

## **Influence of context on service exchange**

### **1 Introduction**

We can claim that economies (macro-level) are based on exchange (micro-level). However, I believe that not enough is known why actors engage in exchange. Willingness to engage in exchange has earlier been explained based on the concepts of rational man [Muth 1961; Becker 1974], irrational man [Barrett 1962], and even marketing man (Bagozzi 1975). However, we do not have a clear picture why exchange takes place, and how the perception of context influences willingness to engage in exchange.

Motivation for the study derives from the need of research in marketing, and particularly in international marketing. The need to understand the influence of environment on actors has been long addressed (Bartels 1968). Unfortunately, under the prevailing paradigm of international marketing, this has not been a popular question. However, recently an increasing number of scholars have appeared yearning contextuality in international business<sup>1</sup> literature (e.g. Calhoun 2010).

The motivation of research stems from these research gaps highlighting the need for understanding the contextual influence on marketing. The question “why actors exchange” requires contextual research. Therefore the research question for my dissertation is. “How does the perception of context influence an actor’s willingness to exchange?”

By conducting research within the frame of systems/exchange paradigm (Bradley 1987), the focus can be shifted away from MNC to SME and wider service systems (Shenkar 2004, p. 165; Hennart 2009). Systems thinking can help to understand how contextual forces shape service value networks (Basole & Rouse 2008, p. 1), and the perception of value. Consequently, it is possible to get further understanding about value-creation environment of wider service systems (Kowalkowski 2011) explaining customer service value perception (Liu & Nie 2009).

### **2 Exchange and value**

I will start building up the theoretical framework by discussing various views on exchange and value. Since Aristotle, exchange has been considered as a mean to exchange goods and services, which can improve the status of an actor. Already Aristotle understood that exchange was driven by willingness to use wealth as a way to happiness and well-being. However, Aristotle struggled to understand exchange in terms of which I refer as Aristotelian paradoxes on exchange:

- the paradox of value-in-exchange and value-in-use
- the paradox of exchange of unequal values

In other words, Aristotle did not understand why people were willing to collect a lot of wealth instead of using it. Moreover, he could not understand why people were exchanging goods and services of unequal value so that the other participant was losing from engaging in exchange (in zero-sum game).

The ideas and paradoxes of Aristotle survived to the days of early economists via the Scholastics. Although Aristotle emphasized the use of wealth, Smith and Ricardo focused on value-in-exchange and real value based on labor theory of value. Smith and Ricardo’s economics was questioned by Walras, Jevons and Menger. Walras, Jevons and Menger considered that instead of value-in-exchange we should reconsider

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<sup>1</sup> International business and international marketing are here used interchangeably. The difference between the terms is indicated when considered necessary.

utility as value-in-use. Willingness to exchange was determined by marginal utility, and equilibria were developed based on utility. The focus on equilibria had its drawbacks. Particularly, as a result of Marshall's equilibrium theory, utility became again a feature of a thing exchanged. Value was not derived from the use of wealth but utility was considered to be embedded in a thing. This idea was also inherited by marketing scholars, and resulted in goods-dominant view of exchange and marketing. Although exchange is explained based on value, value is considered to be embedded in goods.

Beyond this goods-dominant view, we can find out that there are also alternative views on exchange and value. Particularly services marketing and relationship marketing scholars realized that the focus should shift from value-in-exchange to value-in-use.

The development of alternative logics eventually led to the "S-D logic" (Vargo & Lusch 2004) and to the introduction of the concept "value-in-context" (Vargo et al. 2008). Important ideas are stemming from classical economists like Galiani, Turgot, Bastiat and Ferrara, who understood the importance of subjective value determining the willingness to engage in exchange. Galiani, Turgot, Bastiat and Ferrara were ahead of marginal utilitarians, not only in time but in the extreme nature of their ideas. They focused not only on utility as value-in-use but also on its relation with value-in-exchange via cost of reproduction. In my dissertation, I show that it is important to understand the linkage between value-in-use and cost-of-reproduction, but it is not sufficient, because it does not explain why subjects evaluate resources differently.

Fortunately, Pareto got interested in Bastiat-Ferrara line of thinking in the beginning of the 20th century, and tried to explain why people have different notions of value. Although Pareto's sociology did not fully solve the problem, he had important influence on Talcott Parsons, who introduced social systems thinking.

The ideas on subjective value and systems thinking influenced Wroe Alderson, who has remained the key figure for alternative paradigms in marketing. He emphasized the importance of not only value-in-exchange but value-in-use. However, I claim that Alderson never fully connected his understanding on the subjective notions of value and his knowledge of social systems. Perhaps, this was just one of the losses from his untimely death.

As a tribute to Alderson's memory, within the paradigm of S-D logic marketing scholars are slowly starting to connect the dots between subjective value and systems thinking. Importantly, the concept of value-in-context has been introduced in order to highlight that determination of value is always contextual. The S-D logic oriented authors treat actors as resource integrators in service systems. This view is interestingly bringing back the dynamic systems thinking in marketing. Value-in-context is defined as the improvement of a system's viability in its environment. Value-in-use and value-in-exchange can be thus considered as evaluations of the value-in-context. Although value is determined (i.e. evaluated) individually, it is influenced by the social environment. Therefore, I need to take a closer look at systems thinking, and perception of environment.

Thus, in the first part of theoretical framework I show how Aristotelian paradoxes have been approached in the literature, and how the concept of value has evolved during different eras of marketing literature (Lusch & Webster forthcoming). The most recent shift to value-in-context realizes that value is improvement of system's viability in the environment. Thus, it can be understood that exchange occurs when received service is expected to be more valuable than offered service.

However, this does not explain why another actor would be willing to engage in exchange. This can be explained by understanding the contextual differences between actors. In other words, both actors expect to increase their viability in their respective environments as a result of service exchange, which leads to co-creation of value for both participants of service exchange. Co-creation of value takes place in the context of service systems, which are embedded in actors' social systems (Edvardsson et al. 2011). Therefore, we need to have further understanding how the context of service systems, and social systems influence actor's expectations.

### **3 Systems thinking**

As explained in chapter 2, the evolution of systems thinking seems to have had important influence on the conceptual evolution of value-in-context. Alderson and other marketing scholars got interested in Parsons' systems thinking in the 1960's and developed concept of marketing system. However, the systems thinking has not been popular approach among scholars in mainstream marketing.

Recently, the importance of systems thinking has been acknowledged in the S-D logic literature. Particularly, the introduction of service ecosystems has highlighted the feature of service systems as complex adaptive systems, embedded in social systems.

As aforementioned, service systems are embedded in actor's social systems. Therefore, we are encouraged to build a model of service system, which takes into account actor's social system. Previously, service systems and service ecosystems have been defined as a configuration of people, technology and other resources, which interact with other service systems [Maglio & Spohrer 2008]. Some scholars, like Stanicek and Winkler [2010] have also included environment as a part of service system. This view is interesting, and conceptualized by Edvardsson et al. (2011) which emphasizes that service system is embedded in the social system (service system's environment).

I build a model on service system, which consists of service (namely resource integration for the benefit of self or for the benefit of another). In other words, the basis for service system is the intent of integrating resources. Intentional action refers to consciousness so the actor needs to be considered as a psychic system, namely human agent who has capability of integrating resources (Luhmann 1995). This capability of integrating resources refers to agency (Giddens 1984).

However, when resources are integrated for the benefit of another or when other actor's resources are integrated, these events introduce social systems as the environment of psychic system. Agency is both enabled and constrained by structure, which are rules and resources instantiated in social systems (Giddens 1984). In other words, service system is influenced by the interplay between agency and structure. Actor's social system influences the context of value co-creation by defining the rules and resources for resource integration.

It is important to note here that social systems are considered neither as actors nor as actants. Only psychic systems are considered to be able to observe and define the system via consciousness, and therefore I am focusing solely on human agents as actors in service exchange. Psychic systems acknowledge the importance of social systems, but social systems belong to the environment of psychic systems, they are not psychic systems.

Human beings and social systems intersect in individual elements, namely actions. Actions are simultaneously the actions of human beings and the possible building blocks for social systems. Without

the actions of human beings there could be no social systems, and conversely human beings can acquire the capacity to act only in social systems. (Luhmann 1995, p. 215.)

#### **4 Contextual sense-making**

From chapter 3, it seems like it would be an easy task for a human agent to obtain information about its environment, and act accordingly. This would suggest choosing the best alternative means to achieve given ends. However, due to cognitive limitations we cannot have perfect knowledge of the environment, and of the available alternatives. Moreover, environment is dynamic and complex, and therefore the problems become ill-defined. In other words, we cannot calculate between means and ends and optimize our well-being. Instead of optimizing we make sense of our context.

Although human agents are not considered as optimizers, they are still considered to act rationally. All actions (including service) are intentional, although they may have unintentional consequences. It needs to be highlighted that service exchange is considered to be based on expectations, which refer to intentionality. Previous unintentional consequences feed back as experiences and memories (Giddens 1984). However, unintentional consequences cannot be considered as part of the expectations, otherwise they would be part of the intention.

Human agents analyze their role in the environment with the help of structures, which are based on their earlier experiences. Based on these structures, psychic systems can make sense of the complex environment, and meanings arise. Importantly, their context is influenced by earlier experiences but also expectations for the future.

By making sense of the environment, our knowledge and environment become constructed. Our shared knowledge of customs and habits guide our behavior. Consequently, these structures can limit our perception of the environment. Thus, structures not only enable us to interpret the environment, they also constrain what we see. These constraints are discussed in literature as framing effects, biases, loss aversion, status quo –preferences et cetera.

An important question related to customs and habits is whether we need to think before we act [Thorngate 1976]. It is considered that due to cost of thinking, it makes sense to act habitually in most social encounters (Weick 1979). We assess the situation, and act accordingly. Instead of optimizing the outcome in the means-ends –calculation, we optimize our decision making process. Thus, I believe that even habits as a form of action can be seen as a part of intentional activities. The idea nevertheless suggests that the cost of thinking of alternatives should be included in the effort of service exchange.

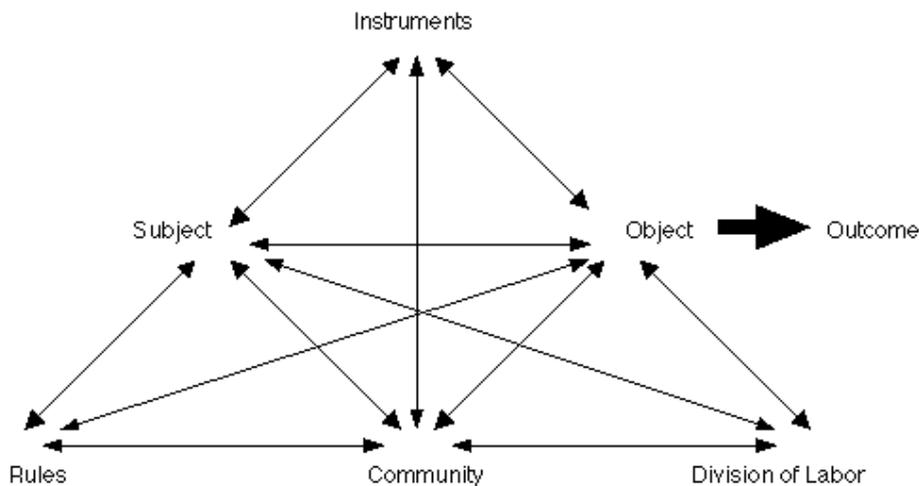
As a result of these cognitive limitations, we are not optimizing objectively but aiming towards subjective optimization. The decision-making of human agents is thus built on heuristics as the basis for ecological rationality.

#### **4 Service systems as activity systems**

This dissertation aims at understanding how the perception of context influences willingness to exchange service for service. Context for value co-creation is service system embedded in actor's social system. I use

activity theory as a model through which service systems are studied. The connection between service systems thinking and activity theory seems natural, as activity theory perceives activity system as the context (Nardi 1996, p. 38). Perceiving service systems as activity systems guides us to study the community and the mediating forces of tools, rules and division of labor in the expected value-creation processes. Thus, it is possible to incorporate the social environment of the actor in the model of service system.

Figure 1 Activity system (Engeström 1987)



By acknowledging the role of social environment in the service system, it is required to take a shift from co-production network to a wider value co-creation system. With the help of activity system it can be understood how service (“object”) is a result of resource (“instruments”) integration. However, resources are mediated by social environment (“community”). In addition, rules define what kind of behavior is accepted in the social environment. All this determines the roles (“division of labor”) taken by actors within value co-creating service system.

## 5 Synthesis of theoretical framework

In the theoretical framework of my dissertation, I am combining three different perspectives: “value-in-context as determinant of exchange”, “exchange as a combination of service systems intended by actors embedded in social systems”, and “contextual sense-making of an actor”. I combine the three perspectives in one activity system, which takes into account the relationship between service, actor and environment.

I consider value as individually and phenomenologically determined by individual actor in his/her context. The evaluation is based on contextual sense-making, as the system is self-observing, and the system’s self-reference is based on system/environment difference. Knowledgeable human agents have expectations of the effort required to reproduce the resources required for service provision, and expectations of the benefits derived from service received from the exchange. Together these expectations lead to evaluation of value-in-context for the actor, as the actor predicts whether exchange improves its viability in the environment or not. The expectation is mediated by both agency and structure, which together define the rules and resources available for action (service exchange and expected value co-creation). These expectations together define the intention of service exchange.

## 6 Methodology

The ontological basis for dissertation is social constructivism. It is considered that service systems and social systems do not exist in objective reality but they are socially constructed models. In order to understand socially constructed reality, I need to use methods which can capture the rich picture of the context.

In order to analyze social context ("community") of service system, I use ethnographical research methods, such as observation, interviews, field diaries et cetera. Ethnography can be used in order to understand actors and their perception of context. In addition to ethnography, my dissertation combines interpretive phenomenology as a methodological approach. The combination of the two approaches is supposed to be possible to explain the contextual influence on the phenomenon of activity system.

By perceiving service as activity, I can study the service system as the context. However, the evaluation of anticipated value is based on the expected service systems. The viability is expected to be increased by exchanging service for service. This means that two service systems are constructed (one for the benefit of ego, and another for the benefit of alter). Therefore, I need to take into account envisioned activity systems for both anticipated value-in-use and anticipated cost-of-reproduction. The meaning of action is evaluated by an actor (as a reflexive system), not by the researcher.

I will study the case of "Tuukka" - a Finnish man, who took a bank loan of 10.000 euros in order to buy soy-based sausages from Germany. He is used as a focal case in order to find empirical evidence, how the perception of context influences the anticipation of value-in-use and cost-of-reproduction.

Most importantly, I will study other human agents, which engage in exchange process with Tuukka. I will describe how their perception of context differ from each other, and explain how this information can be used to explain that engagement in exchange makes sense for all parties of service exchange.

This is a single case research, if wider service system (combination of activity systems) is considered as a single case. If actors (psychic systems) are considered as separate units of analysis, this can be regarded as a multiple case research. In other words, when considered that exchange occurs between two or more psychic systems, it is understood that I have multiple cases under one study.

I focus on the perceived context at the time of exchange. In order to do that, I need to make sense of the past experiences which are interpreted as relevant for expectations. I also need to take a look at the perception of future, as it defines the anticipations for value-in-use and cost-of-reproduction. As service exchange is a process rather than separate event, I need to focus on the time factor. I hope solving this dilemma by focusing on the event when value proposition is made (ego->alter) and counter-proposal is accepted (alter->ego), as the basis for the expected contexts.

## 7 Expected research findings and 8 Conclusions

My thesis is that actors aim at increasing their viability in the environment by making sense of the context, and by exchanging service for service, when they consider that the expected value-in-use is greater than the expected cost-of-reproduction. I provide empirical data to show how willingness to exchange results from contextual differences.

Value-in-context is the increased viability of an actor in the environment. Actor is considered to base its decisions by the interplay between agency and structure. Viability of a system is evaluated on the basis of anticipated gain (value-in-use) and loss (cost-of-reproduction) from exchange. Both service systems are studied as activity systems, in order to highlight that these two service systems, which need to be evaluated, are two different contexts.

As a theoretical contribution, I will show how we can use the model of activity system to study the contextual influence on actor's willingness to engage in exchange process. This opens up interesting avenues for marketing and international marketing management. By focusing on the actor's contextual sense-making, we can better understand how the willingness to engage in exchange can be encouraged by tuning the perception of context. As context is not only influencing us, but we constantly recreate it, this has various implications worth considering. Instead of solely anticipated value-in-use, also anticipated value-in-exchange and anticipated cost of reproduction can also be influenced by changes in the context.

I do not believe that the contribution of research findings is limited only in the international marketing literature. The developed ideas can potentially have far-reaching implications on marketing and other business studies. First, it is noted in the dissertation that every exchange process is by definition inter-contextual. Second, new ideas are provided on how to study the perception of value by focusing on value-in-use, (value-in-exchange) and cost of reproduction. Third, the dissertation gives an example how we can study the influence of perceived context on these issues.