Ethical Foundations for a Networked, Service Economy

Abstract

Purpose – The purpose of this paper is to further explore the ethical foundation of the interface of S-D logic, service marketing and network theory.

Methodology/approach –The approach taken by this paper is to examine several ethical and societal implications of the S-D logic and the network economy.

Findings – This paper explores three major themes linking the pillars of the conference to ethical precepts. First, the relational nature of S-D logic and the fact that networks rely on mutual trust, transparency and commitment established over time speak to the inherent moral foundation of these relationships. A second theme recognized across the pillars is the notion of value which goes beyond short term financial value. A third theme has to do with the emphasis on stakeholders relative to stockholders. In a current working paper, Lusch and Webster (2010) argue that marketing is now in a third era where it is not simply a separate business function but a general management responsibility in a broad networked enterprise where firms co-create value and utilize the network to 'serve all stakeholders'.

Research implications –Research propositions are developed from the thematic areas.

Practical implications – Managerial implications are drawn focusing on ethical precepts.

Social implications—This paper addressees the broader societal and ethical implications of the new network economy that is partially drawn from the S-D logic.

Originality/value – The ethical and societal aspects of the three pillars need further development. This paper builds on the emerging literature in this area.

Key words (max 5)—ethics, S-D logic, networks, stakeholders, relationships

Paper type – Conceptual paper

1. Introduction

The service-dominant logic (Vargo and Lusch, 2004) has had a major impact on how marketing is viewed and practiced in recent years. The topic has received substantial attention in the academic press. One of the major contributions of this approach is that S-D logic puts the customer on the same level as the firm and contributes to a more humane type of marketing (Williams and Aitken, 2011). However, the emphasis on most of the academic work on S-D logic has focused on the strategic, managerial and operational aspects of it.

If the notion of a more humane or ethical nature characterizes S-D logic, research must be directed toward the societal, ethical and normative aspects of this construct. Among the hallmarks of ethical marketing that have been identified earlier are that it should be fair and just (Crane and Desmond, 2002).

Two major articles have been devoted to examining the ethical underpinnings of the S-D logic. Abela and Murphy (2008) indicated that while the S-D logic does not have explicit ethical content, several of the foundational premises do have implicit ethical content. They elaborate on seven ‘tensions’ within current marketing theory, discuss ethical issues associated with each one, and how the shift to the S-D logic reduces these tensions. One of their major concerns was that marketing tends to compartmentalize ethical issues and this development leads to a separation of strategic and societal concerns. They state: “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).

A second recent article focuses directly on S-D logic and marketing ethics. Williams and Aitken (2011) examine whether the current conceptualization of S-D logic needs to be modified to more explicitly integrate the ethical dimension of marketing activities. They recognize the central role that stakeholders play in this process and that this leads to a social contract between business and society (Donaldson and Dunfee, 1999). The fact that the interchange is a two way process between the firm (representing business) and customers (representing society) is highlighted. These authors propose a new foundational premise: FP 11: “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” (p. 13). The authors put it more succinctly by stating: Value is determined by values. They present a model of the process they propose for making more ethical decisions following the S-D logic. The final comment about this model is: “The voluntary component of exchange always involves ethical decisions” (p. 13). The authors explain this point by indicating that the consequence of considering values in decision making is that company actions must be embedded in a value-laden societal context.

The balance of this paper discusses three topics that relate to the intersection of S-D logic and ethical marketing. They are: the relational nature of this logic, the importance of both value and values to marketing and the importance of stakeholder analysis to the S-D logic and the networked economy.

2. Relational Nature of S-D Logic

The inherent relational foundation of this logic is well substantiated and is included as one of Vargo and Lusch’s (2004) foundational premises. This writer and colleagues (Murphy et al., 2007) argued that relationship marketing is at its core ethical marketing. Figure 1 depicts the stages of relationship marketing identified by these authors—establishing, sustaining and reinforcing the relationship with consumers. These strategic steps are paired with the ethical concepts of trust, commitment and diligence. The figure is different from the one in the original paper in that the arrows connecting the stages now go in both directions. This represents a change that incorporates S-D logic thinking into the process as it is now a two way flow as opposed to the original conception where marketers do things "to" consumers as opposed to "with" them.

The importance of trust to relational exchanges cannot be over-emphasized. Without trust, a relationship will not take root. Trust is one of the most researched concepts in marketing (for a summary, see Murphy et al., 2007, pp. 44-46). The type of trust that characterizes relational exchanges is called authentic or genuine. It can be distinguished from blind trust on one end of a continuum to calculative trust on the other. In fact, trust is a virtue/value that follows the "ethic of the mean" about which Aristotle described as the mean between two extremes (Murphy et al., 2005). Other aspects of this trust are that it results from dialogue or "conversations about trust" and it is "ultimately about relationships , and what it takes to create, maintain and restore them" (Solomon and Flores, 2001, p. 32). (Note that their description is almost identical to the relationship marketing stages identified in Figure 1.)

This notion of trust has been identified in recent discussions of the networked economy where co-creation is a hallmark. Johanson and Valne (2010) conclude that strategy-making is a continuous process in this economy and is about changing and developing relationships to parties in the network. They define it as follows: "the process is one of interaction, which is supported by mutual trust and commitment established over time" (p. 6). Many companies have adopted trust driven relationships with their stakeholders (various stakeholders will be discussed later in the paper). Two specific illustrations are examined here. La Poste Retail, a division of the French Postal Service with 17,000 branches throughout the country, held a series of "co-creation workshops" with employees and other stakeholders to improve customer service. The complexity of the process and the multi-pronged importance of trust were identified by one manager who said:

> Evidently, the key is to re-create trust between teller employees and managers. We must leverage what's positive and energizing for them, namely the relationship with the customers. It is upon this relation that we must build the team in each post office (Ramaswamy and Gouillart, 2010, p. 153).

The second example is an innovative program introduced by Nike in 2006. The company launched Nike+ (called Nike plus), an innovative partnership with Apple to engage more deeply with runners and the running community at large. The program allowed runners using an iPod to upload data from a run, analyze it and share it with other runners. This example of a co-creative engagement platform allows Nike to accomplish several goals. One was identified as to: "build deeper relationships and trust with the community" (Ramaswamy and Gouillart, 2010, p. 12).

The second stage in Figure 1 shows that ethical relationships require commitment. The fact that trust is necessary for making commitments is noted in the literature (Solomon and Flores, 2001). Morgan and Hunt (1994) defined relationship commitment as "an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes that the relationship is worth working on to insure that it endured indefinitely." The only caveat to this statement is that following the S-D logic, both parties would be committed to the relationship. Commitment in relationship marketing also implies both making and keeping promises (Bitner, 1995; Gronroos, 1994). Promise keeping in relationships is about commitment, even when it might not be advantageous for one or both parties to do so (Murphy et al., 2007).

A good illustration of a company that has been committed to its users and other stakeholders is Lego, the famous Danish plastic brick maker. In fact, the brand name in Danish means "play well." Two recent programs illustrate this commitment. Lego Factory allows customers to design and build any model they can imaging using a special software. Within this factory, the company has created an online community that engages more than 400 million people though message boards and a website called my Lego Network. Although children and their parents represent the core customers, a large group of adult 'superusers' participate in product idea generation and sometimes even inventions of new products (Ramaswamy and Gouillart 2010).

Diligence is the third step in Figure 1—earnest effort, persevering application and steady attention. Although some describe this as just effort (Hosmer, 1994), what is envisioned here is a higher level of ongoing concern expressed by both parties and/or multiple stakeholders. The parallel in marketing strategy would be implementation. Diligence is what happens after the relationship is formed. Whether it is friendship, marriage or business, diligence is what sets apart those unions that are long lasting.

Figure 1 includes five important virtues that facilitate ethical relationship marketing. The first is integrity which is defined as coherence, honesty, moral courage, self-awareness or completeness. A high level of forthrightness is associated with firms and individuals who demonstrate the trait of integrity. Founier et al. (1998) describe why integrity is so essential to the relational process: "Let's put our relationship motives on the table: no fluff, no faked sincerity, no obtuse language, no promises we don't keep—just honesty about commercial intent. We want consumers' money—let's tell them that and let's tell them why the deal is a good one" (p.49). Fairness is a second critical virtue. If partners in a relationship are unfair with one another, there is little chance it will continue. This fairness also should extend to stakeholders who are more contractually than relationally oriented. It should be noted that just as there are unfair marketers, unfair consumers (Berry and Seiders 2008) also can undermine the relationship. Respect is another essential virtue shown in Figure 1. It appears to be increasingly important in our multicultural world. In international venues, this is often a complicated task, yet valuing others for what they believe is critical for nurturing any relationship. Sometimes, parties may 'respectfully' disagree with one another, but mutual respect is a prerequisite for lasting interactions. Empathy has a number of meanings—the Golden Rule, ethic of care or others orientation. This involves trying to put oneself in the place of another and is often difficult to do. Empathy, however, should not be equated with sympathy; both sides of the exchange can be empathetic while still driving a hard bargain.

Surrounding these facilitating virtues is transparency. This writer was on sabbatical in Europe in the early 1990s and found that the term transparency was used frequently. When returning to the states, the descriptor did not catch on in the business sector until after the Enron and associated scandals occurred. Now, transparency is a frequently used word and hopefully practiced more sincerely throughout the globe. Several years ago, Starbucks launched a website (MyStarbucksIdea.com) where the company invited customers to help shape the future of

Starbucks with their ideas. This opened a dialogue with customers, the firm then culled down the ideas, customers then voted on those remaining and Starbucks reported back which ideas went forward in the company. The executive who oversaw this effort explained: "There are advantages to having that kind of transparency because it creates more engagement, and we get to actually iterate on our solutions while building them" (Ramaswamy and Gouillart 2010, p. 23). Transparency with employee stakeholders is also important. Hindustan Computers Limited developed an employee related program where communication with the CEO was facilitated in a website and the results engendered trust, transparency, and management accountability. The CEO noted that the program helped create a culture of transparency (Ramaswamy and Gouillart 2010).

3. Value and Values

Before Vargo and Lusch (2004) proposed that value, not profitability, defined by the marketer and other stakeholders was a key component of the S-D logic, Ramirez (1999) concluded that value in use had a strong intellectual foundation. The co-creation of value, central to Vargo and Lusch's S-D logic, is mutual dependency and reciprocal exchange. Because this dependence on one another requires human commitment, questions regarding the ethical dimensions of such parties treat one another are unavoidable.

The fact that economic value is intertwined with societal and ethical values has been proposed by the two articles discussed in the introduction to this paper. Abela and Murphy (2008) outline three critical performance measures that advance the S-D logic in marketing. The first is valuing intangibles such as brand reputation and the fact that unethical behavior undermines relationships and long term firm value. The second is multiple success metrics because value cannot be reduced to a single indicator. Metrics such as the balanced scorecard, triple bottom line and the Global Reporting Initiative are all efforts to meet this criterion. The third proposal was a more traditional one of cash flow volatility and risk. The point here is that focus on services more than just goods can reduce such volatility.

The Williams and Aitken (2010) article examines the value-values interface in a similar way. They state that ethical considerations are 'not optional' and that adhering ethical norms may mean lower profits in the short term. The American Marketing Association *Statement of Ethics* and the ethical norms associated with it mean that ethical concerns are relevant to every economic transaction and relationship. Hence, they propose the FP 11 which was discussed above. This incorporates both value and values into any discussion of S-D logic. If values, then, are a key driver of this new approach to marketing, marketers and customers need to be on the same page regarding the importance of ethical conduct in their behavior. The authors concluded their article with a summary observation on this area:

> 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 (Williams and Aitken 2011, p. 14).

This values-value intersection is not exclusively part of just an academic debate. A number of executives, most notably, Paul Polman, CEO of Unilever have been a strong proponent of a values-oriented position. He has spoken on a number of occasions about the relationship between share value and shared values. His management style is one that is grounded in the philosophy that successful businesses focus greater attention to shared values. This emphasis will pay dividends ultimately in share value, but his belief is that a short term and exclusive focus on the financial bottom line will undermine the shared values of the firm. For this reason and others, Unilever no longer reports quarterly earnings to the financial community.

4. Stakeholder Importance to S-D Logic and a Networked Economy

Although stakeholder analysis and engagement have been part of the managerial and ethical examinations of firms for some time (Freeman, 1984; Donaldson and Preston, 1995; Freeman et al., 2010), discussion of stakeholders within marketing has been a relatively recent phenomenon. The dominance of the customer stakeholder has long been a sacrosanct position of the marketing community, both academic and practitioner. This historical approach has been tempered in recent years with a greater focus on the multiple stakeholders that impact marketing decision makers and consumers (Ferrell and Ferrell, 2008). (An attempt to rectify the lack of an emphasis on stakeholder marketing was a special issue of the *Journal of Public Policy & Marketing* devoted to this topic in the Spring 2010 issue that featured eleven articles.)

In the first explicit discussion of the societal and ethical dimensions of the S-D logic, Laczniak (2006) indicated that: “My reading of the S-D logic framework finds nothing in the V&L conception that is opposed to the stakeholder orientation” (p. 284). This early recognition that stakeholders should be part of the discussion of this emerging logic helped set the stage for more in-depth analyses which have followed.

The most extensive analysis of the stakeholder perspective to date examines the ‘value proposition concept’ as it relates to this broadened view of to whom companies and marketers are accountable (Frow and Payne forthcoming). They propose a six market domains stakeholder model which serves as a foundation for a marketing systems (i.e., network) approach that is consonant with the S-D logic. A several stage planning framework is advanced that couples the stakeholder concept with value co-creation for the purpose of aligning value propositions (Frow and Payne forthcoming). The first step is to identify stakeholders within the network which is contingent on the firm’s position within the network. Next, core values need to be determined. This step ties in with the second section of this paper where increasing both tangible and intangible value, not profits, is emphasized. Third, dialogue should be facilitated and knowledge sharing among stakeholders is enhanced using a S-D perspective. The fourth stage highlights identifying value co-creation opportunities through a more active role for consumers and other stakeholders in the process. This co-creation approach engages “not only the firm and its customers, but also the entire network of suppliers, partners and employees in a continuous development of new experiences with individuals” (Ramaswamy and Gouillart 2010, p. 5). Finally, the culmination of this process should be co-creating stakeholder value propositions meaning that deeper stakeholder relationships should emerge and these propositions can be developed for non-consumer stakeholders.

In what can be considered the latest in the evolution of the stakeholder-oriented approach in marketing, Lusch and Webster (2010) advocate a stakeholder-unifying, co-creation philosophy in marketing. They trace the development of marketing through three eras with the first one called the utility creating and value adding stage where marketers were supplying standardized products to customers early in the 20th century. The second era is a customer-oriented and value producing one that follows the traditional marketing concept, but with strong financial underpinnings. The current era as noted above is a broader conception of marketing and is firmly grounded in the S-D logic. The crux of this era is as follows: "The key concepts in the value co-creation concept of strategy and organization are *core competencies and dynamic capabilities* used to *co-create value and the relationships with all stakeholders that help to accomplish this* (emphasis in original, Lusch and Webster, 2010, p. 11). Other distinguishing characteristics of this era are the institutions they identify: human rights and ecological norms instead of private property, markets and marketing that were identified with earlier eras. This recognizes that the third era is decidedly stakeholder, macro and societal in scope.

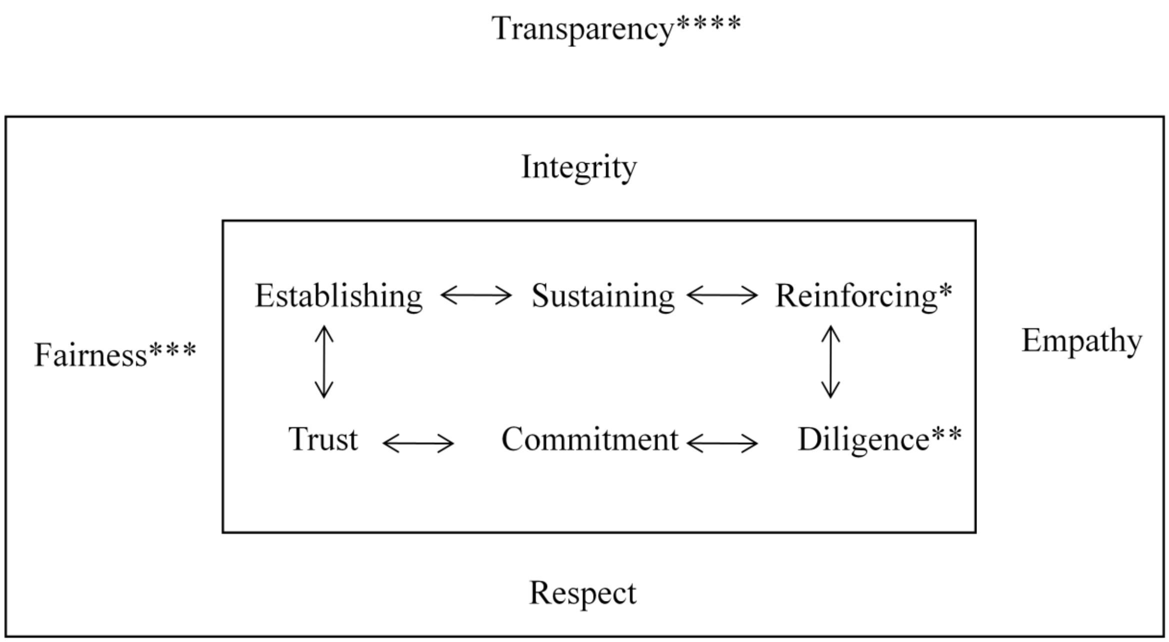
These recent articles point toward a more normative approach to stakeholder analysis and engagement than has traditionally been the case. The prior work in marketing (especially the articles in the *JPP&M* special issue) treats stakeholders as groups to be managed or marketed to as opposed to be involved in a jointly-created interactive process. The historic hub and spoke stakeholder analysis has given way to a network-oriented conception that focuses on individual, organizational and societal needs (e.g., human rights and ecological norms). An illustration of this new stakeholder mindset is the fair trade movement in France that has evolved into relationships that are that require network solutions with input from many stakeholders (Ozcar-Toulouse et al. 2010). As was presented in the second section, the values emphasis is fundamentally a stakeholder, rather than a stockholder, focus which should drive organizations moving forward.

5. Conclusion and Implications

This paper focused on three central thrusts that ground S-D logic and the network economy in an ethical and values-oriented context. The first area highlighted the relational nature of S-D logic by examining the framework shown in Figure 1. The second section of the paper argued for an emphasis on both value and values as a mechanism to capture both intangible and societal impacts of marketing activities. The third section was devoted to stakeholder and how the latest thinking regarding the new logic moves beyond the customer-marketer one to a firm grounding in the importance of multiple stakeholders.

Several implications can be drawn for marketers and scholars interesting in applying and extending the ideas proposed in this paper. The relational nature of the S-D logic could be studied in the context of the seven basic perspectives for ethical and socially responsible marketing that were proposed by Laczniak and Murphy (2006). The values and value questions require a more sophisticated analysis of some of the intangible impacts that companies have on their stakeholders. The issue of human rights as proposed in the third era by Lusch and Webster (2010) could be studied in a supply chain context to measure both financial and societal impacts of multinational marketers. One recent promising line of research in applying S-D logic to the dealing with the poor has been proposed (Laczniak and Santos 2011). The challenge of balancing the various stakeholder demands on companies is one that is often discussed but not quantified. Researchers need to gain a better understanding of what these conflicting demands mean to marketing decisions. Although a number of corporate examples were discussed in the paper, they came from only a few sources. Best practices and leading firms who have adopted both S-D logic thinking and envision themselves as part of the networked economy would advance both the study of and practice of marketing in the future.

Figure 1
Ethical Bases of Relationship Marketing



*	Relationship Marketing Stages
**	Key (Foundational) Virtues
***	Facilitating (Supporting) Virtues
****	In Communication and Action

Source: Adapted from Murphy et. al. (2007), p. 44

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