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# The Service-Dominant Logic of Marketing and Marketing Ethics

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ABSTRACT. Abela and Murphy (J Acad Mark Sci 36(1):39–53, 2007) examined Service-Dominant (S-D) logic (Vargo and Lusch, J Mark 68(1):1–17, 2004) from the viewpoint of Marketing Ethics and concluded that whilst S-D logic does not have explicit ethical content, the Foundational Premises (FPs) of S-D logic do have implicit ethical content. They also conclude that what may be needed to make the implicit more explicit is the addition of another FP. The aim of this article is to explore whether S-D logic needs to be modified, if one wishes to construct a theoretical framework for analysis of Marketing that has ethical considerations fully integrated. We critically evaluate the claim that the FPs are inherently ethical and conclude that S-D logic should be modified. We offer an additional FP for consideration that relates to the role of personal and societal values in the co-creation of value. This FP is necessary because of the role that the ethical positions of actors play in exchange behaviour. However, it should be pointed out that whilst the article explores the ethical potential of S-D logic it does not privilege any particular ethical position or code. These concerns will be addressed in subsequent articles: the aim here is to establish the underlying rationale for including an explicit commitment to ethics in S-D logic.

KEY WORDS: S-D logic, Resource-Advantage theory, ethics, values, co-creation of value

## Introduction

The Service-Dominant logic of Marketing (henceforth, S-D logic) has been the subject of numerous scholarly articles, special issues of academic journals (e.g. *Industrial Marketing Management* 2011, *Journal of Macromarketing* 2011, *European Journal of Marketing* 2011, *Marketing Theory* 2010, *Australasian Marketing Journal* 2010, *Journal of the Academy of Marketing Science* 2008) conferences and conference sessions worldwide since its first appearance (Vargo and Lusch, 2004). It appears to offer Marketing theory a more humanistic aspect, by putting the customer on the same level as the firm. It does this by stating that in all economic exchange service is exchanged for service, and by emphasising the co-creation of value. Also from a theoretical perspective, households and individuals are seen as resource-integrating, value-creating enterprises, just as much as traditional firms (Vargo and Lusch, 2008).

The originators of S-D logic have stated that it is neither complete nor 'owned' by them (Lusch and Vargo, 2006a) but their hope is that it will become the foundation for a general theory of markets and marketing (Lusch and Vargo, 2006b). For S-D logic to provide such a foundation it needs to be both integrative and exhaustive, and it needs to consider the role that markets play in society. Given that markets are structured, managed and facilitated by people, ideally for the good of society, it seems logical to presume that the principles underpinning the conduct of business should be fair and just (Crane and Desmond, 2002). Our concern in this article is to what degree S-D logic integrates the concepts of Marketing Ethics. S-D logic has previously been evaluated for its ethical content and, as a result, it has been suggested that it could be extended to make ethics integral to any future Marketing theory (Abela and Murphy, 2007). An important point is raised by those authors, who note:

> One important cause of the persistence of such issues is the tendency in current marketing theory to compartmentalize ethical issues. In general, theoretical developments in marketing are introduced without explicit consideration of ethics by their proponents, apparently on the assumption that such consideration can be separated from the 'business' issues. (p. 40)

It is the purpose of this article to respond to this call by critically evaluating the claims regarding the ethical content of S-D logic that have appeared in the literature, and to provide a foundation for a way forward by explicitly positioning ethics within the rubric of S-D logic.

The article is organised as follows. In the following section we attempt to summarise what S-D logic actually is. Although others, most notably Vargo and Lusch, have written on this topic, what we present in this article are the *essential* aspects of S-D logic that are necessary to proceed with the main aim of the article, which is to evaluate to what degree S-D logic can be seen as inherently ethical. Next, we examine the underlying intellectual heritage and hence assumptions of S-D logic. In the 'Ethics' section we outline the nature and fundamental concepts of Marketing Ethics, which enables us to then examine the ethical content of S-D logic in the following section.

In the 'Extending the S-D logic of marketing' section we re-examine S-D logic in the light of the previous material to see whether it is inherently ethical, or if it will have to be modified in order to provide an explicit ethical foundation for future theory development. We emphasise the key role that personal and societal values have in determining (economic) value. In the 'Discussion' section we explore the implications of our analysis in the wider context of the relationship between Marketing and society and draw attention to the need for ethics to feature explicitly in the foundational premises of S-D logic to ensure a more integrative and holistic understanding of marketing theory and to promote a more socially responsible approach to marketing practice.

## The S-D logic of marketing

The concept of the 'Service-Dominant Logic of Marketing' made its public début in an award-winning article in the *Journal of Marketing* (Vargo and Lusch, 2004). That article is essentially an integrative literature review. The authors are not proposing any new theory, rather they are describing trends in marketing thought that, whilst influential, have not yet reached total mainstream acceptance.

These ideas are largely discussed in the services literature, which is one reason for the label 'service-dominant'. The other reason is that service is asserted to be the basis of all economic exchange. These ideas were then integrated into a coherent framework, summarised in a set of foundational premises, referred to as 'FPs'. In the original article there were eight FPs, and in later writing (Vargo and Lusch, 2008) they were re-worded for clarity and two new FPs were added. The following are the FPs of S-D logic as currently defined:

1. Service is the fundamental basis of exchange;
2. Indirect exchange masks the fundamental basis of exchange;
3. Goods are distribution mechanisms for service provision;
4. Operant resources are the fundamental source of competitive advantage;
5. All economies are service economies;
6. The customer is always a co-creator of value;
7. The enterprise cannot deliver value, but only offer value propositions;
8. A service-centred view is inherently customer oriented and relational;
9. All social and economic actors are resource integrators;
10. Value is always uniquely and phenomenologically determined by the beneficiary.

It is important to realise that the premises contained in S-D logic are not hypotheses or propositions in the sense that they are empirical (and hence disprovable) statements about the world. Rather, they are concisely expressed statements of a coherent philosophical 'lens' for examining markets and marketing (Vargo, 2007). They provide a framework for an understanding and analysis of Marketing phenomena, but they cannot be said to be true or false; they are simply ways of looking at things. Hence, S-D logic cannot ever be 'proved', or 'disproved', any more than the proposition 'the glass is half full' can; all that can be done is to see what consequences may follow from the FPs and judge the *usefulness* of S-D logic by that. The following example may make these ideas more clear.

At the Business Briefing that followed the first Otago Forum on the S-D Logic (Aitken et al., 2006), Bob Lusch told the audience about how he teaches introductory undergraduate marketing. He tells students a story about a small village where some people are farmers and some are fishers. The farmers and the fishers trade vegetables for fish, so that everyone can have a balanced diet. But what is 'really' going on? What is being exchanged?

Lusch says that it's not fish that are being exchanged for vegetables, but rather that the farmer is combining his or her farming knowledge and expertise as competencies with the competencies derived from the fishing knowledge and expertise of the fisher to create value (i.e. a more balanced diet and hence greater health) for both parties. Further, the application of these competencies in a process of value creation will generally be 'pro-consumer and pro-society' and at the heart of social and economic development (Lusch, 2006; Lusch and Vargo, 2006b).

One is free to take the view that 'fish is being exchanged for vegetables', or that 'fishing knowledge is being traded against farming knowledge', or that 'fishing knowledge is being pooled with farming knowledge to create value'. None of these statements can be said to be true or false: they are just ways of looking at things. They are not statements that can be argued about or proved, only agreed with or not as a starting point for analysis. In formal logical terms, they are axioms, not propositions. They are premises, not conclusions.

A striking passage is found in the final chapter of the S-D logic book edited by Lusch and Vargo (2006c). This chapter deals with S-D logic as the foundation for a general theory of marketing and the authors state (p. 407) that S-D logic '… is implicitly normative and thus can point managers toward practical action and organisations to standards for ethical action and social well-being'. Later (p. 415) in a subsection 'Normative Guidelines' they list the following:

1. The firm should be transparent and make all information symmetric in the exchange process. Since the customer is someone to collaborate with, anything other than complete truthfulness will not work.
2. The firm should strive to develop relationships with customers and should take a long-term perspective. Firms should thus always look out for the best interest of the customer and protect the customer's long-term well-being.
3. The firm should view goods as transmitters of operant resources (embedded knowledge); they are intermediate 'products' that are used by other operant resources (customers) as appliances in value-creation process. [*sic*] The firm should focus on selling service flows.
4. The firm should support and make investments in the development of specialised skills and knowledge that is the fountainhead of economic growth.

It is easy to see that some of these guidelines (i.e. 2, 3 and 4) are mere restatements of, and elaborations upon, the FPs. However, the first is not contained in the FPs and, we contend, not deducible from the FPs without the use of auxiliary premises. It is what such auxiliary premises might look like that we explore in this article.

We note, however, that in other writing (Lusch and Vargo, 2006a, p. 283) the authors softened their assertions somewhat:

> It points almost directly to normative notions of investment in people (operant resources), long-term relationships, quality service flows, and only somewhat less directly toward notions of symmetric relations, transparency, ethical approaches to exchange, and sustainability.

So it appears that, if the norms espoused in the list above do not flow directly from the FPs, there may be some theoretical structure missing.

In a later article (Lusch et al., 2007) give a table where they list not only the FPs, but the rationale behind each one. The rationale behind FP9 (Organisations exist to integrate …) is 'The organisation exist [*sic*] to serve society and themselves through the integration and application of resources'. How are we to interpret the assertion that 'The organisation exists to serve society and themselves?' One could argue that economic organisations benefit society by the very fact of their existence (a positive statement) or alternatively that the purpose of the organisation is to serve society (a normative statement). It is unclear in which sense the rationale behind FP9 is intended. However, later in that article (p. 16) they give an example of a 'big box' retailer establishing operations in a new area. They discuss the negative social impacts this could have and suggest ways to ameliorate these. They say that 'Unfortunately, most businesses (including retailers) tend to view external environments as resistances, if not countervailing forces rather than resources'.

Note the difficulty and subtleties of writing about S-D logic to a Goods-Dominant (G-D) audience! In S-D logic the social fabric of the community in which the customer lives is part of their value-creation network, and is hence an operant resource. How can it be an *external* environment? The social world is not a passive stage in which value creation takes place: it is an integral part of the value creation system. Vargo and Lusch realise this, as is apparent in their other writing, but the G-D mindset still has power, even over them. They say 'A truly S-D retailer would view the entire community as a storehouse of resources to collaborate with, to not only help the community but to provide the retailer with relative competitive advantage'. Again we have a mixture of positive and normative statements: if the community is endogenous it's an exploitable (operant) resource. That much is fully consistent with the FPs. But 'to not only help the community' is an ambiguous statement: is it positive or normative? Is 'helping the community' simply a means of overcoming costly resistance, or is it an end in itself? In the parlance of ethics, is this a teleological or deontological precept?

This issue was revisited in a later article (Vargo et al., 2008), which includes a table in which differences between G-D and S-D logics are listed, and which is reproduced below as our Table I. Note that in this table the authors explicitly acknowledge the use of public resources in the value-creation process, and that the measure of value is the adaptability and survivability of the beneficiary system (presumably they mean the 'beneficiary's system'?)

We have reached a point in our analysis of the ethical and societal dimensions of S-D logic where the reader may be wondering how, exactly, the 10 FPs are logical antecedents to statements like 'firms exist to serve society' and 'anything other than complete truthfulness will not work'. These, and

TABLE I

G-D logic versus S-D logic on value creation

| Attribute | G-D logic | S-D logic |
|---|---|---|
| Value driver | Value-in-exchange | Value-in-use, or value-in-context |
| Creator of value | Firm, often with input from firms in a supply chain | Firms, network partners, and customers |
| Process of value creation | Firms embed value in 'goods' or 'services', value is 'added' by enhancing or increasing attributes | Firms propose value through market offerings, customers continue value-creation process through use |
| Purpose of value | Increase wealth for the firm | Increase adaptability, survivability, and system wellbeing through service (applied knowledge and skills) of others |
| Measurement of value | The amount of nominal value, price received in exchange | The adaptability and survivability of the beneficiary system |
| Resources used | Primarily operand resources | Primarily operant resources, sometimes transferred by embedding them in operand resources-goods |
| Role of firm | Produce and distribute value | Propose and co-create value, provide service |
| Role of goods | Units of output, operand resources that are embedded with value | Vehicle for operant resources, enables access to benefits of firm competences |
| Role of customers | To 'use up' or 'destroy value' created by the firm | Co-create value through the integration of firm-provided resources with other private and public resources |

similar, questions address the relationship between marketing and ethics and confront the issues related to reconciling the imperatives of business with the aspirations of society.

As stated above, the aim of this article is to assess whether S-D logic can be credibly seen to incorporate an ethical component as it stands, or whether it must be modified so that the 'inherent' is explicit. Hence in order to examine 'inherent', or at least implicit, content of S-D logic properly we need to examine the theoretical positions that are embodied in the academic and intellectual precursors of S-D logic. These positions are mostly found in the economics, and, in particular, the microeconomics literature as it intersects with the Marketing and Management literatures and will be briefly outlined in the next section.

### *Aspects of the intellectual heritage of S-D logic*

Whilst S-D logic is largely grounded in economics (for example, FPs 1, 2, 3, 5, 6, 9 and 10) the authors state that it is a conceptual framework to enable thinking about markets and exchange (Vargo and Lusch, 2004). They state (Vargo and Lusch, 2004) that their work is based in Resource-Advantage (R-A) theory (Hunt, 2000) which in turn derives from the Resource-Based View (RBV) of competitive advantage advanced initially by the economist Frédérick Bastiat (1860), and more recently by Edith Penrose (1959).

Our analysis of the ethical content of S-D logic depends on key assumptions and assertions contained in R-A theory and the RBV so we will briefly outline these literatures, which in some sense define the paradigm within which S-D logic was conceived.

A striking feature of Penrose's work is that she eschews use of the term 'factor of production' because it does not clearly differentiate between resources and services. She states (p. 25) 'Strictly speaking, it is never resources that are the "inputs" in the production process, but only the services that the resources can render'. She notes that the services rendered by resources are a result of how they are used: that two firms with exactly the same set of resources may render different services (and hence be more or less successful) depending on how they put resources to use. This is in stark contrast to neoclassical economic theory, where firm resources (labour and capital) are homogeneous and mobile (can be bought and sold easily). Penrose thus provides the fundamental world-view of (micro) economic activity that has been developed by the RBV management literature.

The RBV was named as such by Wernerfelt (1984), but has been commonly attributed to the work of the economist Jay Barney (e.g. Barney, 1991, 1992). The fundamental principle of the RBV is that the basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable resources at the firm's disposal. In this early conception resources were defined as '… all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc.; controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness' (Barney, 1991)

Barney built on Penrose's work by noting that heterogeneity and immobility of resources was not sufficient to guarantee sustained competitive advantage. Advantage arises partly because of inimitability of resources. Inimitability, in turn, arises from three factors (Barney, 1992): (1) Historical accidents; (2) 'causally ambiguous' resources; and (3) 'socially complex' resources. The term 'causally ambiguous' means that the competition cannot gain knowledge of how to use the resources. 'Socially complex' refers to those resources that enable the firm to enact strategy due to the 'values, beliefs, symbols and interpersonal relationships possessed by individuals or groups in a firm' (p. 45).

Others (e.g. Amit and Shoemaker, 1993) distinguish between resources and capabilities. In this view, which has been widely adopted in the RBV literature (e.g. Conner and Prahalad, 1996), resources are tradeable and non-specific to the firm, whilst capabilities are firm-specific. This is very similar to the distinction made in S-D logic to operant and operand resources (Constantin and Lusch, 1994).

A key feature of the RBV is 'sustainable competitive advantage'. This is a notion that runs counter to standard economic theory, which states that any abnormally large profits gained by any particular firm will be 'competed away' in the long run, providing optimal social benefit. Hence the

RBV can be seen as a theory of economics that is anti-competitive and detrimental to social welfare (Hunt, 1999). R-A theory rejects this notion, however, (Hunt, 2000). As R-A theory is one of the bases of S-D logic, and, as the basis of this rejection has implications for the social impact of firm behaviour, we need to examine these issues more closely.

Standard economics regards Perfect Competition (PC) as an ideal to strive for. Competition is good, anti-competitive practices are bad. Why? It is simply this: under PC, prices will be the lowest they can be in order for firms to stay in business. So society gets the benefits of the service provided by firms at minimum cost. Any increase in price above the PC equilibrium (the point where supply is equal to demand) results in a loss of 'social welfare'. Firms that price (and sell) above the equilibrium price are said to be extracting 'abnormal profits', or 'economic rents'.

However, R-A theory rejects the above analysis for the reason that it denies that PC is an ideal worth striving for. R-A theory, in contrast, asserts that superior (above norm) financial performance of firms '… contributes to social welfare because the dynamic process of R-A competition furthers productivity and economic growth through both the efficient allocation of scarce tangible resources and, more important, the creation of new tangible and intangible resources' (Hunt, 2000, p. 86).

The Fundamental Propositions of R-A theory are shown in Table II, reproduced from Hunt (2000). Of particular interest for our discussion are the propositions relating to motivation and objectives. These propositions explicitly reject the maximisation norms of 'standard' economic and business discourse. It is these very norms which have come under such withering criticism in recent times.

Let's look at the notions of 'constrained' maximisation and 'superior' performance. What do they mean, exactly? In what way is the utility maximisation motivation of consumers constrained?

> Specifically, R-A theory maintains that the self-interest seeking of individuals is constrained and/or restrained by personal moral codes. (Hunt, 2000, p. 113)

This statement provides a clear connection to Vargo and Lusch's claim that S-D logic is 'inherently' ethical. Their work is derived largely from that of Hunt, and morality is fundamental to supply and demand in R-A theory. Indeed, Hunt devotes several sections in his book (Hunt, 2000) to a discussion of morality and ethics in regard to consumer and firm behaviour.

What about the replacement of profit maximisation with 'superior' performance? In the case of owner-managed firms this is a direct consequence of human motivation. In the case of a firm managed by people who are not the owners, the link is less clear. One could argue that the owners influence the

TABLE II

Fundamental Propositions of Resource-Advantage theory

| Attribute | Perfect Competition | Resource-Advantage theory |
|---|---|---|
| Demand | Heterogeneous across industries, homogeneous within industries, and static | Heterogeneous across industries, heterogeneous within industries, and dynamic |
| Consumer motivation | Perfect and costless | Imperfect and costly |
| Human motivation | Self-interest maximisation | Constrained self-interest maximisation |
| Firm objective | Profit maximisation | Superior financial performance |
| Firm's information | Perfect and costless | Imperfect and costly |
| Firm's resources | Capital, labour and land | Financial, physical, legal, human, organisational, informational and relational |
| Resources | Homogeneous and perfectly mobile | Heterogeneous and imperfectly mobile |
| Role of management | To determine quantity and implement production function | To recognise, understand, create, select, implement and modify strategies |
| Competitive dynamics | Equilibrium-seeking, with innovation exogenous | Disequilibrium-provoking, with innovation endogenous |

managers and hence are prepared to forgo profit that conflicts with moral norms. Alternatively, one could argue that since R-A theory posits that moral norms are an integral component of economic behaviour, that managers acting as economic agents are bound either by their own moral norms or by the norms of their principals. Hunt takes a different line, however. He notes that 'superior' means 'performance exceeding that of some referent'. This means that 'superior' should not be taken to mean 'above average', for example above industry average. Also, note that measures of performance are not specified by R-A theory. Accordingly, both measures and referents are variables in R-A theory. They may vary between firms and within firms over time. Hunt explicitly addresses the issue of 'short-termism' (p. 124) and, as such, R-A theory is consistent with notions of sustainability.

Further relevance of the RBV in general to this discussion is the fact that resources are not specific to the firm, and, therefore, may include 'public' goods as resources. Referring to the 'farmers and fishers' scenario, resources would include the ocean and the land, for example. A simple logical chain should suffice to show that the Stakeholder Concept (discussed below) is compatible with the RBV, which in turn is compatible with S-D logic: in so far as firms employ public goods in their value co-creation activities, so the owners of the public goods (society) have an interest in such firms. In the S-D logic world, with its emphasis on value-creation networks and actors being resource integrators, it is hard to imagine a firm that does not employ public goods in the value co-creation process. Therefore, the Stakeholder Concept is implicit in S-D logic. The above trajectory suggests that S-D logic incorporates not only Hunt's premise that motivation is constrained by ethical codes but also that whilst RBV is dependant on the capabilities of the firm it is also dependant on resources, the use of which have social implications. In this sense, the co-creation of value is a reciprocal process where perceptions of value may be conditioned by considerations of responsibility.

From this brief review of 'Penrosian' economics, the RBV of the firm, and R-A theory, it is possible to see how Vargo and Lusch, and presumably others, can reasonably argue that S-D logic is inherently ethical. But from reading both the original S-D logic article and subsequent attempts to refine the thoughts expressed therein, the inherent ethical nature of S-D logic has not been made explicit, much less fundamental – if one regards S-D logic as being solely the FPs and everything logically deducible from them.

Now that the subject of morals and ethics has been broached, it's time to take a closer look at the key issues of ethics and morals in microeconomic activity, and Marketing in particular.

## Ethics

Ethics is, of course, the subject of a vast literature stretching over thousands of years. We do not attempt to summarise or review that literature here, but rather focus on the intersection of fundamental marketing theory and fundamental (business) ethical theory.

Ethics is the study of 'the good'. Ancient Greek philosophers of ethics examined questions of the form 'how should one act in order to live a good life?' and 'what aims should a good life have?' They also asked the question of whether institutions (most notably the state) could be judged as good if they act in ways which would not be judged good if they were performed by individuals.

Some writers distinguish between ethics and morals whilst others use the terms synonymously. For the purposes of conceptual clarity we have made the following distinction in this article: morals refers to the set of underlying social norms that are concerned with notions of right and wrong; ethics refers to the formalisation of these fundamental principles into formalised rules or codes. One further clarification should be made in light of this position. Whilst it is clear that formalised codes of ethics are evident in many areas of social practice such as medicine and law, they are much less explicit in relation to business. Many organisations declare their commitment to ethical practice in the form of mission or values statements or in terms of contractual obligations or relationship promises. Accordingly, we refrain from making any ethical pronouncements, or arguing one ethical position against another. We define ethics simply as statements regarding what people and institutions *should* do in order to uphold the principles of morality accepted in their particular social milieu.

We do, however, assert that those who think that questions of ethics (or morality) have no place in business decisions are deluding themselves. As surely as the physicist who does not believe that his or her experimental set-up will influence the observation of either the wave or particle nature of electromagnetic radiation, the business decision maker who ignores ethical considerations (quite apart from legal constraints) will be confronted with reality whether it is welcome or not.

In what follows we find it useful to distinguish between two types of ethical norms: things that you should (or should not) do because they will have desirable (or undesirable) consequences; and things you should do for some other reason, usually expressed as 'duty'. Following early descriptive work in the Marketing literature (Hunt, 1986) we distinguish the former as 'teleological' (more usually known in the general ethics literature as 'consequentialist') and the latter as 'deontological'.

*Marketing ethics*

Research into Marketing Ethics has been defined as 'the systematic study of how moral standards are applied to marketing decisions, behaviours and institutions' (Laczniak and Murphy, 1993). The history of academic study of Marketing Ethics reveals a trajectory from normative to positive and back to normative. Early approaches tended to take a normative perspective, i.e. laying out ethical guidelines for others to follow, and general frameworks for theorizing about marketing ethics. Once this theoretical base had been established, more descriptive research of marketers' ethical decision-making began to appear. Most recently a stream of literature has emerged that attempts to apply normative guidance from moral and political philosophy to knowledge about marketing behaviour that has been provided by descriptive research (Abela and Murphy, 2007).

There have been a number of influential textbooks that have promoted integrated ethical frameworks for decades. For example, Kotler's Societal Marketing Concept (SMC) first appeared in the 1960s (Kotler and Levy, 1969). This concept proposes that decisions are made for the benefit of the firm, the consumer and society as a whole. However, the impact on *fundamental* marketing theory, education and practice seems to have been limited (Crane and Desmond, 2002).

Another reason (apart from the compartmentalisation thesis) that ethical issues persist in marketing is that marketing, business and economics thinkers are not united in accepting the necessity of including ethical considerations in either fundamental theory or (less often) in practice. Whilst it would be tedious and fruitless to yet again debate whether ethics has a place in (free-market, capitalist) economics, we cannot resist making one point. Opponents of ethics in business can either argue from an empirical or rational (logical) basis, or an argument from authority. Countless times we have seen one authority figure, in particular, put forth as either a champion or a 'straw man' in the debate: Milton Friedman. Friedman is supposed to be firmly in the 'ethics has no place in business' camp.

Those who assert that 'the business of business is business' often attribute this quote to Milton Friedman, and his famous opposition to Corporate Social Responsibility (CSR). However, it appears that few who use this argument from authority have actually consulted the original source. It appears that an article in the New York Times Magazine entitled 'A Friedman doctrine: The social responsibility of business is to increase its profits' (Friedman, 1970), in which he railed against CSR, is the source of this aphorism. However, in that article Friedman stated that the purpose of business is:

> … to make as much money as possible while conforming to the basic rules of society, both those embodied in the law and those embedded in ethical custom.

So it is plain that even the arch-enemy of CSR recognises the importance of values in economic analysis. Friedman was arguing against CSR as corporate philanthropy, which he regarded as a social function that should be the role of the state. He was not arguing against the ethical conduct of business, as can be seen above.

Now that we have gained authoritative approval from a Nobel laureate for our endeavours we can move on to examining the core ideas of marketing ethics, acknowledging that it is a proper subset of business ethics.

*The stakeholder concept*

Several authors in the business ethics and marketing ethics field (Laczniak, 2006; Laczniak and Murphy, 1993; Schlegelmilch, 1998; Smith and Quelch, 1987) endorse what has come to be known as the 'stakeholder concept' of management (e.g. Freeman, 1984) as integral to the theoretical base of business ethics. The stakeholder concept simply recognises that there are more parties to business than those directly involved in a dyad or value chain. Typical stakeholders mentioned in this stream of research are government, interest groups, the media and society in general.

The fundamental idea of stakeholder theory is that of the 'social contract' between 'business' and 'society' (Donaldson and Dunfee, 1999). A social contract is a relationship between two social institutions. A common way to conceive of this relationship is that on one hand there is a (mostly) one-way relationship between business and society that is expressed through the legal system (i.e. society defines the rules).

On the other hand there is also a two-way relationship of negotiated shared understanding of what one party expects of the other and the nature of the interactions between the parties (Carroll and Buchholtz, 2006). The problem is, of course, that whilst the legal part of the contract is (relatively) easy to specify and adhere to, the dynamic, arbitrary and diffuse nature of shared understanding makes it very difficult to manage.

The fundamental practical issue for those who embrace stakeholder theory is deciding who to include in the list of stakeholders. At one extreme we have those who have direct financial ties with the firm, i.e. the manager(s) of the firm, shareholders, customers, suppliers and employees. At the other extreme we have society at large. Somewhere in the middle is where consensus lies.

The S-D logic of Marketing, as outlined above, provides a way of linking these two extremes. First, it emphasises the integrative nature of value creation, specifically the need for reciprocal relationships, and second, it privileges social responsibility as a consequence of these relationships. Extrapolating from the simple 'farmers and fishers' story to more complex economic scenarios, it is possible to emphasise the mutual dependence that is a corollary of co-creation within S-D logic. Although the farmers and fishers scenario is essentially dyadic it is possible to question how the exchange of competencies and the co-creation of value establishes the basis of mutual dependence necessary for the survival, sustainability and well-being of the entire village.

The usual view of marketing sees the 'marketing system' as embedded in 'the environment'. Figure 1 presents this view.

A more detailed view, shown in Figure 2, is taken from one of our discipline's leading textbooks (Kotler et al., 2010, p. 11). It shows more detail, but it is essentially the same in our sense.

Note the one-way flow (of 'goods', presumably) in Figure 2. There is no feedback in this system, and 'the environment' is an amorphous, unspecified (and presumably unimportant) entity. There are no arrows pointing into or coming out of the environment. Presumably this means that (a) nothing of any importance flows between the environment and the actors; and/or (b) there are no causal relationships of any importance between the environment and the

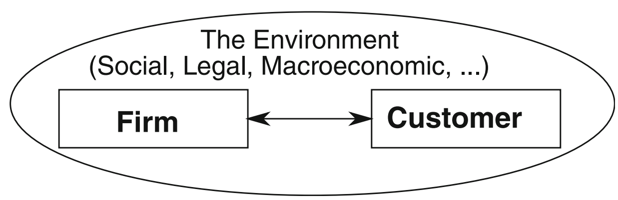


Figure 1. The traditional, dyadic, view of marketing.

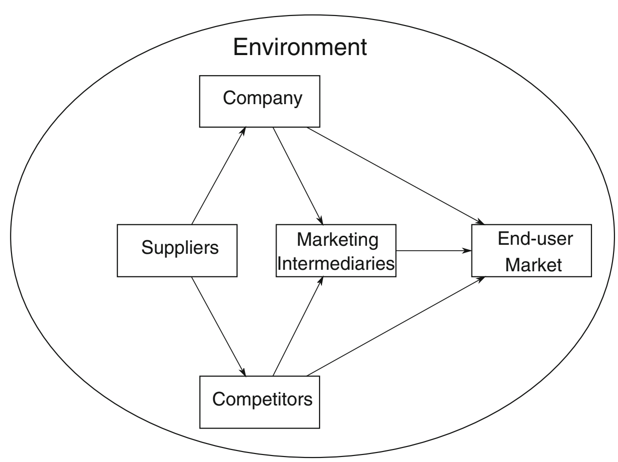


Figure 2. The traditional view of the marketing system.

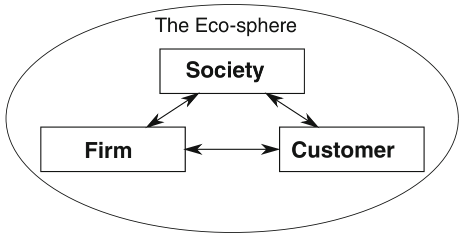


Figure 3. A socially integrated view of marketing.

actors. Since this is plainly false, a more useful view (in our opinion) is shown in Figure 3.

Another interesting, and telling, piece of evidence for our interpretation of the 'Kotlerian' view shown in Figure 2 is that the discussion of the SMC in that textbook is contained in the final chapter of the book, entitled 'Responsible Marketing', which, in turn, is contained in the final part of the book 'Extending Marketing Management'. *Extending?* What more evidence does one need for the compartmentalisation thesis?

Figure 3 may seem odd, especially since both firms and customers are subsets of society. Whilst this is true, the figure is intended to convey ideas of both causality and flow of resources. Specifically, what Figure 3 emphasises is that:

1. Both firms and customers are constituents of society: they both affect and are affected by society;
2. Customers' economic behaviour is largely influenced by society;
3. A firm's relationship with the society in which it operates is at least as important as its relationships with its customers;
4. Any marketing action, although perhaps directed only at customers, will be felt in wider society and this may provoke an unexpected reaction if the relationships above are not take into account in every decision.

These ideas are nothing new, of course. They can even be found in an earlier version of Kotler's textbook (Kotler, 1976, p. 18), where he first introduces the SMC:

> The *societal marketing concept* is a management orientation aimed at generating customer satisfaction and long-run consumer and public welfare as the key to satisfying organizational goals and responsibilities.

In this edition the SMC is in the first chapter 'Tasks and Philosophies of Marketing Management', directly following definitions and discussion of the production orientation, selling orientation and marketing orientation. The implication is that the SMC is the way of the future, soon to supplant the traditional marketing concept. Fast forward to 2006 and it's tacked on at the very end of the book, seemingly as an afterthought or optional 'extension' to core marketing theory. What happened in the intervening period?

With these ideas in mind, we return to the FPs of S-D logic. Can they encompass our concerns? Or do they have to be modified? In later writing (Vargo, 2008) Stephen Vargo emphasises that S-D logic is not inherently dyadic, and shows his view of both firm and customer networks (Gummeson, 2006; Normann and Ramírez, 1993) in a diagram. But the nodes of the networks in that diagram are unlabelled. We cannot tell if the customer's value-creating network (or the firm's) includes the broad societal concerns we have discussed above.

## Extending the S-D logic of marketing

### *The ethical content of S-D logic*

Other scholars have previously examined the ethical content of S-D logic. It has been stated (Abela and Murphy, 2007, pp. 44–45) that ethical considerations are implicit in S-D logic, but that they need to be made more explicit for marketing to have a firmer ethical foundation. Those authors say that 'We believe that many of the FPs of the S-D logic are inherently ethical; they appear to presume or incorporate within them ethical norms'. The basis for this statement is not clear to us though. They state:

> The S-D logic, by offering a stronger relationship focus, attempts to overcome the depersonalising effects of specialisation by recognising the human beings 'are at the center and are active participants in the exchange process' (Vargo and Lusch, 2004, p. 12). As such, the logic has an inherently ethical base, because the focus of major ethical systems is on how human beings ought to behave and relate to each other (Laczniak and Murphy, 2006). This centrality of human beings ensures integration of ethical and business

> issues at the core of the theory, thus avoiding compartmentalisation (p. 45).

This is attractive rhetoric, but it does not appear to be logically supportable if one considers the FPs to be the sole embodiment of S-D logic. The FPs are (within the assumptions of S-D logic) purely positive statements (as opposed to normative statements), i.e. they say how things are, not how they ought to be. Abela and Murphy are quite correct in saying that ethics is about how people ought to behave (i.e. normative statements), but it is curious to assert that because a set of statements is about people; therefore, they are ethical (normative) statements (solely by virtue of their being about people).

Even if it can be granted that the stakeholder orientation is a consequence of the FPs, as argued by Laczniak (2006, pp. 283–284), it still does not follow that the FPs are normative. Laczniak's reasoning is that because FP6 states (at the time he was writing) that the customer is always a co-producer, this 'vests the customer as a full partner in the oversight of marketing exchange' and then goes on to argue that all stakeholders (not just customers) should be included as co-producers and that society should be seen as a co-beneficiary of service interactions. This is clearly a logical leap: the very fact that the customer is *involved* cannot be seen to directly imply that the customer is a 'full partner' (whatever that means). Further he states that 'Additional theorizing that links the FPs of this paradigm to stakeholder thinking could prove to be one of the richest conceptual outcomes of S-D logic'. Hence, at the time he was writing, it was still not clear that the FPs had *explicit* ethical content: additional theorizing and argumentation had to be advanced in order to link the FPs to an ethical framework (i.e. the stakeholder orientation).

Hence, whilst we do agree that the assumptions behind the FPs do contain ethical precepts and may be argued to have ethical consequences (given certain auxiliary assumptions), the FPs as they are currently phrased do not. So, the necessary task is to modify, or add to, the FPs in order to make their implicit ethical imperatives explicit. We do not assert that S-D logic should be value-free (one is tempted to assert that it is not even possible for social science to be value-free). We do not think it is appropriate, however, for a general theory of markets and marketing to be built on a foundation that presupposes any particular moral or ethical code, but we see it as simply rational to accept that economic behaviour is at least partly determined by ethical beliefs given that, 'the major function of ethics is to promote the good of society and enhance the well-being of people' (Ip, 2010). It is this idea that we will explore next, at the risk of stating the obvious, or at least the self-evident.

### *Value and values*

The idea of value-in-use, which is central to S-D logic's co-creation of value FP, has a long intellectual history (Ramírez, 1999) and can be summarised briefly by the common-sense observations that (a) anything is only worth what someone is willing to pay; and (b) things in themselves have no value apart from the use we put them to. (We are employing the word 'use' in a very general sense here: to refer to the purpose for which the object or service was obtained. For example we include merely thinking about one's possession of an object – say a sports car or a rare painting – as 'using' it.)

By combining these two observations it seems plain that because things *in themselves* have no value, firms can only make offerings that they *hope* will be of value; and that in order for value to be 'created', that offer has to be taken up by someone who derives value from the use of that offering. Whether it is a haircut or a boat, the principle is exactly the same. Each party needs (depends on) the other in order to create value for themselves. So, co-creation is a term that implies (a) reciprocal value propositions; and (b) mutual dependence, or inter-dependence.

If the co-creation of value is essentially about mutual dependency and reciprocal exchange then we are immediately drawn to questions regarding the ethical dimensions of such behaviour and its social consequences. That this is so may not seem obvious. To see why it is so, consider the nature of economic exchange. We list what could be considered some 'fundamental premises' of economic logic (as opposed to marketing logic):

1. Economic activity is about exchange of valuable tangible and intangible objects; and,
2. People are motivated to engage in exchange because they expect that they will gain value

for themselves (in economic jargon, increase their overall utility).

This non-zero sum view of value (both actors gain) is only possible because two or more people may value the same object differently, i.e. the same object has a different value to different people. People value objects differently because people have different:

1. Needs (preferences); and,
2. Abilities to satisfy those needs (resources and competencies).

These differences arise partly because of circumstance, and partly out of choice. To the extent that they arise out of choice, the differential needs of economic actors are largely determined by their preferred goals; and their preferred ways of living. These are called, in the Consumer Behaviour literature, terminal and instrumental values (e.g. Beatty et al., 1985; Rokeach, 1973; Schwartz, 1992).

In summary, the value that people place on objects of exchange, and hence the value derived from exchange, is determined (at least partially) by their values. Shifting from an individual to a societal perspective, we differentiate between personal values and societal values. Societal values are nothing more than the values of the majority in any given society. Thus they are a democratic expression of individual preferences.

So how does this link to S-D logic? Exchange is only possible, as stated above, because it is possible for two actors to derive or place different value (utility) on the same object. This is a consequence of the fact that people have different values, or the same values to differing degrees. Given that in the modern world values relating to survival and a basic level of well-being are not usually in play in most exchange situations, it follows that the values which come into play are normally those that relate to various somewhat arbitrarily equally possible or desirable outcomes. In other words, they are a choice about what should happen, rather than what could happen. Insofar as the situation under analysis relates to what should be desirable and how people should act, we enter the territory of ethical judgements.

From these considerations it is clear that any paradigm or set of 'foundational' premises that aim to be a basis for thinking and acting about all marketing questions must include recognition of the importance of the ethical framework of the social system(s) in which economic action is embedded. A first attempt to state what such a premise might include is as follows:

> Because actors have differing values, the ethical beliefs of the actors may not be identical. In the case of differing ethical norms, and the lack of direction about which standards should take precedence in the case of difference or conflict, the best course of action that one can take is to avoid doing harm (wrong). This means ruling out courses of action which may be "right" to one party, but "wrong" to the other. The economic consequence of this position is that potentially profitable actions may have to be forgone.

The key sentiment is that consideration of ethics is not optional, and respecting the ethical norms of economic actors in the exchange system is required even though it may lead to a loss of profit in the short term.

At this juncture we note that (a) 'avoid doing harm'; and (b) 'ethics is not optional' are two of the three 'Ethical Norms' of the American Marketing Association's *Statement of Ethics*, and are common to most, if not all, major ethical codes. The third norm of the AMA statement, 'Foster trust in the Marketing system' is obviously specific to Marketing. We also reiterate that the aim of this article is to de-construct and modify the FPs such that they show that ethical concerns inhere in *every* economic transaction and relationship, rather than to modify them such that they imply any *specific* ethical code. We seek, in a sense, a 'lowest common denominator' of ethical behaviour in economic action, so that S-D logic is able to describe how Marketing works in *all* societies and cultures.

Before we attempt to express our first attempt in a form similar to the existing FPs, we observe that this 'foundational' premise leads directly to the notion of the relationship between marketing and civil society, i.e. corporate citizenship and CSR. However, the kind of CSR implied by this premise is not 'doing good' e.g. corporate philanthropy, rather it is avoiding 'doing wrong'. One company has, famously, adopted this as their corporate motto: 'Don't be evil' is the motto of Google. One might argue that there is a difference between doing wrong and being evil, but the main sense is clear.

To return to the main purpose of our analysis, a shorter version of our initial attempt to be consistent with existing FPs is:

*FP11*: Value co-creation is the result of differential desires of economic actors, which are in turn a result of the (a) differential access to resources and (b) differential values of actors.

Or, more concisely:

*FP11*: Value is determined by values

The extremely short form given above may need some additional justification. We can start by observing that S-D logic is a lens through which to view Marketing, and Marketing is about *discretionary* exchange behaviours. The 'value' in FP11 relates to the evaluation of discretionary market offerings, i.e. exchanges and relationships that are not entered into for the purpose of survival.

Now, in the case of discretionary exchange, consider the relative impact of access to resources on the one hand, and personal values on the other. The differential access to resources that actors face is a result of their previous decisions to gain access to those resources, which is in itself a result of the values of the actor. For example, some people are motivated to acquire money, whereas others place more value on personal relationships or social duty. In each case, underpinning their behaviours is a set of personal and social values. If the decisions to acquire those resources are not the result of values, then those motives must be non-discretionary and hence not in the domain of Marketing.

## Discussion

To summarise the argument it may be useful to consider Figure 4. From the previous analysis, it seems apparent that the fundamental questions for Marketing practitioners must revolve around '*What*

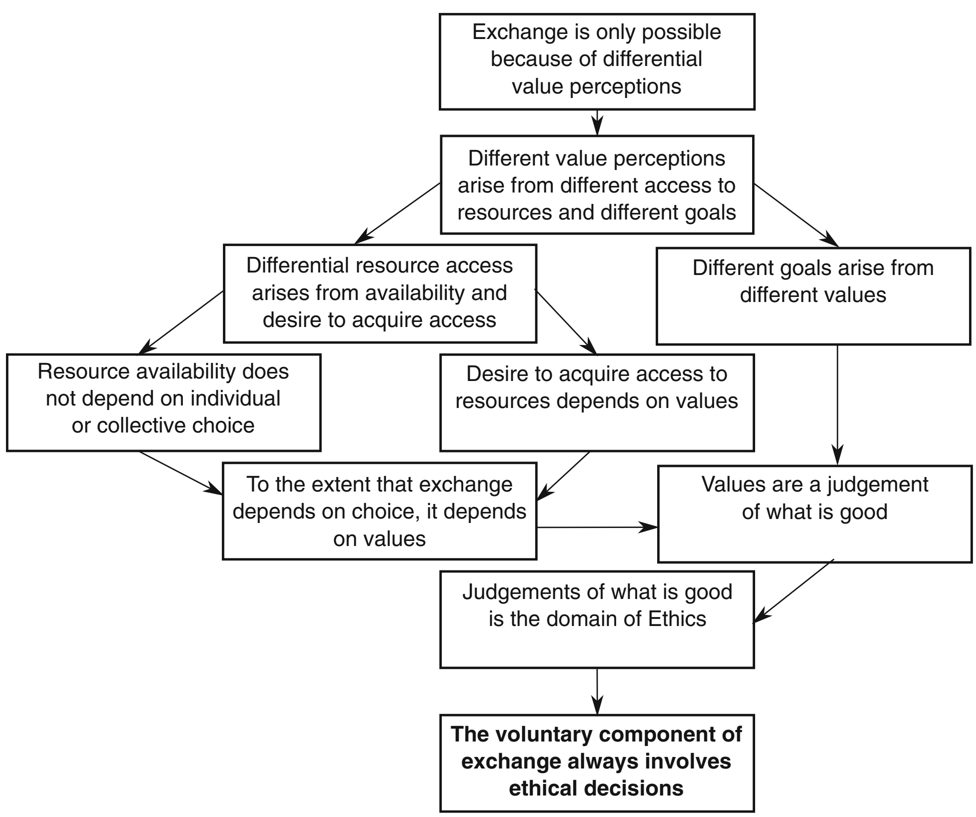


Figure 4. Summary of argument.

are the values of our customers?' and, '*How* can the values of our customers be taken into account?' For Marketing theorists the questions revolve around '*Why* do people have these values?' There is, of course, a vast literature on personal and social values. However, in what follows we restrict ourselves to the role of personal and social values from a meta-theoretical perspective: we want to explore ways in which this addition to the S-D logic can impact Marketing theory generation.

The immediate consequence of considering values in the business setting is that business actions must be considered as embedded in a value-laden societal context. Quite simply, for economic success to be sustainable in the long run, business decisions must be in accord with the value orientation(s) of the society or societies in which they are made. All of this is not new, of course. However, it is worth revisiting these issues through the S-D logic lens in light of two relatively recent developments: the rise of what is loosely called ethical consumerism, and the increasing ubiquity of (relatively) unmediated, uncontrolled peer-to-peer and broadcast communication.

What has been termed 'Word of Mouth' (C2C) in the past has taken on new significance in today's extensively connected world, where news and events are not filtered hegemonically by the traditional social institutions, and the issues are not framed entirely by the prerogatives of corporate PR departments or 'official' governmental or private agencies. Quite simply, people care about what happens in their social surroundings. And, for an increasing number of people, their social milieu is the entire planet. It used to be said that you can fool some of the people all of the time, all of the people some of the time, but not all of the people all of the time. But in the third millennium, with the Internet and millions of still and video cameras connected to cellular (mobile) networks, fooling all of the people even some of the time is increasing less likely. No matter what your PR department says, the 'truth' will be available on Twitter, Facebook, YouTube, CorporateWatch, or WikiLeaks before you know it. Further, recent changes to employment legislation, particularly 'whistle blowing' legislation enacted in various jurisdictions, provides the framework, if not the encouragement, to publicly disclose those practices that could be deemed to be anti-social and ethically suspect. The passions that lead people to search out and broadcast the truth (as they see it) typically have little to do with economic considerations. They are profoundly linked to core values and ethical viewpoints.

It is clear that values are key determinants of individual behaviour (Kamakura and Novak, 1992) and, therefore, will greatly influence the ways in which individuals conduct their business and judge the business conduct of others (Ip, 2010). The co-creation of value, the emphasis on relationships and the exchange of knowledge and competencies that are so important to S-D logic will require behaviours that can be measured against such underlying values and this is the ultimate test of the value propositions that firms make to their communities. A natural corollary of this position is that businesses should conduct themselves in accordance with the values that motivate their consumers (Durgee et al., 1996). S-D logic, with its emphasis on the reciprocal exchange of knowledge and competencies in the co-creation of value, is explicit in this regard. The service-centred nature of S-D logic emphasises that all business interactions are essentially customer orientated and relational (FP8). Given that mutual dependency and reciprocity underpin the S-D logic, and that value is derived through a process of co-creation, it seems to be a clear consequence that businesses must work together with their customers and stakeholders to foster relationships that are socially cohesive, sustainable and, ultimately, for the benefit of all. In privileging the co-creation of value and the reconciliation of values, in such a customer centric and relational context, S-D logic provides the exhortation for people to be treated fairly and equitably – an FP for the ethical conduct of business.

The stakeholders in marketing considerations are no longer limited to customers and shareholders (or even to those plus governmental agencies and employees). People who have never been, and never will be, your customers may be intensely interested in your actions, and willing to take counter action if they believe your actions to be unethical.

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