledged by the interviewed *property users*; property users also emphasized the role of property as a supporting facility for the core business. Closer involvement with property user through supporting services also seems to increase firm's explicit recognition of *service as perspective on value creation*. Most notably, service as a perspective view seems to manifest itself in the design phases of these relieving services where emphasis on individual property users' overall use experience and wellbeing.

To sum, five prevalent underlying trends relative to conceptualization of service could be deciphered from the interviews. First, it seems that the scope of firm's activities in respect to their extension over the lifecycle of a property and required specialized competences appears to correlate with service as business logic emphasis. Second, despite the latter, the most prominent conceptualization of service appears to be G-D Logic oriented view of service as category of market offerings as services were primarily understood as extensions to the offered property. Third, S-D Logic aligned business logic for value creation aimed at system wellbeing and adaptability was most evident in those areas of business which were dependent interaction with public legislative and regulatory bodies. Fourth, the prominence of service as business logic appears to increase in those areas of business which are more closely linked to property user and conversely, G-D Logic aligned build-rent-discard viewpoint on properties among property owners (investors) seems to be only gradually vanishing in response in to increasing competition in the industry.

7.2. RESOURCES IN FINNISH PROPERTY MARKET

As illustrated in section 2.3, resources and their integration among different actors are central S-D logic value creation. In S-D Logic, resources can be divided into operand and operant resources and service provider (i.e. firm) and service beneficiary (i.e. consumer, business customer) resources. Operand resources can be characterized as resources on which an operation or act is performed to produce effect and operant resources as those resources which produce effects and can be

embedded into operand resources. In what follows, the conceptualization of these two types of resources is examined on basis of discussions with respondents.

7.2.1. Operand resources

Central to firm's adoption of S-D Logic is shifted emphasis on operant resources. As discussed in section 2.3.4, firms have to overcome change inertia caused by path dependency among firm management. In interviews with respondents, it became evident that in Finnish property market there is path dependency relative to resources which causes change inertia in transition to more service-oriented *modus operandi*; this path dependency manifests itself in two ways which are opposites in respect to their fit to S-D Logic. First, traditionally, business properties have been primarily viewed as end-products with embedded value to be distributed to property users. In other words, properties were "marketed to" tenants as opposed to "marketed with" according to property users value creations processes. This ideology is perceptible particularly in property investors' lexicon in which segmentation of different customers in the firm's property portfolio is a central concept. This tendency was suggested as a particularly prominent characteristic of the property development market most recently in the early 2000's when heated property market allowed for short-term profit making with properties. Second, on the contrary, at the same time, the project based *modus operandi* in development of new properties is very much aligned with S-D Logic rooted concept of resource integration among various levels of aggregation; for *property developers* the primary source of competitive advantage appears to be the ability to bring together multitude of operant resources (i.e. specialized skills and knowledge) into a solution for the customers (i.e. property investor, property user).

Nonetheless, because competition for particular property projects is primarily carried out through bidding contests and thus it may be argued that little resource integration takes place prior to acceptance of a bidder's value proposition in which value-in-exchange is the most prominent consideration. Thus, prior to reaching an agreement (i.e. winning bid), the potential beneficiary remains an operand resource. However, the mastery of the bidding process was implied as a central skill (operant resource); this skill seems to be contingent on (1) understanding of the core business which the property is intended to facilitate and (2) experience from previous bidding contests. Seemingly, property developers have started to increasingly shift include management of bidding contests as part of their solutions; this increased the prominence of operant resources in property developer's value creation.

7.2.2. Operant resources

Despite the aforementioned path dependent tendencies pertaining particularly to the property market exchanges, it seems that predominantly, an S-D Logic aligned shift towards operant resource

emphasis is in effect in property market. There were three closely linked salient issues that repeatedly emerged in the interviews. First, there are increasing number of capable operant resource integrating economic actors involved in the property market; (1) actors are increasingly forced specialize to sustain their competitive advantages. Second, majority of the property market firms seem to recognize employees' operant resources (i.e. skills, expertise, knowledge) as the key source of competitive advantage. Third, seemingly also the property market beneficiaries (i.e. property users) are increasingly acknowledged as operant resources in the value creation processes in the advanced stages of property usage. In the following these found themes are described in more detail.

First, relative to firms' need to specialize to build and sustain competitive advantages, each of the respondents acknowledged the need for collaboration with other specialized actors primarily for enabling planning and also at the customer interface in service provision. This corresponds with market-facing and nonmarket-facing resources distinction (Vargo et al. 2008). The need for specialized actors for planning and design was particularly prominent among those property developers that offer a broad scope of services spanning from construction of a property to its maintenance and eventual renovation; this may be seen as an illustration of the increasing importance of "competence managing competences" (metacompetence; Normann and Ramirez 1993) in broader value creation venues. Moreover, relative to the need to specialize it was explicitly noted that firm can not be "good" in everything; the smaller the stock of resources of the firm, the more effectively it has to develop that stock through knowledge generation. To do so, a firm has to accept that development of effective resource integrating enabling relationship with other specialized actors demands resources in itself and is a necessary antecedent for development of competitive advantages. Also, a property investor was found to use a collaborator firm at the customer interface which suggests that customer interface management is a central resource in property market, along with specialized planning competences.

The second major resource theme that emerged in interviews pertains to the role of firm's employees as a source of competitive advantage for property developers, owners, and users alike. It is important to note here that basic construction competence was identified as a necessary hygiene factor for property development but not a differentiating complete advantage. Respondents from property development firms conceptualized their respective firms primarily as expert organizations where skilled professionals are the key enabling operant resource for the firm. Consequently, personnel training programs and systematic updating and development of personnel expertise were identified as primary drivers of financial performance and profitability. However, it is important to note that market performance was not explicitly recognized as a learning mechanism, on the contrary to S-D Logic emphasis on performance as a learning instrument. Furthermore, as identified above, relative to need for collaboration with specialized actors, respondents also implicitly identified role of personnel both as

a market-facing- and nonmarket-facing resource. It appears that those firms whose services are primarily directed at latter usage stages of property are most conscious of the importance of employees as a market-facing resource. Slightly oppositely to other respondents, among property investors the role of properties themselves appeared more prominent as an (operand) resource, seemingly due to the aforementioned path dependency.

Third, relative to property users as customers, all of the respondents identified the prominence of individual actors (employees) as an operant resource in efficient use of property. This suggests that while business property can be primarily conceptualized as a resource which a property using firm integrates into its own resources for attainment of its own hierarchy of goals, the operant resources of employees of the property using firm essentially drive the efficiency or inefficiency of the property use over its lifecycle. This implies that value proposition design for a property must not only seek to facilitate value creation processes of the firm but also consider the authoritative and allocative capabilities (see Arnould et al. 2006) of individual employees in use of the property. Therefore, beyond provision of effective and efficient business property for use, a property developer must unequivocally seek to facilitate and direct efficient use of the property among its individual users through operant resource reinforcing knowledge transfer in form of feedback and training. Of the operant resources of individual actor identified by Arnould et al. (2006) (Figure 3), based on respondents' views, it appears that cultural operant resources of employees are most fundamental for this support.

To summarize, among all respondents, the general theme was that an apparent shift has emerged in conceptualization of resources. This shift is closely with aligned S-D Logic, as property market firms have had to develop their operant resources through specialization and increased integration into property users processes to build and sustain competitive advantages. It is crucial to note that none of the respondents considered basic tangible inputs in construction or basic construction processes as sources of competitive advantage; instead, integration and management of specialized operant resources into coherent customer solutions appeared as the primary conceptualization of source of competitive advantage. This extended operant resource emphasis seems to be contingent on the market conditions; the competitive intensity among property developers appears to increase emphasis on resource integrating capabilities. Moreover, individual actors' operant resources within property using firms were emphasized as key factors in efficient property use as opposed to operand technology, for instance.

8. VALUE IN FINNISH PROPERTY MARKET

The purpose of this section is to analyze the concept of value in the Finnish property market. This section is divided as follows. First, the subsistence of the different drivers of value are examined; value-in-exchange, value-in-use, phenomenological value, and relational value. Second, the property

market value context is assessed relative to its levels of aggregation, and most salient dyads. Finally, dynamics and dimensions of value determination in property market are assessed on basis of interview findings.

8.1. VALUE DRIVERS IN FINNISH PROPERTY MARKET

In what follows, the subsistence of different value drivers in Finnish Property Market is examined. First, value-in-exchange conceptualization is examined. Then value-in-use, interaction and relational value aspects in property market is discussed. Finally, conceptualization of phenomenological value is briefly examined.

8.1.1. Value-in-exchange

Based on interview findings, it may be argued that value-in-exchange is the dominant conceptualization of source of value. However, there appears to be some variability in the extent to which value-in-exchange dominates decision making among actors in property market, primarily due to the emerging recognition of business opportunities presented in shift to value-in-use emphasis. This is discussed later in this chapter in discussion of value-in-use. The prominence of value-in-exchange as the driver of value was most evident in discussions with property investors. Several respondents observed that an investment decision of majority of property investors is essentially dictated by the cash flow prospects of that particular property. Respectively, this cash flow emphasis was linked to property investors' deliberate decision to not get involved in aspects that create value in the usage stages of the property. In other words, seemingly property investors' value creation venue essentially remains in the development of land into finished property to the point where the site finished and value has been embedded to the finished property in the development process. Thus, value creation activities are then primarily designed to embed as much value to a property as possible in order to attain sufficient value-in-exchange for the purpose of selling the property to property investors and renting out the property to end-users.

The prominence of value-in-exchange was also evident in discussion of stages of the property in which the resident end-user of the property is already using the property. Respondents observed that the most considerable business opportunities in property market pertain to older buildings especially in regards to their energy efficiency and their limited suitability to the needs of the current users. While the recognition of these opportunities among respondents fundamentally illustrates the value-in-use notion of value creation within customer's practices, value-in-exchange appears to dominate much of the efforts to improve value-in-use seemingly due to the function of business property as a supporting facility for user's processes. This is to say that while there is an increasing awareness of the importance of an effective business property for attainment of firm's goals, the property remains primarily a peripheral consideration relative to the core business of the firm. Therefore, while

investments in improved property are acknowledged as value-in-use in the long term, value-in-exchange relative to the investment is easier for managerial decision making due to its distinct measurability at that moment. Respectively, the perceived potential value-in-use from enhanced business property as value creation facilitating platform is often not sufficiently commensurable when contrasted with alternate investment in the core business of the firm from a value-in-exchange perspective. Accordingly, interviewed property users emphasized the peripheral supporting role of function of property relative to the core business of the firm.

Moreover, the aforementioned dominance of property as primarily a value-in-exchange instrument for property investors appears to have permeated the across wider range of actors. In discussion with property developers, most notably, properties were viewed as sources of different types of revenue as opposed to instruments for value creation. Nonetheless, it is necessary to note that revenue and profitability are antecedents for all for-profit economic activity and thus value-in-exchange emphasis does not necessarily contradict with S-D Logic. In other words, value-in-exchange plays an important role in property market as means of measuring, mediating and monitoring the relative value from properties within the surrounding context. Despite the aforementioned prominence of value-in-exchange and embedded value, in discussion with the respondents it became apparent that value-in-use is becoming increasingly important consideration in property market. This development is discussed in the following.

8.1.2. Value-In-Use

Relative to value-in-use in property market, three prominent trends emerged in the interviews. First, the modus operandi of property market seemingly has shifted towards long-term property lifecycle emphasis. This emergent emphasis appears to be primarily rooted in the comparative durations of the development of a new property (i.e. construction) and enhancement of an existing property (i.e. maintenance, renovating, and supporting services); building is used for a seemingly indefinitely longer period of time in contrast to its construction. Consequently, it seems that property developers today (1) deliberate the fittingness of the property to the intended user's processes, (2) seek to design the property in a way that allows for adjustability and maintenance that is unobtrusive to the user's processes, and (3) place increasing strategic emphasis on developing an offering that supports the unobtrusive value creation processes taking place within the property. These emphases were evident in respondent's explicit statements concerning the need for maintaining the wellbeing of the property through its lifecycle. The desired effects of this wellbeing emphasis are twofold. First, by providing an appropriate and comfortable facility for property users, the operant resources (specialized skills and knowledge of employees) of the firms are enabled for more effective and efficient deployment and thus firm is able to attain its hierarchy of goals more effectively. Second, as the value creation

processes of property users are facilitated successfully, property owners are able to realize long-term rent revenues from fully utilized properties.

The second major theme relating to value-in-use in property market pertains to the property developers' strategic aim and capability to facilitate new business opportunities through development of new sites for business, particularly for retailing. New business site development for retailing is contingent on a value-in-use perspective, because it requires thorough understanding of the broader structural requirements for the type of business intended for the particular site. Furthermore, even more profound understanding of the property users' value creation processes is required relative to its end-customers preferences particularly in respect to the location of the site. It is important to note that often this type new property development based on value-in-use considerations also corresponds with aggregate level S-D Logic value purpose of system wellbeing, sustainability, and adaptability as such sites may act as an economic stimulus to the local area to a certain extent (e.g. employment, tax revenue for the municipality).

The third prominent value-in-use theme which emerged in interviews pertains to increasing awareness of interlinkedness of changes in organizational process and structure and adjustments in the property. This awareness appears to emerge from the notion of strategic role of properties. The first identified concern necessitating changes in properties was changes in organizational structures of property users. More specifically, the preeminent trend among majority of property using firms relates to increasingly collaborative nature work where decision making and planning are undertaken collectively. Consequently, older properties need to be modified for additional flexibility and open areas. Secondly, property developers need to be more conscious of changes in property users' value creation processes. These changes were suggested primarily as an outcome of more extensive use of information technology; more extensive information technology among firms was also suggested as dynamic that will eventually reduce the amount of space required by property users.

8.1.3. Interaction Value

Berthon and John (2006) argue that value-in-use is realized in interaction experience with the offering and thus interaction becomes a driver of value. Various dimensions of interaction value identified by Berthon and John (2006) appear to be relevant in property market. Most notably, contact value, the overall experience of the relationship emerged as a highly salient interaction value dimension. The importance of overall value became evident in discussion of *discontinuities* for both property owner and property user; discontinuities were identified in both acquisition and usage stages in property lifecycle. Relative to discontinuities for customer in purchasing of services during different stages of property lifecycle, a respondent observed that from property user perspective, it is important to provide consistent and continuous interface for the customer. In other words, different services such as

construction and renovation should not be sold separately by the respective functions. Also, if a property user were to arrange bidding contests for these distinct services, extensive resources would be required for collection of sufficient information for decision making. Furthermore, adjustments in levels of supporting services during the property lifecycle need to be effectively managed and communicated in order to maintain contact value.

Contact value was also identified as a central interaction value dimension for property investors, particularly in early stages of property lifecycle. It was noted that as a property investors seek for property users for a particular new property simultaneously with the construction of that property, changes to the property may emerge as a result of property users with value creation processes that the original design of the property does not facilitate. For instance, while a particular property may have been originally constructed as an office building, a healthcare center or a grocery store may choose to rent property from that building. Thus, by managing these discontinuities through adjustments in planning and customer relationship management the property developer contributes to the contact value of the property investor. Respectively, effective management of these discontinuities in part of property developer also enhances and reinforces favorable contact value of the property investor relative to its stakeholders.

Control value and currency value also emerged as key perceived sources of interaction value in discussion with respondents. Control value refers the extent to which the service beneficiary directs the interaction with service provider (Berthon and John 2006). For property users, the planning stages of development of the property involve a dialogical planning process in which the property user dictates certain specifications and overall direction of the planning. Relative to currency value which refers to timeliness of the service provider's response to the needs of the beneficiary, a property user identified the responsiveness of the service provider (e.g. maintenance) as the principal aspect of a relationship. The suggested primary reason for the importance of currency value is that as the personnel resources are tied to handling of a problem, property users own processes are then interrupted. Moreover, customization was acknowledged as a source of interaction of value; in property development account management is deployed as means to tailor interaction for needs for a particular property user.

8.1.4. Relational Value

Woodruff and Flint (2006) and Woodruff (1997) suggest that in business-to-business context, considerable portion of customer value is determined and realized through the relationship. Consequently, it is possible for the offering or some of its aspects to be devalued by the beneficiary while the overall relationship value or content value (Berthon and John 2006) remains favorable. It seems for some Finnish property users, long-term relationship with property investors that the rents

the property to the user is perceived as a source of value. This seems to correspond with efficiency dimension of customer value (Holbrook 2006) and continuation value of interaction value (Berthon and John 2006) because implicit in this notion is that property user's investments in a relationship with a property investor result in closer integration and ultimately, better ability in part of property investors to offer value-in-use for the property user. Similarly, while not explicitly acknowledged, this may be seen as an indication of mediating function of close long-term relationships between property market actors in occasions where property user inadvertently experiences unfavorable value relative to the actual property.

Consequently, it was noted that among property investors, there is clear distinction between two alternative logics relative to facilitating relationship value. First, there are certain investors who are primarily focused on deriving maximum economic value by developing raw land into finished property with embedded value and thereby deriving maximum value-in-exchange in form of rent from property users. On the contrary, the other distinct logic appears to be based on the recognition that a close, long-term relationship is perceived as a source of value among property users. Thus, it seems that those property investors who recognize the relationship as source of value also operate in a way that is more closely aligned with S-D Logic due to the relational process value creation emphasis. Moreover, this theme appears to be also aligned with the more traditional provider-oriented perspectives of customer value which focus on retention of customers over time (e.g. Economic Value of the Customer; Gupta and Lehmann 2003).

8.1.5. Phenomenological Value

As noted in the theoretical review, S-D Logic suggests that "value is always uniquely and phenomenologically determined by the beneficiary" (Vargo and Lusch 2008). Based on discussion with respondents, this view of value driver was not particularly salient among property market actors in comparison to the abovementioned value drivers. However, there were two indications of holistic experiences as driver of value. First, a respondent from a property development firm noted that property tenant firms should be provided a property which enables it to provide a favorable experience for its stakeholders which come into contact with the property. Second, among sample property market firms there appears to be trend towards increasing deployment of customer surveys primarily designed for uncovering phenomenological value experienced by the individual users of the property (i.e. employees).

To sum, the primary perceived driver of value in the property market appears to be economic value-in-exchange which serves as means of mediating instrument for measuring and monitoring the value-in-use offered by properties. It is important to note that this value-in-exchange was closely perceived as contingent on the market conditions (i.e. demand for properties). Respectively, market conditions and

competition appears to have driven increasing focus on potential value-in-use facilitated by properties to their users. Thus, in order to tap into the economic activity taking place later stages property development firms have adjusted offerings to better support value-in-use for the property users which eventually also constitutes higher value-in-exchange for involved actors. To a limited extent, this emphasis shift has increased property market firms' awareness of phenomenological value as a value driver for the property users.

8.2 VALUE DETERMINATION IN FINNISH PROPERTY MARKET

As noted by Woodruff and Flint (2006), economic value is a more explicit consideration in business-to-business context in contrast to consumers for whom economic value is much more implicit consideration. Nevertheless, at the same time social and relationship value are prominent considerations as ultimately, purchasing decisions are made by managers not the firm. Respectively, it may be argued that beyond economic value considerations, the value judgment is phenomenological relative to the reflection involved in determination of value. This reflection involves comparison of the offering relative to other offerings, the situation in its variability from one context to another, and personal in the sense that ultimately, individual managers determine the value of the offering.

8.2.1. Reflexive Judgment

Relative to the notion of value judgment as "interactive relativistic preference experience" (Holbrook 2006), evidence was found for the reflexivity and visioning in value judgment in part of management in interviews with respondents. Economic value was clearly the most prominent consideration in judgment of value. The economic value emphasis is aligned with efficiency as a type of customer value because essentially properties are perceived as active means to a self-oriented end; in other words property was perceived as a supporting facility for the core value creation processes aimed at attainment of a hierarchy of organizational goals. In respect to *reflexivity* in value judgment, comparison between different offerings was mainly conceptualized as comparison between the firms as providers as opposed to the particular properties. Consequently, property developers and property investors alike identified one of the primary goals of marketing as to improve the credibility and reliability of the firm as value creation facilitator and an economic and social actor within the broader value system of property development. This emphasis roughly corresponds with extrinsic other-oriented value types of status and excellence (Holbrook 2006) as criteria for value judgment.

Furthermore, as identified by Holbrook (2006) in reflexive value determination, central process for the beneficiary of value is visioning which is process in which originally desired value is reflected and contrasted with the received value in respect to the particular context in which value is realized through use. This concern emerged in acknowledgement of most recent projects as primary determining factor in visioning and desired value for the next property. Consequently, it was noted that

for succeeding projects, it is crucial for the firm to have sufficient credibility in respect to its ability to “answer the customer’s call”. It can be argued for facilitation of such value, a provider a property developer must extensively consider ways to provide social and relationship value. Moreover, ability to “surprise the customer positively” was mentioned; in other words, provision of value that exceeds desired value is as an especially prominent way of building the excellence and efficiency dimensions of customer value. Finally, relative to reflexivity, among property users in particular there appeared to be a strong inclination for more extensive deliberation of long-term ethics in choice of service providers.

8.2.2. Value Change Dynamics

As shown by Woodruff and Flint (2006), a variety of value change dynamics are present particularly in business-to-business context. This was supported by empirical findings. Most notably, managerial tension and emotion as well as changes in desired value contingent on changes in strategy and organizational structuring were identified as highly important considerations in relationships between actors in property market. These two aforementioned issues are closely linked to one and another: changes in organizational structure and strategy constitute a business opportunity for a property development as the changes warrant a need for new property that fits the new demands. However, at the same time, reaching an agreement for making these changes in the property usually results in significant managerial tension due to differing views of the value-in-use potential among managers regarding the renovations and layout changes in the property.

Moreover, relative to customer value variability in property market, it was found that for property users and property investors there are changes in desired value. In “front-office” properties used by property users to facilitate value creation for its own respective customers, changes in desired value appear to be contingent on the changes in needs of these end-customers. The central focus in ensuring favorable value judgment here is to ensure uninterrupted value creation process for the property user. For property investors, it was found that there usually is a constant reassessment in process relative to the strategic focus on different types of properties. Therefore, the desired value of property is in a continuous flux in respect to the types of properties its own operant resources are suitable for managing at a given time. Consequently, a property developer needs maintain a close dialog with the investor in order to stay aware of investor’s interests and develop and adjust its own value proposition accordingly. It is important to note that underlying property investor’s changes in desired value are desired value changes among potential property users.

8.3. VALUE CONTEXT IN FINNISH PROPERTY MARKET

As noted by Vargo (2008), Normann (2001), and Maglio and Spohrer (2008) value creation takes place in constellations of resource integrating social and economic actors on various levels of

aggregation. Consequently, as observed by Gummesson (2006) it is fitting to consider networks as the core variable of marketing. Respectively, on basis of the latter; it may be argued that the key strategic task of a firm becomes reconfiguration of relationships for value creation through mobilization of different economic and social actors. In this section, this S-D Logic aligned view of networked value creation and resource integration is examined in the property development context.

First, relative to the notion of networked value creation in constellations of actors as opposed to value embedding linear chains, property market is clearly a constellation of resource integrating actors on different levels of aggregation; there seem to be four distinct but extensively interlinked levels. First, due to the prominent role of business properties as facilitators of general economic and social economy, the broadest relevant level of aggregation for property market is the (1) *national economic, social, legislative, and regulatory environment*. Second, as properties are a source of value for municipalities they are situated in, the (2) *local municipality* is the second level of aggregation. Third, the most salient and central level of aggregation is the (3) *property market* itself. This network is a constellation of the three primary actors and resource integrators; *property developers* (PD), *property investors* or owners (PI), and (3) *property users*. Finally, the fourth level of aggregation is the (4) *beneficiary network* of the property; the employees and customers of the property tenant firm. On each of these levels of aggregation and between the actors on these levels, there is resource integration and value creation. In the following, these four levels are examined on the basis of interview findings.

8.3.1. National Economy

On the broadest level of aggregation, the overall national economy, *national economic, social, legislative, and regulatory environment*, legislative and regulatory authorities were noted as the primary stakeholders which successful property development is contingent on. Constructive relationships with national regulatory bodies appear as a facilitating instrument for property developers and investors own value creation in the respect that regulators offer basic rules for operating in the industry. On the other hand, large property developers and investors are also valuable resource for regulators as they can help in establishment and reinforcement of the regulations and thereby help direct the behavior of smaller economic and social actors in ways that support the attainment of envisioned goals for enhanced sustainability and adaptability of the Finnish economy as a whole. Moreover, in respect to value of property development actors on the national level, property developers in particular seemingly appear as a significant resource for other actors as specialized actors with foresight into the changes in legislation in the near future.

Also, on the most aggregate level of resource integration for property development, cooperation with educational institutions as well as non-governmental organizations were identified as increasingly important areas of focus. Educational institutions were described as means of attaining skilled

employees for the organizations and also in the long-run, venues for increasing the attractiveness of the firm to future potential employees. Non-governmental organizations on the other hand, have seemingly become a more prominent resource for firms in property market. Most notably, environmental organizations such as WWF and Greenpeace were highlighted as helpful resources relative to the increasing environmental awareness among consumers. Similarly, environmental certificates (e.g. LEED) were acknowledged as information-resources for adjusting properties towards more sustainable value creation and also an instrument of communicating the efforts of the firm to serve as a responsible actor in understandable way. Furthermore, national media was also identified as a central resource as information transmitting actor for communicating firms' efforts to act as a responsible economic and social actor.

8.3.2. Local Municipalities

On the second broadest level of aggregation, the *local municipality*, property developers and investors are significant value creation facilitators for local economies; most notably the municipalities or economic centers in which the properties are located in. For a municipality, development of properties provides both economic value and value-in-use. Economic value or value-in-exchange is created first as undeveloped sites are sold to a property investor and the municipality receives money and tax revenue, and in subsequent stages throughout property lifecycle, steady stream of tax revenue is realized. Value-in-use on the other hand has wider implications on the development of the municipality because in essence, the property developers and investors facilitate economic activity in the area by creating employment and also, by facilitating the overall wellbeing among individual actors and households in the area. Consequently, in order to realize aforementioned value, considerable efforts in part of property developers and investors are required to remain a desirable actor for the local decision makers.

8.3.3. Property Market

The third observed level of aggregation is the actual *property market* which is a constellation of the core property value creation activities. The three primary actors in (office) property market are business customers as the *property users* (PU), *property investors* (PI) as the property owners, and *property developers* (PD) as both builders and developers of new property and also, as maintainers, service providers, and renovators during the usage stages of property lifecycle. The property market itself essentially aims at developing facilities for value creation in the *beneficiary network*; for firm employees and customers that integrate the properties as a resource into their own processes. However, as noted in discussion of perceived drivers of value in the property development in section 8.1., the extent to which the individual users of property are explicitly acknowledged in design of properties as primary resource integrator has been only recently recognized by property market firms.

Overall, relative to the primary business constellation between property developers, (PD) property investors (PI), and property users (PU), it was strongly emphasized by respondents that it is crucial to maintain a balance of interests and value among the three actors. It was also suggested that the primary reason for the threefold value creation network is the division of property ownership and property use. This delineation highlights the different roles of a property in value creation for property investors and property users. Roughly, it can be argued that the property function distinction is based on whether the property is core business for the actors or not; for property user its property is a supporting facility for its own core value creation processes whereas for a property investor (and property developer) the property is the core focus of value creation. Consequently, for the each of these actors the value propositions are different. In the following, these aforementioned core levels of aggregation are assessed in respect to connecting value propositions and resources deployed in integration.

8.3.4. Property Developer – Property User Dyad

For property users, two different value propositions are offered; one from property developer (PD-PU) and one from property investor (PI-PU). Of all the value propositions examined here, property developer's value proposition to property user appears most closely aligned with value-in-use emphasis advocated in S-D Logic because in today's property market property developer's competitive advantage appears to be increasingly contingent on its ability to understand everyday practices, value creation processes, and hierarchy of goals of the property user. Consequently, the PD-PU value proposition can be conceptualized as value-in-use and performance value through property which facilitates effective value creation in part of the property users. Central to this value co-creation process is are the processes by which information and knowledge is transmitted to the customer as this allows the property user to develop its operant resources for making use of the value foundation of property developer more effectively. If the business property is used for retailing, for instance, the value proposition becomes more extensively integrated into the customer processes as the emphasis shifts to facilitation of the property user's customer value creation which then provides economical value for the property user.

On basis of the latter, PD-PU value proposition is then also most extensively attentive to the role of employees and customers as operant resources. As noted earlier, awareness of this resource integration appears to be currently emerging in the property development. However, it has to be noted that while the awareness varies among property developers and investors, also property using firms have varying levels of awareness in respect to potential of business property as a value creation facilitating foundation. An effective illustration of this notion manifests itself in the firms' criteria for new property. Some firms systematically chart the average commute for its employees to the new property, and choose the location accordingly. On the contrary, some firms are content if the new property is in

an approximately fitting locale and if the price of the property is in a suitable range. This polarization among property users can be seen as an indication of the embeddedness of S-D Logic among property using firms, as a deliberate consideration of daily commute of the employees can be seen as an interest in employees as an operant resource to be invested in. Moreover, there appears to be a rising awareness in the industry concerning the link between wellbeing of the individuals using the property and the performance; firms in property development researched the effect of the overall property experience on employee health and productivity and ultimately, firm performance.

Moreover, PD-PU value proposition appears to be increasingly founded on utilization of property users as operant resources because of property developer's need to create properties attract enough users to warrant a profitable investment for property investors. In other words, similar to Gummesson's (2006) delineation of business-to-consumer and business-to-business marketing; property developers must engage in learning dialogue with end-customers of properties in order to create sufficient derived demand that makes its offering attractive to its primary business customer, property developer. Consequently, PD-PU value proposition can be conceptualized as attempt to provide value-in-use for property user's value system (including employees and customers) to provide value-in-exchange for property investor.

It is important to note that a property developer is strongly dependent on an enabling network which allows it to provide the aforementioned value to its customers. As suggested by Maglio and Spohrer (2008), within service systems, four types of operant resources are exchanged between actors through *information-sharing*, *worksharing*, *risk-sharing*, and *goods-sharing*. As already noted in section 7.2.2., the principal source of competitive advantage for a property developer then is its ability to integrate specialized competences into solutions for its customers. Consequently, in addition to its own employees as enablers of value creation, property developers' value creation is contingent on enabling networks of nonmarket-facing resources; info-sharing is performed with specialized planners and designers, work-sharing is performed with subcontractors, and goods-sharing is performed with material suppliers. Therefore, in an ideal situation, the core competence of a property developer can be seen as market-facing capacity and ability to provide uniform value throughout the customer interface through solutions.

8.3.5. Property Investor – Property User Dyad

The value proposed by property investors to property users (PI-PU) pertains primarily to the usage stage of the property lifecycle. From a property investor perspective, the indispensable element of PI-PU value proposition appears to be price value to the property user; the price per square meter per month. From property user's value-in-use perspective, it seems that price value is a hygiene factor but at the same time performance and relational value can potentially be deciding factors in decision

making relative to renting a property. Moreover, the PI-PU value propositions have shifted seemingly toward relational value emphasis because long-term relationships have been found mutually beneficial; for PI, relationships increase the lifetime customer value and for PU a relationship provides means to develop a value co-creating dialog in which its needs are better understood. Consequently, property investors have developed their own market-facing resources (e.g. key account management) and integrated market-facing resources of external actors (e.g. facilities management) into its own relational value creation with property users.

Relative to PI-PU resource integration, risk sharing appears to be its most central element. From a property user perspective, as a property investor often collects an agreed amount of rent over an agreed period of time (i.e. gross rent, fixed term), there is virtually no uncertainty for the property user relative to the costs of the property and it can focus on its core value creation processes. Nonetheless, regardless of a gross/fixed rent contract, the duration of the contract seems to correlate with increasing levels of perceived risk and uncertainty for property users. It was suggested that this is a result of the increasing complexity and competition in the globalized economy which results in shorter time-horizons for firm planning. Consequently, property investors have had to assume increasing extent of risk in their investments in properties with lifecycles exceeding 50 years. For this reason, it seems that in the future property investors will be required to engage in a closer dialogical value creation with property users in order to adjust offerings to better fit their needs. Nonetheless, as of today, the most prominent consideration of the PI-PU value proposition pertains to the location of the property; much of property investor's value remains founded on their ability to provide properties that are situated in advantageous locations.

In respect to value proposition from property user to property investor (PU-PI), various respondents identified the prominent role of operant resources of individual property users in value creation for property investor. More specifically, it was noted that as property use represents the most significant portion of the property lifecycle, the habits of the individual users of the property (i.e. employees and customers) can have a significant adverse or positive effect on the efficiency of energy use in the property. Ultimately, the efficiency of energy use in particular translates into economic value for the property investors in cases where property investor has assumed all risks from energy price fluctuations for instance, and property user pays fixed rent. On the contrary, in an extreme case, if property user were to disregard energy efficiency issues, the return of property investor's investment is reduced. Thus, alignment of PU interests with those of PI requires common goals on an organizational level and more importantly, support for operant resources of employees and alignment of the individual employee goals with those on the organizational level.

8.3.6. Property Developer – Property Investor Dyad

Exchange of value propositions between property developers and property investors (PD-PI) appears as an enabling relationship directed at developing properties in demand among property users. While the roles of the actors in this dyad are overlapping relative to value provider and beneficiary distinction, based on interviews with respondents, the value creation dynamic is most salient with property developers as providers and property investors as customers. In effect, while the balance of interests between property users and investors was emphasized as the goal by respondents, it seems that value creation is most intensively directed towards the needs of the property investors. Thus, as stated earlier, creation of value-in-use for property users ultimately aims at attracting property users which provide sufficient levels of value-in-exchange (economic value) in return to the investment for the property investor.

The extent to which property investors are interested in value-in-use for the property users appears to be dependent on the property investor's market-facing resources and long-term relational value creation strategy. In other words, seemingly delineation in property investor's strategies can be made between (1) G-D Logic based short-term profit maximization logic and (2) S-D Logic aligned value creation in which relational value is emphasized as key driver of performance through customer retention. Consequently, the PD-PI value propositions either entail (1) turn-key solutions in which value-in-exchange (i.e. ROI) is the focus, or (2) more integrative relational solutions where property investor integrates its own specialized property-type specific knowledge into the value facilitating foundation of the property developer.

As identified in discussion of PI-PU value propositions, key resource which property investor integrates into its value proposition is absorption of financial risk which facilitates continuous core value creation focus for the property user, and essentially, the existence of that value creation facilitating property. As also observed relative to PI-PU value propositions, the short foreseeable time-horizons reduce property user's capacity to commit to properties for extensive periods of time. Therefore, acquisition of property users subsequent to the initial users becomes a crucial consideration in PD-PI value propositions; the property must be developed in a way that reduces the property investor's risk of (1) not being able to draw property users in the future and (2) having to make extensive investments to adjust the property in accordance of these subsequent property users. Therefore, the PD-PI value proposition must entail a flexible and adjustable platform in which modifications can be made easily with low costs and no interruption to other resident property users' value creation processes. Similarly, for property developers that primarily offer renovating, maintenance, and supporting services such as facilities management throughout property lifecycle on behalf property investors, an ideal PD-PI value proposition should entail effective market-facing resources as this reinforces property investor's brand as a desirable partner in the long-term.

9. VALUE CREATION IN FINNISH PROPERTY MARKET

The aim of this section is to assess the embeddedness of S-D Logic aligned value creation in the Finnish property market. As identified by Grönroos (2006) and Edvardsson et al. (2005), in S-D Logic service should be a perspective on value creation. In the theoretical review, a service marketing triangle proposed by Bitner and Brown (2006) and many-to-many marketing perspective by Gummesson (2006) were adopted for the purpose of developing a comprehensive perspective on S-D Logic value creation and organizing conceptual tools identified in S-D Logic discourse that are hypothesized as fitting for business-to-business context in particular. In what follows, the subsistence of these conceptual value creation tools are assessed on basis of empirical data findings in accordance to the three service marketing value creation dimensions; enabling promises in section 9.1., making promises in section 9.2, and keeping promises in section 9.3.

9.1. ENABLING PROMISES

As observed by Bitner and Brown (2006), in order for a firm to deploy effective service marketing, the firm needs providers that enable the promises that are made to the customers; this is also known as internal marketing which can include training, management practices and incentive systems, for instance. Moreover, Bitner and Brown (2006) identify the enabling providers as firm's employees, agents, or subcontractors that deliver firm's services. In discussion with respondents four prominent themes relating to the anticipated internal marketing were found. First, for those property developers with market-facing resources, company values are used to align employees' interests for serving the customers more effectively. Secondly, these firms with market-facing resources place significant emphasis recruitment and training of "front-end" employees with the intent of keeping promises better; in other words, ensuring received value corresponds with desired value. For the purpose of measuring value judgment, firms deploy customer satisfaction surveys. Third, due to the extensive dependence on external network partners with specialized competences, property development firms need to have due diligence –capabilities for selection of suppliers. Fourth, property development firms' internal marketing to enabling network partners is seemingly based on close dialogue in which smaller partners are primarily expected to possess flexibility and responsiveness to the property developers needs.

9.1.1. Customer Processes as the Strategic Opportunity

As proposed in section 4.3.1., the first element of adoption and deployment of S-D Logic aligned value creation for a firm with a business-to-business offering is to adjust its strategic planning to begin with customers' value creating activities (Edvardsson et al. 2008), practices or processes (Payne et al. 2008). Consequently, firms may only offer assistance to customer value creation (Grönroos 2008); profitability then arises not from the customers but their value creating-activities (Edvardsson et al.

2008). The subsistence of this strategic perspective in the Finnish property market appears to vary depending on the provider and beneficiary involved in the particular exchange.

Overall, the property market appears to be ultimately driven by the value creating-processes of property users; the common goal of both property developers and investors is development of properties that are in demand among property users with different types of value creation processes. Nonetheless, due to the fact that property development is reliant of financing from property investors, the foremost strategic opportunity for property developers appears to activities and interests of property investors at any given time. Consequently, property developer's efforts to facilitate property users value creation processes through suitable properties and services are intermediate to property investors' willingness and interest in developing their own holdings; either undeveloped land or existing older properties. In other words, strategic opportunities for property developers is seemingly most closely dependent property investor's value creation activities.

However, despite the latter, property developers and investors alike have built up capacities for understanding property users' value creation processes more effectively. For both property developers and property investors, the interest in property users' value creation-activities is closely linked to acknowledgement business opportunities arising from organizational changes among existing, resident property users. Based on discussions with respondents, for a property developer, the ability to understand customer acquisition process for services is a key factor in the firm's profitability. On the other hand, for property investors, the ability to understand changes taking place in property's resident organization's processes is the strategic opportunity, not the property per se. Finally, relative to property user's value creation activities as the core strategic opportunity, the long time horizon of a complete property development from start to finish limits the extent to which property user's explicitly acknowledged needs and wants can be used in planning. In other words, offering design involves visioning the anticipated activities of the customer in the future, not today.

9.1.2. Integrated Solutions

As discussed in section 4.1,2, in business-to-business context, S-D logic is embodied in solutions (Tuli et al. 2007) in which the firm integrates further into the customer's value creation processes. In discussion with respondents, it became evident that firms in property market have built up capacities to offer solutions but they vary in terms of their customization and operational integration (Sawhney 2006) relative to the requirements of property users and investors as beneficiaries. The first step of solutions strategy discussed by Cova and Salle (2008) is definition of customer requirements; this step of action seems to be an inherently central element to acceptance and evaluation of value (Spohrer et al. (2008) in all acquisitions in the market due to standard practice of bidding contests. A bidding contest involves the customer providing potential providers with specific requirements for the needed

offering; thus the offering usually inevitably becomes customized towards the needs to the individual customer. However, due to bidding contest practice for majority of acquisitions in the industry, purchasing decisions are mainly made on basis of economic value of the offering. Consequently, relational value through operational integration (i.e. solution) can be delivered primarily only after economic value has been determined.

Relative to solutions strategy towards property users (PD-PU) through customized offerings and operational integration, two distinct themes were found in discussions with respondents. First, as discussed in section 8.3.4., the customization of the property for a property user depends on its perception of the extent to which the property is a strategic instrument that facilitates the value creation processes of the firm; if property user is interested in value-in-use beyond economic value, more extensive customization can be carried out. This same divergence among property users applies also to adjustments made to the property during its use. Second, relative to operational integration, the primary consideration concerns property developer's capacity to provide continuous flow of value through the property for the user. In other words, property developer providing a solution which entails the entire acquisition-use-disposal cycle of the property for the customer; should primarily seek to eliminate all discontinuities for the property user through operational integration.

Relative to solutions strategy towards property investors (PD-PI), it can be argued that each offering for property is customized. Mainly, this customization arises from location specificity of each property and the purpose of use for the property. However, there appears to be some variability in the extent of operational integration between property developers and investors. As noted in section 8.3.6., property investor's need for operational integration varies according to its investment strategy time-horizon and respectively, its capacity for providing relational value for property users. Seemingly, those property investors mainly interested in economic value (i.e. ROI) are more likely to choose those property developer solutions which are deemed as profitable investments; thus the investor may leave all market-facing resources in hands of external actors. On the contrary, those property investors with market-facing resources and relational value creation capacity are likely to also engage in closer operational integration with the property developer, for the purpose of transmitting knowledge concerning the potential property users to the property developer. Moreover, operational integration in PD-PI solutions may also vary in accordance to the size of property investor; those with investors with a more narrow focus may be more closely relational value oriented to certain types of customers (e.g. hotels, warehouses, offices) whereas larger investors may be more interested in deriving more economic value through diversified portfolio.

9.1.3. Organizational Alignment for Customer Interface

As noted in section 4.1., the main implication of a solutions strategy is an expanded customer interface where increasing degree of value can be created through relational exchanges in encounters with the customer. Consequently, solutions strategy requires extensive understanding the customer interface. In section 4.1.3., service blueprinting framework was introduced for the purpose of illustrating the central role of customer encounters in value creation and respectively, organizational structure and processes. Prior to discussion of these two customer interface related issues in property market, it is important to note that the customer process mapping tools discussed in theoretical review were originally constructed for business-to-consumer context. Also, it needs to be noted that property industry logic inherently involves extensive integration among actors due to the scope of the exchanges involving properties. Consequently, the emphasis of analysis here is limited to the extent to which property development actors have acknowledged front-end customer encounters as criteria for designing organizational structure and back-end supporting processes.

In discussion with respondents, some evidence of efforts to understand of customer interfaces could be found. Most notably, it was acknowledged that due to the persistence of the industry modus operandi based on bidding contests and fragmented distinct services for different stages of property lifecycle, customers have been subjected to discontinuities in their acquisition and usage processes. In other words, within same firms, separate business units have each managed customers as their own while these same customers have in fact acquired and used a wide range of services; consequently, efforts have been taken in order to provide uniform interface for the customer through more effective customer relationship management (e.g. key account management). Similarly, the earlier strongly production oriented organizational structure and the consequent discontinuous front-end interface has had an impact on the supporting back-end processes as the business functions also still have chosen their enabling network partners autonomously. This suggests that service blueprinting could help firms in property development to conceptualize and communicate the customer interface more effectively through internal marketing efforts, and thereby align value creating processes across the organization in a more effective way that creates maximum relational value for the customer.

Furthermore, relative to property development actors' need to consider customer interface more extensively, service blueprinting could contribute to more effective internal promise-enabling marketing among the enabling external network actors in two ways. First, as market-facing front-end resources arguably generate considerable amounts of tacit knowledge of service blueprinting could be utilized as means to transform the information into explicit knowledge to be utilized in improving enabling actors' offerings beyond improvements in cost-efficiency and economic value. Second, the seemingly persistent strongly G-D aligned view of customers (i.e. property users) as operand resources among

some property investors could be transformed towards more effective value-in-use creating capacity through blueprinting. In other words, property investor's organizational structure based on segmentation of different types of customers could possibly be adjusted towards more effective relational value creation capabilities with blueprinting.

9.2. MAKING PROMISES

As observed in section 3.3., S-D Logic value creation takes place in constellations of social and economic actors and thereby primary goal of firms becomes the mobilization of these actors to integrate the firm's resources into their own value creating activities. Accordingly, making promises or proposing value then becomes a process in which a firm aims to establish connections to different actors by through an understandable proposition for the intended beneficiary of value. Respectively, in section 4.2., it was hypothesized that for business-to-business contexts, three central considerations for a firm are; (1) value proposition should help the intended beneficiary of value to understand how the offering (firm resources) can be integrated into its own processes as value-in-use; (2) as opposed to selling units of output, firm's value proposition should be designed for initiation of relationships; and finally, (3) value proposition should not only address the direct value to the beneficiary but also to beneficiary's network. The subsistence of these three aspects of making promises in property market is examined in the following.

9.2.1. Property Market Value Proposition Levels

First, relative to value propositions as means to assist the intended beneficiary to understand the value-in-use potential of the firm's offering, three levels of value propositions were found in discussion with respondents. As seen in the following, these three value propositions are closely aligned with different levels of aggregation identified in section 8.3. The first and most extensive value proposition of actors in property market appears to be designed for aligning the firm's offering with the overall sign system (Venkatesh et al. 2006). In other words, each of the respondents conceptualized one of the primary tasks of marketing communications as to enhance the corporate image of the firm. Improvement of the overall corporate image was mainly conceptualized as "general marketing" aimed at differentiating the firm from other actors in the industry, building an overall corporate brand, and maintaining and developing the recognizability of the firm. Seemingly, on a corporate level the emphasis of value propositions is to communicate the firm's efforts to operate as a responsible actor with the intent of increasing the overall sustainability and wellbeing of the economy which is the purpose of value advocated in S-D Logic (Vargo 2008). Moreover, in terms of *relationship initiation* which is discussed in section 9.2.2., this perceived corporate responsibility appears to be aimed at building the firm's status as *recognized* and *considered* among potential beneficiaries.

The second primary value proposition of actors in property market pertains to the different functions, or services of the actors. It seems that in contrast to corporate value propositions, functional/service level value propositions are more closely linked to the S-D logic advocated understanding-supporting and connecting role of value propositions because both property developer and investor respondents noted that informing the intended beneficiaries of the available offerings is a challenge; particularly in situations where the firm develops a new enabling or relieving offering that was previously unknown to the beneficiary (e.g. new energy efficiency improving system). Also, as noted in section 8.3.5., in functional/service level value propositions in property market increasingly involve relational value creation; most notably through improved customer relationship management capabilities.

The third type of value proposition deployed by property development actors to facilitate value-in-use potential understanding among intended beneficiaries relates to particular newly developed properties. Based on discussion with respondents, the emphasis of these value propositions (PD-PU / PD-PI) seem somewhat G-D logic oriented because of the suggested “pre-marketing” concept. Pre-marketing was characterized as marketing aimed at acquiring property users up to the maximum capacity of the particular property to thereby warrant investment commitment from the property investors. Consequently, from property investor perspective, the value proposition of a new property is mainly based on embedded value (value-in-exchange). Also, from property developer perspective, contributing to this embedded value emphasis is the project based modus operandi of the industry; as new property development cycles have definite beginning and ending, managerial cognition can easily be misdirected to internal efficiencies in the process of embedding value to a property as opposed to focusing on value-in-use for the beneficiary. However, to attract property users to new properties, marketing communications can nonetheless be assumed as more value-in-use focused, as implied by increasing industry awareness of the strategic role of properties.

9.2.2. Relationship Initiation

As suggested by Gremler (2004) and Payne et al. (2008), in relational S-D Logic value creation certain encounters in relationship are more critical than others. Based on discussion with respondents, the beginning of new relationship (or project) is acknowledged as most crucial encounter(s) to successful value creation in property market. As shown in section 4.2.2., Edvardsson et al. (2008) suggest that relationship initiation involves steps in which the status of the potential service provider advances from (1) *unrecognized* to (2) *recognized* to (3) *considered*, and ultimately (4) an *relationship*; proceeding from one status to another depends on relationship *converters* and *inhibitors*. In what follows, the prominence of these statuses in the property market promise making is discussed.

As noted earlier in this chapter in discussion of corporate level value propositions, actors in property market aim at advancing their status as potential providers from unrecognized to recognized and

considered by communicating promises on corporate, service, and property level. From relationship initiation perspective, seemingly the most prominent converters that allow property development actors to advance from unrecognized and recognized and beyond are *service offering* and *trust* whereas *risk* and *image* are the primary inhibitors for an establishment of an agreement and relationship. Persuasive references from property users and investors were suggested as key sources for enhanced trust. Also, in line with image and risk as inhibitors, trust towards a potential provider was enhanced by past success and favorable credible corporate image. These two dimensions can be argued as outcomes of effective *promise keeping*, and effective marketing communications (*making promises*), respectively. Moreover, in respect to recognized status, it was noted that generally the largest firms with favorable *image* are nearly automatically recognized in acquisition. Also, it was noted that in order for property developers to enhance their *trust* and *image*, having property users with a distinguished *image* as customers is important for building legitimacy and thereby becoming better *recognized* in different relationship initiation situations.

Service offering is seemingly the most prominent converter in advancement from *recognized* to *considered* status which entails dialogue in regards to objectives and scope of the relationship between potential provider and beneficiary (Edvardsson et al. 2008). Service offering is defined as the firm's ability and motivation to adapt this competence to beneficiary's requirements (Edvardsson et al. 2008); this adaptation seemed most expansive in PD-PI value propositions (see section 8.3.6.) where property developer's solution to the investors involved the prerequisite property and also, extensive operational integration entailing transfer of property user specific knowledge. The PD-PI adaptation involves an iterative process in which property investor provides certain specifications more or less on basis of the intended property user, and subsequently the relationship proceeds with the identified specifications as the focus on dialogue. It is important to note that as property developers deploy a number of solutions and the extent of relational value thereby increases with a particular beneficiary (i.e. property investor, or user), relationships preferably develop into extensively integrated bases of long-term value co-creation as provider's ability and motivation to adapt its competences for the particular beneficiary increases.

Finally, on the contrary to Edvardsson et al. (2008) proposal to shift from traditional selling processes to relationship initiation in S-D Logic aligned business-to-business contexts, based on discussions with respondents, traditional make-sell logic seems to prevail in property market due to the prominent bidding contest and project based modus operandi. More specifically, this emphasis manifested itself in respondents' acknowledgement of the role of marketing communication (making promises) as means to "support sales". Respectively, it was noted that marketing of new properties is primarily a proactive sales effort. This corresponds with the aforementioned hypothesized G-D Logic oriented managerial emphasis on embedded value in new property value propositions. However, it needs to be

noted here that the applicability of sell vs. relationship initiation distinction as an indication of S-D logic subsistence in the property market is limited to situations in which property developers put forward value propositions to new customers as intended beneficiaries. This is to say that particularly the sample firms interviewed for this thesis have existing long-term relationships with most actors in the industry; thereby on relationships are not initiated per se but repeatedly reinitiated in different contexts instead.

9.2.3. Customer Network Value Proposition

As noted in section 8.3.3., in property market, value creation is inherently networked due to the division between property ownership (property investors) and use (property users). In section 4.2.3., customer network value proposition concept proposed by Cova and Salle (2008) was introduced for the purpose of identifying an S-D aligned framework which includes network perspective into making promises dimension of service triangle. Also, Cova and Salle's (2008) network value proposition was also highlighted because it is suggested as a main component of solutions strategy in business-to-business contexts. Cova and Salle (2008) suggest that business-to-business solution value propositions can be delineated into three distinct types in respect to the intended beneficiary of the value; (1) service supporting supplier product (SSP), (2) service supporting supplier's customer action (SSC), and (3) service supporting customer network's action (SSCN). In what follows, the subsistence of these three types of value propositions in property market is briefly assessed on basis of the three salient dyads (i.e. PD-PI, PD-PU, and PI-PU) highlighted section 8.3.

First, the most traditional value proposition, service supporting supplier product (SSP) seems to be most salient in PD-PI dyads where operational integration is limited and the property development emphasis is on embedded value creation process in which undeveloped land site is ultimately sold to property investors as finished property filled with tenants up to its capacity; property developer supports property investor's product, a business property. However, if business property renting is considered as property investor's action, the PD-PU value proposition is service supporting customer action (SSC); the property developer has to develop a property that is in demand with property users (PI customer). Moreover, PD-PI value proposition can also be service supporting customer network (SSCN) a certain extent, because PD offering facilitates property user's value creation activities towards its own customers (SSCN). On the other hand, property investor's value proposition to property developer (PI-PD) can be characterized primarily as SSP as it usually mostly consists of financing. Nevertheless, with more extensive operational integration, PI-PD value proposition may become more SSC aligned as property investor integrates its customer knowledge into the value creation.

In respect to the value propositions from property investor to property users (PI-PU), the value propositions are SSC based in two ways. First, during property lifecycle, depending on property investor's operational integration and customer relationship capabilities, property investor can be involved in response to changes in property user's processes or organizational structure. In other words, by adjusting the property for the property user, the property investor supports its customer's action (SSC). Second, the property investor may initiate changes in the property to improve the energy efficiency of the building, for instance. These situations are based on property investor's need to improve the long-term value from its investment and thereby the property user may not voluntarily accept these improvements as SSC. Thus property investor initiated PI-PU SSC requires risk-sharing resource integration in part of property investor because of property user's often short-term commitment to the property. Moreover, in a PI-PU dyad, value propositions are also SSCN based in the sense that property investor's are in a close dialogue with the decision-making authorities of the municipality which are also arguably important stakeholders for the property user firms. Also, PI-PU value propositions have to be more closely SSCN aligned when the property is used to facilitate exchanges with the end-customer of the property user.

9.3. KEEPING PROMISES

As noted in section 3.1., in S-D Logic value is realized and determined through in use. Therefore, there is no other way to adequately understand value, except through customer participation (Vargo 2008). Therefore, the keeping dimension is perhaps most essential dimension of service marketing triangle as entails to fulfillment of proposed of value. The three primary dimensions of integrative value co-creation process framework proposed by Payne et al. (2008) are; (1) customer's relationship experience, (2) customer learning, and (3) organizational learning for the provider firm. These integrative processes are particularly important to assess in business-to-business contexts because of the suggested prominence of value co-creation in business-to-business relationships upstream from the end-customer (Flint and Mentzner 2006). The substance of these three elements in property market is assessed in this section on basis of interview findings.

Overall, relative the fundamental role of keeping promises in S-D Logic in general, it seems that in property development this dimension is inherently the most prominent conceptualization of marketing. The main reason for this is that respondent from property development, investment, and user firms alike emphasized the actual property and it's supporting services as the most effectively driver of the brand of the property developer. This emphasis seems to be reinforced by the acknowledgement of business opportunities presented in latter use stages of property lifecycle. Moreover, it was acknowledged by some respondents that marketing is simply a part of everyday routines. While this can be seen as somewhat inadequate understanding of marketing in value creation, it implies that fulfillment of value is integrate part of all firm routines. Finally, in respect to basic understanding of

importance of keeping promises, it seems that property developers perceive their capacity to manage projects and relationships beyond bidding contests which are the prominent industry acquisition practice. In what follows, the subsistence of the three more refined considerations of keeping promises through integrative processes is examined.

9.3.1. Relationship Experience Support

The importance of providing a favorable overall relationship experience did not emerge as a major theme in discussions with respondents. More specifically, none of the three dimensions of relationship experience, emotion, cognition, and behavior, were explicitly identified as areas the sample firms seek to support. Nonetheless, some indication of awareness of relationship experience could be found. First, market-facing resources, more specifically customer service and maintenance personnel were identified as important means of supporting customer experience. Second, property developers seem to have developed capacities and processes for improving property user experience through questionnaires which focus of perceived quality of the property as a working environment. Third, the interest in assessing customer experiences seems to be strongly linked to property developer's interest in determining the customer's received value relative to desired value; thereby the service offering level can be adjusted to more closely respond to desired value. In other words, by aligning desired and received customer value, property developers can avoid overengineering the offering and providing services or property aspects with no value-in-use for the property users. Overall, there seems to be an increasing awareness of relationship experience as source of value among property development actors; this aspect however should be studied more extensively in order to gain a reliable account of the phenomenon in property market.

9.3.2. Customer Learning

The second core element of integrative co-creation framework is customer learning. As discussed in section 4.3.3., customer learning which results in reinforcement of customer's operant resources is conceptualized as the primary goal of S-D aligned value creation. Moreover, as discussed in section 4.3.3., proportioning in which customer reflects on its own processes relative to the provider's offering is the most complex and intensive form of operant resource integration. Therefore, value co-creation in which customer proportioning occurs then can ultimately lead to provider guiding the behavior of the customer. On a broad level, the subsistence of (1) *proportioning* and the two less complex of learning, (2) *remembering* and (3) *internalization* as goals seem vary among property development actors, depending on the value proposition. In the PD-PU dyad, the primary basis of variation could be the role of property as a peripheral *enabling* support for the core value creation processes of the property user firm. On the other hand, in the PD-PI dyad which usually entails property developer offering a *relieving* solution to the property investor which allows it focus on its core value creation process; renting the property to property users.

Relative to *remembering* which primarily pertains to customer attention (Payne et al. 2008), in keeping promises stage of property lifecycle, two primary themes regarding property development actors' efforts were found. First, in a PD-PU dyad, in situations where discontinuations or disruptions arise to property user's everyday value creating activities, property developers have gain the attention of the property user and help the users remember the property developer's efforts to facilitate uninterrupted value creation process for the property user. In other words, property developer seeks to assist property user shift attention to the overall relationship experience and value proposition, from the temporary potential perceived negative value. Second, in PD-PI dyads there seems to be a strong dialogical orientation to marketing; in this dialogue the property developers seem to focus assisting property investors to *remember* the value foundation (Grönroos 2008) available to them for new property development projects.

Relative to the more complex forms of customer learning; *internationalization* and *proportioning*, two salient themes were found in discussion with respondents. First, it seems that for property users, the property service providing firm's ability to integrate information and knowledge concerning the offering directly to the property user's knowledge management systems (e.g. IT systems), is perceived a significant source of value. Second, it was noted that property developer's ability to train and educate the employees of the property user firm was acknowledged as a source of value to the extent it allows for value-in-use. This suggests that property developer's ability to support the operant resources of both the customer firm and its employees through *proportioning* processes, may allow a property developer to build competitive advantages.

9.3.3. Organizational Learning

As discussed in (e.g.) section 4.1.1., in S-D logic value creation, the customer (and customer's activities) is an operant resource whom with the offering is collaboratively deployed. Consequently, firm's engagement into its customer's resources and value creating processes allows it to better serve its customer's through enhanced value-in-use. Moreover, as advocated in S-D Logic discourse, value co-creating firm also regards financial performance in the marketplace primarily as a knowledge-discovery mechanism for serving customers better. As also discussed in section 4.3.4, firm seeking to enhance its organizational learning should develop capacities for transforming tacit knowledge from front-end customer encounters to prescriptive knowledge which to be transmitted to supporting back-end processes. The subsistence of these S-D Logic organizational learning concepts in property market is assessed in the following on basis of interview findings.

Relative to the fundamentally dialogically oriented marketing advocated in S-D Logic discourse (e.g. Ballantyne and Varey 2006; Ballantyne and Aitken 2007; Duncan and Moriarty 2006), marketing is a relational process where knowledge is exchanged between the firm and the customer. On basis of

interview findings, this dialogical orientation is most salient in the PD-PI dyad which involves continuous exchange of ideas where property investors inform property developers of their needs and wants relative to new properties and improvements to existing properties. Also, in the PI-PU dyad in which property investor manages its market facing resources itself, dialogue occurs relative to changes in property tenant firm's processes or organizational structure. In respect to PD-PU dialogue, the extent to exchange knowledge is seemingly contingent of the type of property; in single-tenant properties the dialogue may be more extensive as it involves only one property user whereas for multi-tenant properties majority of the eventual property users are not direct contact with the property developer.

Relative to the two other central S-D Logic organizational learning concepts; marketplace performance as means for learning and transformation of front-end tacit knowledge into prescriptive knowledge for cross-functional value creation alignment, the findings were twofold. First, based on discussions with respondents, it seems that marketplace performance is primarily conceptualized as indication of firm's productivity and growth as opposed to an unmistakable instrument for learning. Nonetheless, otherwise, particularly among large property developers there seems to be a strong inclination for constant improvement on basis of customer needs. In regards to tacit-prescriptive knowledge transformation, property developers have seemingly developed processes for collecting and disseminating tacit front-end knowledge across the organization. More specifically, in an ideal situation, this knowledge transformation and transmission process would seemingly be based on deployment of customer surveys which measure customer perception of received and desired value, and subsequently, gradual transmission of the knowledge to more aggregate levels of the organization, ultimately the executive management team. Nevertheless, aside from a singular property developer's efforts to eliminate discontinuities in property user acquisition processes, no further evidence was found relative to concrete efforts align back-end processes in accordance to front-end encounters.

10. CONCLUSIONS

The purpose of this section is to summarize and discuss the main findings of this thesis. This section is organized as follows. First, the purpose and goals of this thesis are briefly restated and the main findings of the research are summarized. Next, a modified theoretical framework is presented on basis of research findings. Then, the managerial implications of the findings of this thesis are discussed. Finally, limitations of the findings of this thesis are discussed and suggestions for further research are presented.

10.1. MAIN FINDINGS

The aim of this section is to summarize the main findings of this thesis. The aim of this thesis was to examine the subsistence of S-D Logic in the Finnish property market for the purpose of investigating

the extent to which S-D Logic is descriptive of value creation activities of firms in Finnish property market and whether S-D Logic could offer new perspectives for value creation in Finnish property market. The main research question this thesis thus set out to answer was *to what extent does Service-Dominant Logic subsist in Finnish Property Market?* This question was further divided into three subquestions; (1) *what is the dominant business logic among Finnish Property Market actors;* (2) *how is value conceptualized among Finnish Property Market actors;* and (3) *to what extent do Finnish Property Market actors create value as advocated in S-D Logic discourse?* These research questions were first addressed by conducting an exhaustive theoretical review to isolate salient S-D logic categories. Then, in empirical research the found categories were assessed through interviews with respondents from property market firms and collected data was then analyzed in a five-stage analysis process. In what follows, the main findings are discussed.

As seen in Figure 13 below, the findings of this thesis show that S-D Logic has permeated Finnish property market to a certain extent in some areas due to the highly industrial and aggregate nature of property market. On the other hand, the property market seems to be in transition towards particularly in terms of the view of offering of the firm. Also, the strong industry recipe of the market seems to have inhibited advancement of S-D Logic aligned value conceptualization. In the following, the primary dominant conceptualizations among property market actors highlighted in Figure 13 are examined in respect to G-D logic, transitional and S-D logic alignment, respectively.

Figure 13 Subsistence of Service-Dominant Logic in Finnish Property Market

	G-D logic concepts	Transitional concepts	S-D logic concepts
1	Goods	<u>Services</u>	Service
2	Products	<u>Offerings</u>	Experiences
3	Feature	Benefits	<u>Solution</u>
4	<u>Value added</u>	Co-production	Co-creation of value
5	<u>Profit maximization</u>	Financial engineering	Financial feedback/ learning
6	Price	<u>Value delivery</u>	Value proposition
7	Supply chain	Value Chain	<u>Value creation network</u>
8	Promotion	IMC	<u>Dialogue</u>
9	<u>To market</u>	Market to	Market with
10	Product orientation	<u>Market orientation</u>	Service orientation

Adapted from: Vargo and Lusch (2006)

Dominant G-D Logic Conceptualizations

G-D logic subsistence in property market seems to be most dominant in terms of (4) *value creation*, (5) *financial performance*, and (9) *customer as an operand resource*. It may be argued that the subsistence of these three G-D logic concepts is primarily an outcome of the prominence of the *development process of raw land into a finished property* in the overall scope of value creation activities of property market actors. More specifically, as this development process is extremely long in terms of its duration and expansive in terms of number of actors involved, the primary focus seems to

be on embedding as much value into finished property as possible by minimizing the transaction costs between specialized actors (i.e. subcontractors, planners, suppliers) in order to derive maximum value-in-exchange from sales of finished property from property developer to property investor (i.e. return-on-investment), and from letting the property from property investor to property user (i.e. rent per month per square meter), respectively. Consequently, property users are in effect operand resources whom to the property is (9) *marketed to* and thus mostly distinct from the development process as opposed to being active *co-creators of value* (4). However, it has to be noted here that G-D logic aligned view of customers as operand resources is not entirely disadvantageous in the property market because the extensiveness of the overall time-horizon of a property development process (up to ten years); eventual tenants of the finished property are likely to be unable to articulate their needs that far in advance. As a result, the financial performance in respect to the eventually finished property seems to be evaluated primarily in terms of profit maximization (5) (derived value-in-exchange) as opposed to opportunity for learning or feedback per se.

Dominant Transitional Conceptualizations

Despite the aforementioned potent subsistence G-D logic in the actual development process of a new property, there seems to be an obvious transition from G-D logic to S-D logic in the property market as a result of increasing awareness of business opportunities in property lifecycle stages beyond development stages, and also because of ever-increasing competition in the market. Relative to business opportunities in property lifecycle, it seems that property market actors have expanded their offering to property users from strictly (1) *goods* and (2) *products* (property) into (1) *services* and (2) *offerings* (property and services). This implies partial S-D logic materialization among property market actors, as provision of service illustrates an effort to create value for property users in their everyday activities. However, as noted in section 2.2., *services* is G-D logic oriented perspective because it is based on a residual conceptualization of service as a market category (IHIP).

Moreover, despite the aforementioned embedded value prominence, Finnish property market seems to be in transition particularly in terms of shift from (6) *price to value delivery* and from (9) *product orientation to market orientation* in response to competition and property user demands. *Value delivery* emergence is most evident in property market actors' efforts to enhance their market-facing resources to provide value beyond economic value only; most notably through more effective customer relationship management capacities in both acquisition and use stages of relationship. Along with *value delivery*, *market orientation* has seemingly emerged in response to competition particularly in terms of attentive dialogue between property developers and investors relative to anticipated needs of property users. In order for (9) *service orientation* (i.e. service as perspective on value creation) to become the dominant concept descriptive of Finnish property market, property user interface should

arguably become less discontinuous in particularly in terms of acquisition practices where bidding contests are the current prevailing practice.

Dominant S-D Logic Conceptualizations

Finnish property market seems to be undoubtedly S-D logic aligned in three ways. First, the prevalent conceptualization of the overall firm offering seems to be (3) *solutions*. Second, value creation context takes place in a (7) *value creation network* as opposed to a linear *value chain*. Third, the marketing orientation seems strongly (8) *dialogical*, particularly between property developers and property investors. The dominance of the three aforementioned concepts can be seen as an outcome of highly industrial and aggregate nature of the Finnish Property market.

The primary reason for (3) *solutions* as the dominant conceptualization of firm offering seems to be strongly rooted in the aggregate nature of property as an offering strongly linked to the surrounding infrastructure and also due its long lifecycle. In other words, any given property is extensive in terms of its *features* (e.g. location, type) and *benefits* (e.g. supporting services); thus, *solutions* is a more descriptive term. However, it should be noted here that the sample firms could still benefit from more effective front-end encounter – back-end supporting process alignment, which was proposed as the key capability of B2B-solutions firm in section 4.1. Moreover, there seems to be variability in the property market in terms of customization and operational integration of the solutions; while both property investors and developers have developed customization capabilities in respect to the offering (i.e. property and services), both could benefit from more effective operational integration (i.e. relationship experience management) capabilities for additional relational value creation.

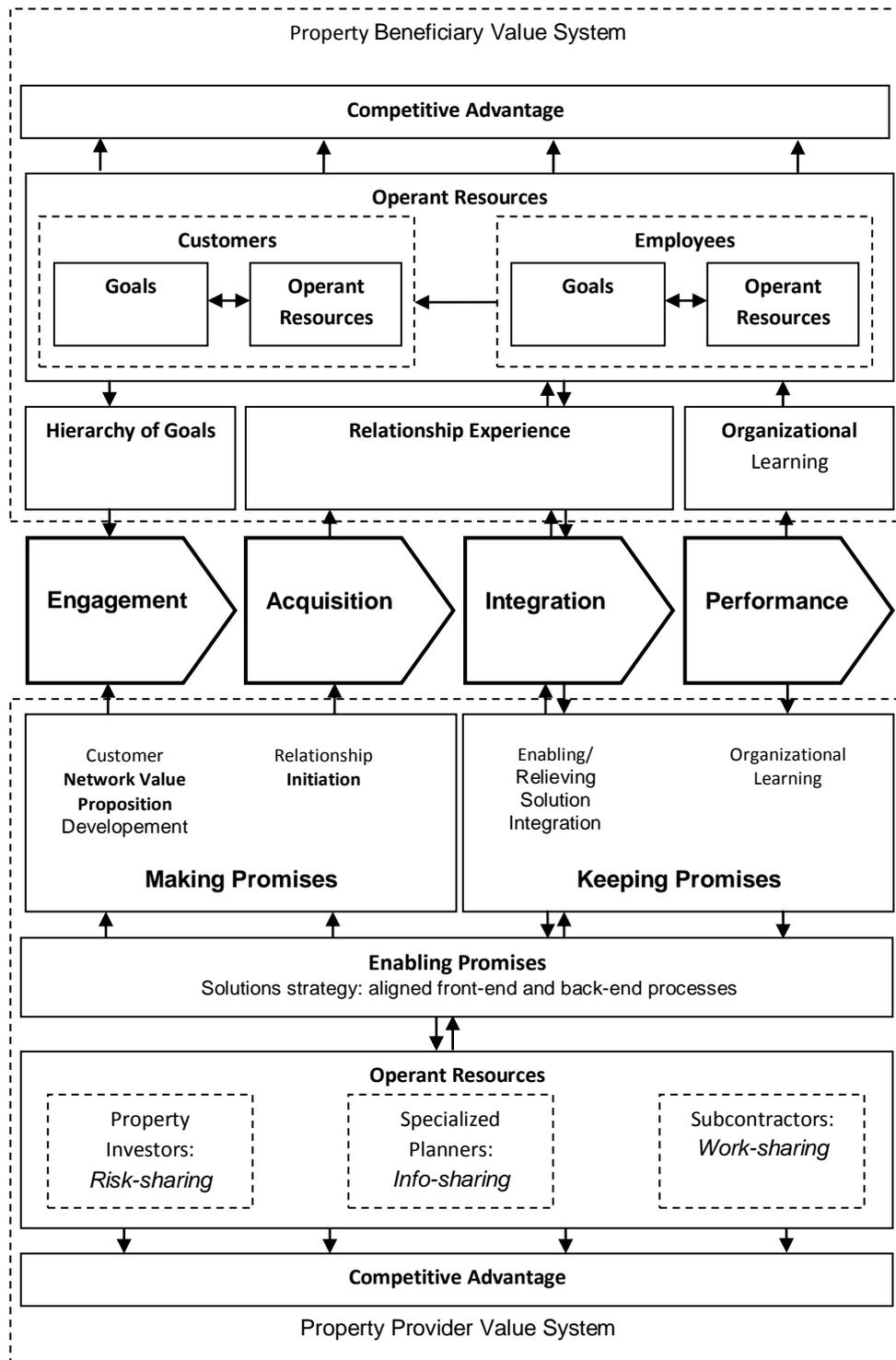
As discussed above, value creation context of Finnish property market is very much S-D logic aligned as involves a networked nucleus of property developers, property investors, and property users. Moreover, as shown in sections 8.3.1. and 8.3.2., for property market actors, relevant value creation also takes place on two more aggregate levels; within local municipalities as and within the overall national economy, as facilitation of local economic activity and legitimization of best practices in interest of the economy and society, respectively. This supports demands for more aggregate level focus of S-D Logic by Wilkie and Moore (2006) and Venkatesh et al. (2006), as S-D logic aligned value creation manifests itself in Finnish property market most evidently on the most aggregate levels. Moreover, relative to levels of aggregation in networked value creation, it should be emphasized here that relevant level of aggregation in property market seems to be the network of individual beneficiaries of a property; employees and customers of property user-firm. This supports the fittingness of many-to-many marketing (Gummesson 2006) and customer network value proposition (Cova and Salle 2008) as suitable S-D logic approaches in Finnish property market context; property

value proposition should primarily engage its users (i.e. people), not so much the firm (i.e. abstraction of people organized for attainment of hierarchy of goals).

Finally, (8) *dialogue* which is advocated as the primary orientation of S-D logic marketing (see e.g. Ballantyne and Varey 2006; Ballantyne and Aitken 2007), is highly descriptive of relationships between the property actors. Most notably, dialogue seems to be most salient between property developers and property investors and aggregate institutional public actors. This seems to support Flint and Mentzner's (2006) observation of the inherent fittingness of S-D logic value co-creation particularly for business-to-business relationships. However, in respect to dialogue with property users there seems to be variability among property developers and investors; property investor's dialogical orientation towards property users depends on investor's market-facing resources and property developer's dialogical orientation is contingent on the number of intended tenants for the property (i.e. multi-tenant, single-tenant property). However, it should be noted that the abovementioned seeming predominant property market conceptualization of customers as operand resources arguably restricts this dialogical orientation to a certain extent.

10.2. MODIFIED FRAMEWORK

Figure 14 Business-to-business value co-creation in Finnish Property Market



Based on empirical findings and analysis, two modifications were made to the theoretical framework proposed in section 4.4. First, the operant resources and goals of individual property beneficiaries (employees and customers) were included into the property beneficiary's operant resources to emphasize the prominence of individual actors' needs and motivations as key dynamic in property

using firm's acquisition of a property and its use as value creation facilitating resource. Second, in the property provider's operant resources, the specific operant resources needed from external network actors by property developer were included; risk-sharing with investors, information-sharing with specialized planners, and work-sharing with subcontractors. These three external operant resources were included to illustrate the importance of customer interface emphasis for a property provider with a solutions strategy – the strategic focus should be on provision of continuous supportive experience for the property beneficiary value system (employees and customers) for which necessary enabling resources should be integrated from other specialized actors' offerings.

10.3. MANAGERIAL IMPLICATIONS

The aim of this section is to highlight the primary managerial implications of the findings of this thesis. Regardless of the limitations of this study, the findings of this thesis seem to indicate that S-D logic is emerging in property market and can be developed in ways that may enhance the performance of the market actors. Four primary implications discovered in this thesis are; (1) potential benefits of rephrasing *value* and *customer*; (2) potential value co-creation opportunities from more effective risk mediation between property users and investors; (3) potential benefits of *more effective internal marketing* within enabling networks; and (4) potential value co-creation opportunities of more extensive *customer learning support*. In what follows, these four guidelines are highlighted to illustrate means to further adopt and deploy S-D logic and therefore potentially improve firm performance for property market managers.

Reconceptualization of Value and Customer

First, the findings of this thesis indicate that managers in property market firms could benefit from explicit adjustments in lexicon pertaining to *customers* and *value* in particular. Relative to conceptualization of *value*, it is proposed here that articulation of value in property market firm strategies and managerial speak should be rephrased from *value-added* to *value-in-use* which is a more closely customer oriented and S-D logic aligned concept. As a result, property market actors' efforts to adjust their offering towards complete property lifecycle could be better facilitated with more suitable phrasing. Relative to conceptualization of *customer* (i.e. property user), it is proposed here that managers could benefit from rephrasing *customer* focus to *customer activities* focus. Thereby, the seemingly prevalent myopic view of property users as end-subjects (i.e. operand resources) to whom properties are merely marketed and let to, could be perhaps adjusted to better suit property market actors' lifecycle emphasis and efforts to facilitate changes in organizational processes of the property users. While these two proposed lexical modifications may seem as superficial alterations, it may be argued they could assist property market managers to abandon the embedded value emphasis resulting from the conventionally dominant value creation process of developing raw land into a finished property (i.e. towards lifecycle thought). Furthermore, it is proposed here that the abovementioned lexical alterations could also significantly contribute to shifts from *services* as

extensions to the property to *service* as perspective on value creation and from *offerings* of properties and services to *experiences* by the property user (see Figure 13).

Risk Mediation through Extended Non-Ownership and Dialogue

Second, the findings of this thesis indicate that there is a correlation between perceived risk and the time-span of rent contract or ownership among property users and investors, respectively. For property users the risk-time correlation seems to be linked to perceived uncertainties in the firm's future business prospects. Particularly in multi-tenant properties property users are hesitant to sign long-term rent contracts and also, participate in investments in improving the long-term value of the entire property. As a result, fixed-term gross rent contracts have become the prevalent office property market practice. Consequently, long-term risks are practically entirely assumed by property investors; most notably these risks pertain to possibility of not being able to attract subsequent property users after the original tenants. It is proposed here that the perceived time related risk experienced by property users and investors could be potentially mediated through (1) exploration of new forms of non-ownership (Lovelock and Gummesson 2004; Hawken et al. 2007) for property investors and through (2) increased dialogical orientation (see e.g. Ballantyne and Varey 2006).

Non-ownership for property investors could involve partial adoption of rental/access (Lovelock and Gummesson 2004) practices similar to what already are deployed with property users. For example, a property value proposition could potentially become more attractive for property investors if some multi-tenant properties or business parks were also multi-investor properties. In other words, facilitation of investment in limited portions of properties could allow for more diversified risk among property investors. Ultimately, this extended rental/access practice could facilitate property investors' long-term customer retention strategies as particular new properties would not necessarily have to be separately marketed and let to new potential tenant but instead, property investors would bring their own customers into the new property. This approach would allow for more effective utilization of the existing close dialogue between property investors and developers and between property investors and users. Consequently, property market could shift closer to genuine relational value co-creation advocated in S-D logic discourse as properties would be reduced to modifiable platforms through which property investors could realize enhanced and less volatile cash flows from property users (see e.g. Srivastava et al. 1999). Similarly, with closer and more transparent dialogue (see e.g. Prahalad and Ramaswamy 2004) property user's perceived risk would arguably decrease and relationship experience (section 4.3.2) could improve.

Deployment of Customer Process Mapping in Internal Marketing

Third, the findings of this thesis indicate that it could be useful for property development firms to develop more effective internal marketing processes (i.e. enabling promises) to facilitate more successful solutions and relational value creation to property users. More specifically, there seem to

be two areas in which internal marketing (i.e. customer process mapping, blueprinting; section 4.1.3), could assist property development firms; (1) enhancement of effective market-facing resources and (2) enhancement of external resource integration management ability.

Relative to enhancement of market-facing resources, customer process mapping could allow managers to better recognize the potential disruptions and critical encounters in the customer process relative to a property use. In other words, by mapping the activities of the property user; property market actors could more effectively align their front-end processes (Sawhney 2006) in a way that reduces efforts of property user in *acquisition* and disruptions in *use* of a property. Second, in order to provide effortless acquisition and uninterrupted use of property solutions, property developer must be able to communicate the mapped customer's processes to its enabling network partners (e.g. subcontractors, planners, suppliers) through internal marketing. Drawing from Bitner et al. (2008), it is proposed here that this internal marketing can be deployed by adopting a *customer process blueprint* (section 4.1.3) as the common frame of reference through which tacit front-end customer knowledge is transformed to prescriptive knowledge to be transmitted across the enabling network. The potential outcome of effective knowledge management through deployment of blueprints could be enhanced competitive advantage as a result of increased relational value creation capability and improved responsiveness to changing property user needs.

Extended Customer Learning Support

Finally, the findings of this thesis indicate that property market firms could benefit from more explicit acknowledgement of learning as source of value for property users. In other words, it seems that the rising awareness of properties as strategic facilities for firm's value creation activities and awareness of may potentially present significant business opportunities for property market actors. Relative to properties as strategic facilities, it seems that property developers could benefit from more extreme positioning as experts in organizational processes and structural changes as opposed to property providers per se. For example, on firm level this could mean strategic shift from simply marketing and letting *particular properties to variety of customers* to facilitating strategy of *particular customers through a variety of properties*. Thereby, revenues from property tenants could be mainly based on value creation process and process change facilitating specialized services. Furthermore, on individual level, for employees, the tangible elements (e.g. customized workstations, recreational lounges) of property solutions should be deliberately designed with extensive emphasis on employee operant resources to facilitate fulfillment of individual employees' professional roles and attainment of career and personal goals.

10.4. LIMITATIONS AND FURTHER RESEARCH DIRECTIONS

Although the findings of this thesis provide a partial illustration of the subsistence of S-D logic and S-D logic aligned business-to-business value creation in Finnish property market, the findings should be interpreted in light of several limitations. Most notably, as shown in section 5.5., the findings were obtained from no more than eight property market firms and only single respondents were interviewed from each of the eight firms. Therefore, the generalisability of the findings across the entire property market is limited. To achieve a more comprehensive and reliable view of the S-D logic phenomenon in the property market, the central S-D logic concepts and the proposed theoretical framework should be tested in potential future research by including a broader sample of managers and possibly also non-managers from a larger number of property market firms. Also, as the conclusions of this thesis are drawn from onetime interviews with respondents, future research could assess S-D logic subsistence more rigorously through a longitudinal study. Furthermore, it is important to note here that advancement of customer value understanding in property market would require further empirical testing with more extensive sample of property users.

There seem to be several potential areas for further research relative to S-D logic aligned value creation among the market actors within the property market. First, as value creating activities are proposed as the primary strategic opportunity in S-D Logic (section 4.1); in-depth mapping of different types of specialized property investors and property users could provide valuable insights for relational value creation opportunities in the property market. This mapping could be especially useful if network influences on different levels of aggregation (section 8.3) were included into the assessment. Second, relative to risks proposed in previous section, research in the area of potential non-ownership opportunities for property investors and closer relational integration between property investors and user could provide value insights in terms of advancing seeming efforts of property market actors to move towards service-dominant offerings. Moreover, the extensive resource integration among specialized actors in property development solutions offers opportunities for further research.

Finally, as the findings of this thesis seem to support the proposed aggregate level fittingness of S-D logic for study of markets as apposed to marketing function or a singular firm-customer dyad (see e.g. Wilkie and Moore 2006; Vargo et al. 2008; Venkatesh et al. 2006), it seems that further investigations into subsistence of S-D logic in other industrial sectors and markets could assist in strengthening this emphasis. Similarly, cross-context *grounded* studies across different markets could also further understanding of the proposed unifying paradigmatic potential of S-D logic (Vargo and Lusch 2004) particularly in terms of usefulness of value co-creation approach and also, in eventually abandoning the seemingly outdated G-D logic for a legitimate and constructive new *grand* (Gummesson 2006) theory of market, market exchanges, and marketing.

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INTERVIEWS

Juha Pekka Ojala, Chief Executive Officer, SRV, Property Development, March 3, 2009

Joni Mikkola, Senior Vice President, Sponda, Property Development, March 9, 2009

Riitta Sirviö, Marketing Director, SOL, March 12, 2009

Timo Lehmus, Senior Vice President, YIT, Property Development, March 13, 2009

Terhi Salminen, Energy Efficiency and Sustainability, SOK, Properties, March 16, 2009

Jorma Heinonen, Director, Senate Properties, Offices, March 17, 2009

Satu Juvonen, Marketing and Communications Director, ARE, March 18, 2009

Markku Linnamäki, Properties Manager, Stockmann, March 19, 2009

APPENDICES

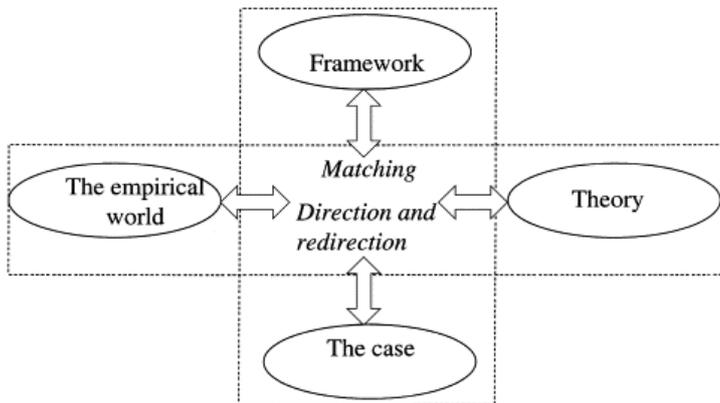
APPENDIX 1 Marketing Research Paradigms

Element	Paradigm			
	Positivism	Realism	Critical theory	Constructivism
Ontology	Reality is real and apprehensible	Reality is 'real' but only imperfectly and probabilistically apprehensible and therefore triangulation from many sources is required to try to know it	'Virtual' reality shaped by social, economic, ethnic, political, cultural and gender values, crystallized over time	Multiple local and specific 'constructed' realities
Epistemology	Findings true	Findings probably true	Value-mediated findings – the researcher is a 'transformative intellectual' who changes the world within the participants live	Created findings – researcher is a 'passionate participant' in the world being investigated
Common methodologies	Experiments, surveys: verification of hypotheses, chiefly using quantitative methods	Case studies: triangulation, interpretation of research issues by qualitative methods and by the quantitative method of structural equation modeling	Action research	In-depth interviews, participant observation

Note: Essentially, ontology is 'reality', epistemology is the relationship between that reality and the researcher, and methodology is the technique used by the researcher to discover that reality.

Source: Perry (2004)

APPENDIX 2 Systematic Combining



Source: Dubois and Gadde (2002)

APPENDIX 3 Interview Questionnaire

Taustakysymykset

- Oma rooli yrityksessä

Service-Dominant Logic yrityksessä

- Näkemyksenne mukaan, missä bisneksessä olette?
- Mitkä näette yrityksenne tärkeimpinä tehtävinä?
- Mitkä asiat näette yrityksenne tärkeimpinä resursseina?
- Miten näette palvelun roolin toiminnassanne?
- Mikä on markkinoinnin rooli yrityksessänne?

Yrityksen arvonluonti asiakkaille Service-Dominant Logic mukaisesti

- Mitkä ovat tärkeimmät sidosryhmänne?
- Mikä on asiakkaillenne tärkeintä?
- Mistä tiedätte miten asiakkaat kokevat asiakkuussuhteen teihin?
- Millainen teidän suhde asiakkaisiin on?
- Mitkä ovat asiakassuhteidenne tärkeimmät vaiheet?

Arvonluonti yritykselle Service-Dominant Logic mukaisesti

- Esimerkki hyvästä yhteistyöstä toimittajan kanssa?
- Esimerkki huonosta yhteistyöstä toimittajan kanssa?

APPENDIX 4 Property Leasing Practices in Finland

Sector	Shopping Center	High street shops	Supermarkets	Offices, multi-tenant	Offices, single-tenant	Industrial / logistics
Lease term	5-15	3-10 / until further notice	10-15	3-5 / until further notice	10-20	5-15
Basis for rent	Space area / turnover	Space area	Space area	Space area	Space area	Space area
Rental payments	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly
Indexation	CPI	CPI	CPI	CPI	CPI	CPI
Rent review	Annually	Annually	Annually	Annually	Annually	Annually
Internal repairs	Tenant / landlord	Tenant	Tenant	Tenant / landlord	Tenant	Tenant
External repairs	Landlord	Landlord	Tenant	Landlord	Tenant	Tenant
Building insurance	Landlord	Landlord	Tenant	Landlord	Tenant	Tenant
Property taxes	Landlord	Landlord	Tenant	Landlord	Tenant	Tenant

Source: KTI (2009)