

Service-Dominant Orientation: Measurement and Impact on Performance Outcomes

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Abstract

A firm's ability to offer better service and to co-create valuable customer experiences is critically important to achieving competitive advantage. Service-dominant (S-D) logic, along with resource and capability perspectives, provides the underlying theoretical reasoning for the relevance of such capabilities. However, despite researchers' recent contributions to marketing theory, empirical support for S-D logic and its implications is very limited at the strategic level. An open question, therefore, is what empirically constitutes a value co-creation capability, and what is its impact on important performance outcomes. Building on the conceptualization of an S-D orientation as a portfolio of value co-creation capabilities, this research first operationalizes and validates an S-D orientation measure through a multi-study approach across different contexts. The authors then apply the measurement instrument to an automotive retail setting to investigate the outcomes of S-D orientation in terms of both customer- and firm-related performance metrics. Results provide the first empirical demonstration of the importance of S-D capabilities, and thus S-D logic, for firms.

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Service is central to firms' competitive advantage, particularly in retail and manufacturing industries (Karmarkar 2004; Lusch, Vargo, and O'Brien 2007). Customers tend to develop preferences for firms that are better at facilitating their resource integration activities, enabling pleasurable interactions, efficient use processes, and achievement of desired outcomes (Grönroos, 2006; Zeithaml, Berry, and Parasuraman 1996), and better service can enhance these valued experiences. Theoretically, the literature has conceptualized this process as value co-creation, whereby market actors depend on and benefit from the ability to serve each other when integrating resources (Vargo and Lusch 2008). With this interdependence in mind, managers

and scholars seek to determine critical service capabilities and their potential contributions to mutual betterment. In particular, service-dominant (S-D) logic (Vargo and Lusch 2004, 2008) and co-creation frameworks (e.g., Payne, Storbacka, and Frow 2008; Prahalad and Ramaswamy 2004) challenge traditional business thinking, requiring strategy researchers to reconsider the relevance of service capabilities.

Karpen, Bove, and Lukas (2012) recently introduced the concept of S-D orientation, conceptualizing for the first time the capabilities that enact S-D logic by enabling organizations to co-create value through service exchanges with network partners. Six service-driving capabilities (relational, ethical, individuated, empowered, developmental, and concerted interaction) constitute this higher-order competence and enable value co-creation practices. While this conceptualization of the S-D orientation represents an important step toward developing middle-range theory of co-creation capabilities in the context of S-D logic (Brodie, Saren, and Pels 2011), its validation requires a

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measurement instrument. Moreover, without a measurement instrument the strategic implications for managers that may arise from an S-D orientation also remain speculative.

This paper empirically investigates S-D orientation and its co-creation capabilities by examining the construct's operational nature and nomological interdependencies. To this end, we develop and validate a hierarchical index to measure S-D orientation. In so doing, we focus on retail contexts, as retailers vary widely in how they prioritize and strategically leverage their service capabilities. To operationalize S-D orientation, we draw on a procedure from prior research in this journal (Brocato et al. 2012) and execute five stages of measurement development and validation with fresh discrete samples. Avoiding a potentially myopic, intra-organizational view of S-D orientation (Harris 2002), we capture customers' perceptions of S-D orientation in the context of a broader theoretically and managerially relevant nomological network.

The growing body of literature attesting to the importance of S-D logic and the need for its operationalization remains mainly theoretical. With this study, we advance marketing theory by demonstrating empirically for the first time the strategic relevance of S-D orientation and, therefore, S-D logic for business performance. Using dyadic data obtained in a retail setting, we show that S-D orientation is an important driver of not only superior firm-related performance, such as financial and market performance, but also customer-related performance, such as perceived value, satisfaction, affective commitment, trust, repurchase intentions, and positive word-of-mouth. Overall, our results indicate that firms, especially retail firms, can significantly benefit from implementing an S-D orientation.

The paper is organized as follows. We first review the S-D orientation concept and its components. We then describe five stages of data collection designed to assemble and validate a measure of S-D orientation that we subsequently apply to an automotive retail context to test its strategic implications. We end with a discussion of the implications and limitations of the study and suggest avenues for future research.

Conceptual Background

The Transition from S-D Logic to S-D Orientation

The introduction of S-D logic into the marketing literature has reinforced an emerging shift in marketing thought. On the basis of its evolving foundational premises (Vargo and Lusch 2008; Williams and Aitken 2011), S-D logic provides a service-based view of marketing phenomena that regards service as the core reason for exchange, enabled primarily by operant resources such as knowledge and capabilities and actualized through value co-creation processes. Market actors interact with and combine resources interdependently while individually determining the value of the associated experiences in terms of personal betterment. For instance, customers engage with car dealerships and purchase vehicles for the services the cars provide, such as transportation, social status, and emotional and sensory experiences. During any interaction with firm-provided resources

(e.g., employees, websites, and products), customers, as network partners, co-create their own experiences by integrating and potentially amplifying resources into valuable outcomes. A firm's role is to facilitate and enhance these experiences (Karpen et al. 2012; Payne et al. 2008) and subsequently benefit, for example, in the form of knowledge and financial returns. S-D logic accordingly represents a cognitive framework for mutual service provision with the potential to guide marketing theory development and practice (Lusch and Vargo 2006).

Although managers might also adopt S-D logic and its principles as part of their personal mindset, they would profit from actionable guidance beyond a cognitive framework to help their firm execute, and benefit from, S-D logic and S-D practices. In particular, firms "may successfully compete by integrating resources and developing superior competences to co-create high value" (Andreu, Sánchez, and Mele 2010, p. 242). However, the question arises as to which capabilities a firm should prioritize to facilitate and enhance value co-creation. In line with the definition of S-D orientation as a set of strategic capabilities that enable value co-creation in service exchanges (Karpen et al. 2012), we argue that an S-D orientation can help to answer this question.

Being better at co-creating valuable experiences with network partners (any actors in the service system) is a strategic imperative for firms to achieve competitive advantage, and service-driving capabilities foster the transition from service thinking to service practice. Based on resource and capability perspectives (Barney 1991; Day 1994; Day and Moorman 2010; Hunt and Morgan 1995; Peteraf 1993; Teece, Pisano, and Shuen 1997), and in line with S-D logic, such capabilities build the foundation for competing on service.

On the basis of an in-depth literature review and the involvement of 21 leading S-D logic experts based in universities around the world, Karpen et al. (2012) propose a set of six strategic capabilities that, in combination, form a higher-order co-creation capability. Building on the conceptual understanding introduced by Karpen et al. (2012), we view S-D orientation as a portfolio of organizational capabilities that facilitate and enhance the interdependent integration of resources through individuated, relational, ethical, developmental, empowered, and concerted interaction. These capabilities are manifested in organizational practices and support reciprocal value creation through mutually service-driving resource deployments. We briefly describe these capabilities in the following discussion.

S-D Orientation Components and Measurement Considerations

Each of the six capabilities proposed by Karpen et al. (2012) facilitates and/or enhances collaboration with customers (and other network partners) to better integrate resources and interdependently create value (Vargo and Lusch 2008) as outlined in Table 1.

The capabilities in Table 1 constitute an S-D orientation and build a conceptual foundation in terms of executing and measuring S-D capabilities. To date, insights into its nomological network are based solely on conceptual grounds.

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