



## Progress in Tourism Management

## Aspects of service-dominant logic and its implications for tourism management: Examples from the hotel industry

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## ABSTRACT

This paper introduces the concept of service-dominant logic as a research paradigm in marketing management. It does so in the context of tourism management's need to engage with wider debates within the mainstream management literature. Moreover it demonstrates the importance of service-dominant logic in uncovering the role played by co-production and co-creation in the tourism industry. These ideas are developed in detail through a case study of the UK hotel industry that draws on new empirical research undertaken by the authors.

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## 1. Introduction

The engagement of tourism management with research in what can be called 'mainstream management literature' remains highly uneven (Li & Petrick, 2008). In some areas this dislocation is increasingly being recognised with attempts by tourism researchers to incorporate new conceptual frameworks as evidenced by the recent discussions of knowledge management and knowledge transfer mechanisms within tourism (Cooper, 2006; Yang & Wan, 2004; Hallin & Marnburg, 2007; Shaw & Williams, 2009). However, there are other key developments, particularly within marketing management that have been largely neglected in tourism management studies. Of particular note is the relative failure of tourism research to incorporate the growing body of work on what Vargo and Lusch (2004) have described as service-dominant logic (S-D Logic). Such omissions have also been discussed briefly in the context of S-D Logic by Li and Petrick (2008) who argue 'that more research is needed on the tenets proposed by Vargo and Lusch' (p.241); a challenge taken up by this paper.

The ideas surrounding S-D stands in marked contrast to more traditional approaches based on so-called goods – dominant logic (Lusch & Vargo, 2006). The former is particularly relevant to tourism management since it 'is based on an understanding of the interwoven fabric of individuals and organisations' (Lusch, Vargo, & O'Brien, 2007:5). In this context it gives critical importance to the value-creating processes which involve the customer as a co-

creator of value (Payne, Storbacka, & Frow, 2008:83; Lusch & Vargo, 2006). The approach highlights the customer – supplier relationship through interaction and dialog. The tourism sector is increasingly based around the customer experience and as such suppliers and consumers interact more closely together at all stages of their relationship. The shift to tourism products based much more on consumer experiences has been linked to Pine and Gilmore's (1998) notions of the 'experience economy' or what other commentators have in part viewed more generally as shifts in consumption from Fordism to post-Fordism (Shaw & Williams, 2004).

The general aim of this paper is to introduce the concepts of S-D Logic into a tourism management setting. This aim is achieved in a number of ways. First, as we argue in this paper, the application of the concepts of S-D Logic provides a framework with which to examine supplier – customer processes involved in co-creating the visitor experience. In this context we present an overview of the ideas of S-D Logic and the current state of research within the mainstream literature of marketing management, before going on to consider its implications for research in tourism management. Secondly we illustrate its applications in more detail using case material from our current research on innovations in the hotel industry.

## 2. The development of service-dominant logic in marketing management

Amongst other premises, S-D Logic views 'the customer as an operant resource...' capable of acting on other resources,

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a collaborative partner who co-creates value with the firm' (Lusch et al., 2007:6). In this context customers become active participants in the work of an organisation. More specifically, Auh, Bell, McLeod, and Shih (2007: 361) define such co-creation 'as a constructive customer participation in the service creation and delivery process' requiring meaningful and co-operative contributions.

More broadly we can view S-D Logic as three key inter-related aspects. First, it can be viewed as a major paradigm shift in marketing, responding to the call of many researchers (for a review see Sheth & Parvatiyar, 2000), for an alternative view of marketing. In this context, Lusch and Vargo (2006) and Lusch et al. (2007) have outlined a new dominant logic for marketing, 'in which intangibility, exchange processes and relationships are central' (Lusch & Vargo, 2006: 10). S-D Logic therefore argues that marketing is a continuous social and economic process mainly focussing on operant resources. Second, they have identified nine foundational premises that underpin competition through service. As Lusch et al. (2007: 8) explain, such a perspective is related to the key drivers of firm competitiveness, applied knowledge and collaboration. This leads to a third and related theme in which the firm needs to consider 'environments, customers and partners as operant resources' (Lusch et al., 2007: 8; Li & Petrick, 2008).

Whilst acknowledging the inter-related nature of these themes, our particular concerns in this paper are the ideas within S-D Logic that encompass the processes of co-creation, particularly in terms of both incremental and discontinuous innovations. Michel, Brown, and Gallan (2008) attempt to demonstrate that S-D Logic perspectives enhance understanding of discontinuous innovations, which are identified as those that both change significantly how customers co-create value and also impact on market share. To understand the basis of these ideas within S-D Logic we need to give more attention to the contrasts between operand and operant resources. In terms of the former, the customer is viewed entirely as a resource upon which marketers examine, analyse and then promote products to them. This is the more familiar and traditional approach to marketing which segments the customer base prior to developing a marketing strategy. In contrast, from the perspective of S-D Logic customers are seen as operant – a resource that produces effects, or co-producers of a service. Auh et al. (2007: 359) stress that co-creation 'has become a central tenet of a proposed service centred logic for marketing': whilst Bendapudi and Leone (2003: 14) argue that it may well be 'the next frontier of competitive effectiveness'. In terms of the firm the process of co-creation can be significant in helping to lower costs since the customer participates in parts of the production process (Auh et al., 2007). For example, within the tourism industry increasing numbers of consumers use the internet to search, arrange and book their holidays. For many consumers the search process and the arranging of holidays around information based on the internet is part of their experience (Litvin, Goldsmithy, & Pan, 2008; Pan & Fesenmaier, 2006). Similarly, the rapid growth of low cost airlines is based around a business model that is highly dependent on the co-creation of booking flights via the internet (Mintel, 2005; Gross & Schroder, 2007). In turn the customer benefits by price reductions and as the early discussions by Lovelock and Young (1979) pointed out such gains are particularly important in the consumer service sector dependent as it is on labour-intensive processes. It also requires 'a shift to a buyer-centric business model' (Auh et al., 2007: 360) which is focussed around co-creation and consumer preferences. Effectively new products and services are developed with close customer involvement. This type of so-called open innovation culture is being used across a range of business organisations (Huston & Sakkab, 2006; NESTA, 2010). For example, Proctor and Gamble have enshrined within their mission

statement that 'the consumer is boss'. Whilst this may partly be mere rhetoric it nevertheless embraces the idea of co-creation, because consumers 'who buy and use Proctor and Gamble products are valued not just for their money but as a rich source of information and direction' (Lafley & Charan, 2008a: 44). This same organisation has also developed new ways of building social connections with consumers via digital media and, as discussed later in the paper, such processes are already significant within the hotel industry.

The co-creation process is just one critical dimension of S-D Logic and open innovation culture. Other key elements include engaging more effectively with employees and understanding them as operant resources. This, as Lafley and Charan (2008a : 47) argue, embraces a business culture based on 'curiosity, collaboration and connectedness'. Re-organising a firm such as Proctor and Gamble into one based around the ideas of S-D Logic also requires a new leadership culture based around innovative knowledge and skills, which in turn changes the role of the team leader or manager–employee interactions (Lafley & Charan, 2008b; Yang, 2008).

These ideas about collaborative competence and competitive advantage cover the first, two key propositions of S-D Logic (Table 1). The ability to innovate is of critical importance and relates to a firm's collaborative competence. This in turn aids both absorptive competence and adaptive competence (Lusch et al., 2007; Michel et al., 2008). The former relates to a firm's ability to understand and absorb new forms of tacit and explicit knowledge from external sources. The notion of adaptive competence relates to these ideas since it describes the ability of the firm to adapt or adjust to changing circumstance. Both are of critical importance to firms within the tourism sector given the dynamic nature of changes in demand. Such notions also relate to a firm's competency in dealing with information technology at a number of levels, i.e. within the firm, as well as including the customer. This in turn relates to ideas of connectivity which makes 'the market system more timely and quick' to respond to changes (Lusch et al., 2007: 10). The increased importance of the digital economy based around the web and high speed connections has led to 'an unprecedented number of touch points between the firm and end-consumer' (Etgar, 2008: 99; Blazevic & Lievens, 2008). These ideas relate to the third proposition of S-D Logic (Table 1) which also raises the

**Table 1**  
Key Propositions of Service-Dominant Logic.

1.	Competitive advantage relates to how a firm applies its operant resources to cater for the consumers compared with how other firms use such a resource.
2.	Collaborative competence is a main determinant of a firm's knowledge acquisition for competitive advantage.
3.	The increasing importance of IT provides opportunities for firms to gain competitive advantage through collaborative innovation.
4.	Firms can obtain competitive advantage through engaging customers and value network partners in co-creation and co-production.
5.	Competitive advantage through innovation can be gained by an understanding of how the customer integrates and experiences service-related resources.
6.	Provision of service co-creation opportunities and resources consistent with customer levels of involvement enhances experiences leading to improved competitive advantage.
7.	Firms can compete effectively by the adaption of collaboratively developed and risk-based pricing value propositions.
8a.	The firm that is the value network member that is the prime integrator is in a stronger competitive position.
8b.	The retailer (e.g. hotel) is generally in the best position to become the prime integrator.
9.	Firms that use their employees as operant resources are able to develop more innovative knowledge and skills increasing their competitive advantage.

Source: modified from Lusch et al. (1992).

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