The Search for a Dominant Logic: A Macromarketing Perspective
Roger A. Layton
DOI: 10.1177/0276146708320451

The online version of this article can be found at:
http://jmk.sagepub.com/content/28/3/215

Published by:
SAGE
http://www.sagepublications.com

On behalf of:
Macromarketing Society

Additional services and information for Journal of Macromarketing can be found at:

Email Alerts: http://jmk.sagepub.com/cgi/alerts
Subscriptions: http://jmk.sagepub.com/subscriptions
Reprints: http://www.sagepub.com/journalsReprints.nav
Permissions: http://www.sagepub.com/journalsPermissions.nav
Citations: http://jmk.sagepub.com/content/28/3/215.refs.html

>> Version of Record - Jul 31, 2008
What is This?
This paper suggests an extension to the Vargo and Lusch (2004) proposal where the fundamental unit of analysis is not the exchange itself but a marketing system within which the service dominant exchange is embedded. The relevant marketing system could range from a micro-system in which the reciprocal creation of value through a single transaction between a buyer and seller is considered, to purposeful, structured, or emergent systems (such as supply chains, business ecosystems, or shopping malls), to the aggregate marketing system. Five criteria are suggested that should be met by any proposed dominant logic or world view. The system-embedded service-dominant (SESD) logic meets all five criteria and may reverse the growing fragmentation occurring in both micro- and macromarketing. It redefines the relationship between micro- and macromarketing and in focusing attention on a meso level of analysis it opens up new horizons for research. In a multidisciplinary setting it highlights what is intrinsic to marketing—exchange within a marketing systems framework.

Keywords: service-dominant logic; marketing systems; world view; macromarketing

The Fragmentation of Marketing—Macro and Micro!

In the Silver Anniversary issue of the Journal of Macromarketing a number of scholars expressed concern at the growing fragmentation of macromarketing and highlighted the need to find a focal point or set of integrating concepts that might serve to draw the field together and in doing so help to identify the future for the discipline. Wilkie and Moore (2003, 140), reviewing research in marketing and society, concluded that the area was fragmented, with at least six identifiable subgroups, including public policy and marketing, macromarketing, consumer economics, social marketing, marketing ethics, and international consumer policy. Within macromarketing a number of areas were competing for attention, including competition and markets, marketing and development, marketing ethics and distributive justice, global policy and environment, quality of life, and marketing history. Peterson (2006) highlighted diversity as a historic strength for the discipline, but went on to note that “an eclectic approach without a unifying focus is now hindering the progress of macromarketing” (p. 246). Commenting on the marginalization of macromarketing within the wider discipline of marketing, Nason (2006) observed that it suffered “from a focus on the parts rather than the whole” (p. 220) and argued that the problems facing the discipline could be “linked to a failure of vision with the resultant loss of direction for macromarketing scholarship” (p. 220).

Similar concerns have been expressed by scholars commenting on the nature and standing of the wider field of marketing. For many years the integrating theme of marketing as a business activity concerned with creating, communicating, and delivering value to customers has underpinned rapid growth in the field, but is now seen to be leading to a growing fragmentation and a lack of overall focus in both research and in everyday practice. These trends can be seen in the growth of specialized subfields such as relationship marketing, quality management, service marketing, supply and value chain management, and the management of innovation (noted by Vargo and Lusch 2004), coupled with a drift of some traditional areas of interest such as macro/policy issues to specialized subgroups and the study of strategy to the emergent field of strategic management. As Wilkie and Moore (2006) note, “virtually every research area is now a stream running its own course and that there is coming to be no real ‘mainstream’ of academic marketing thought any longer” (p. 226).

What is missing is the sense of an underlying consensus or world view shared by marketing scholars and practitioners that would provide common ground for the development of both marketing in general and its major subdisciplines such as macromarketing. With this in mind, the paper begins with a brief review of the discontent with marketing both as a discipline and as a practice, and notes that a response suggested by Vargo and

Author’s Note: I would like to thank the anonymous referees for their insightful comments.
Lusch (2004) proposes a major shift in the dominant logic of marketing, from one that is focused on the exchange of tangibles to one that places the exchange of intangibles or services at the center of marketing thought and that could serve as a basis for the reintegration of marketing thought. A difficulty with this approach is that it leaves exchange at the core of marketing—a concept that is common to many of the social sciences.

With this concern in mind an extension to the service-dominant (S-D) logic of Vargo and Lusch (2004) is proposed that shifts the focus from the reciprocal creation of value through an exchange transaction to a marketing system within which the exchange is embedded. Since the identification of a relevant system also specifies system participants, role, linkages, and environment, this places S-D exchange in a context where there is a clear basis for asserting the distinctive contributions of marketing as a discipline in the social sciences. It also has important implications for macromarketing. Embedding the service-dominant logic of a transaction in a relevant marketing system will rekindle interest in the interface between micromarketing and macromarketing, an interface where many of the marketing systems of interest can be found. At a meso or intermediate level of analysis, systems ranging from shopping malls to business ecosystems to reverse distribution channels become legitimate themes in both micro- and macromarketing research where the primary analytical tool is the concept of a marketing system, looked at from two rather different points of view—the inside out (a micro perspective) and the outside in (a macro perspective). In the longer run, the integrating concept of a marketing system linking micro- with macromarketing research could provide the distinctive analytical tool(s) needed for macromarketing to contribute to the vital debates on sustainability (Fisk 2006; Nason 2006) and societal development (Peterson 2006).

**Discontents in Marketing**

The discipline of marketing has its roots in the early 1900s in the formal study of transactions involving commodities and manufactured products, focusing on (1) the specific requirements of differing commodities; (2) the institutions needed to make effective distribution possible; and (3) on the functions that had to be performed by these institutions if exchange were to occur. In the 1950s, in response to the far reaching economic and social changes taking place following the end of World War 2, marketing thinking shifted significantly, focusing on the management of marketing within a business firm, and emphasizing the central role of the customer in shaping the nature of the offer made by the firm (Drucker 1954). The offer made to a target market was defined in terms of the 4 P’s taxonomy suggested by McCarthy (1960), and later by Kotler (1967). The importance of this reorientation of marketing was reflected in the definition of marketing adopted by the American Marketing Association, where marketing was said to be “the performance of business activities that direct the flow of goods and services from producer to consumer or user.” Not surprisingly, this reorientation led to rapid, far-reaching change in both managerial or professional practice and in academic research and teaching.

It was not long before questions were being asked about what was included, and what excluded, in this reorientation of marketing. Was marketing best thought of simply as a business technology, addressing normative issues of concern to decision makers, or did it have a significant positive role as a science focused on transactions? Were non-business organizations such as churches, charities, and government instrumentalities included? Should marketing performance be judged simply on corporate returns or should attention also be paid to the societal impacts of marketing choices? Could the logic of marketing be applied to the challenges of social marketing such as public health campaigns and army recruiting? Did marketing have something to say about all transactions or just those that involved the voluntary exchange of economic value?

In parallel with these and similar questions, concerns were also being raised about the predominantly micro orientation of marketing thought. Reavis Cox (1965) commented, “in our enthusiasm for the mathematical and other mechanisms of decision making … we may have begun to lose sight of the fact that marketing is not only a very important managerial responsibility but also a social institution of great significance.” As Layton and Grossbart (2006) note, looking back to the 1970s:

In the USA there was a growing concern as to the impacts of business decisions on society and the environment. Protest was in the air, driven by the Nader inspired concerns with product safety and corporate power, by deep seated worries about human rights, by the environmental messages inspired by Rachel Carson’s work, by Vietnam, and by the many other forces—economic, social and technological—that were transforming America. Micro-marketing and its impacts were a driving force in many of these changes and challenges. (p. 195)

These concerns found an outlet in the first of the macromarketing seminars held in Colorado in 1976. The focus of this initial seminar was on research into distributive
processes from a societal perspective. Although this was a priority, the first order of business was to clarify and identify the boundaries of macromarketing. In an important paper attempting to bring order to the range of options under debate, Hunt (1977) suggested that the study of marketing could be classified into eight cells created by the interaction of the three dichotomies—positive or normative, micro or macro, and profit or non-profit. This brought many of the alternatives canvassed above into focus and in particular gave macromarketing a strong potential role. In the 1977 seminar Hunt went on to suggest that “macromarketing refers to the study of (a) marketing systems, (b) the impact and consequences of marketing systems on society, and (c) the impact and consequences of society on marketing systems.” He restated this view in Hunt (1981) and noted that it (a) allowed for varying levels of aggregation, (b) included work on social responsibility and economic development, and (c) picked up the impact of differing legal, political, and social value systems.

Although Hunt’s proposed taxonomy gained widespread support, it did little to inhibit the growing fragmentation of the discipline. By far the majority of published research studies fell into the micro cells of the taxonomy matrix and, perhaps inevitably, significant subdisciplines began to emerge. The need to separate service marketing from product marketing was highlighted by Shostack (1977); a recognition of the importance of the service encounter contributed to the growth of relationship marketing; consumer and, a little more generally, customer research emerged as a major field of study; communication studies, especially those concerned with advertising decisions, took on increasing importance; research into subdisciplines such as the study of distribution channels, product development, pricing, and many other aspects of marketing decisions grew rapidly, generating new specialized journals and conferences.

Toward the end of the 1990s symptoms began to emerge, revealing a discontent with this state of affairs. Change was again in the air. Schwartz (2003) pointed to the demographics of aging western societies and the floods of children in the developing world, to the breakthroughs in science and technology that might underpin a long economic boom, to the uncertainties of ethnic and other disorders, to the shifts in global economic and political power, to the challenges of a sustainable environment. Day and Montgomery (1999) noted the impacts that wide-ranging trends such as these were likely to have on industries, markets, firms, managers, and customers. In the midst of all this change marketing seemed to have lost its way. Simplistic frameworks such as the 4 P’s seemed largely irrelevant in providing the logical foundations needed for relevance in an increasingly complex, connected world. The important questions seemed to deal with issues that did not fit easily into the fragmented or specialized fields characterizing marketing, leaving gaps that invited scholars from nearby disciplines to explore. Faced with growing intellectual competition, marketing scholars, teachers, and practitioners were “struggling to distinguish marketing from other fields and functional areas” (Day and Montgomery 1999, p. 3), raising awkward questions as to just what was the unique contribution made by marketing as a discipline and just what was the real contribution it made to short- and/or long-term corporate profitability.

In their introduction to a book of essays entitled Does Marketing Need Reform, Sheth and Sisodia (2006) suggest that “it has been evident for many years that ‘marketing as usual’ is simply not working anymore and that fundamentally new thinking is needed” (p. 3). They went on to note that “power in the marketplace—economic, informational, psychological—has shifted to consumers” (p4). In a concluding chapter, they point out that “the world has changed a great deal in the past two decades but marketers have adapted to it in only superficial ways.” After noting the challenges to conventional wisdom arising from forces such as the rapid rise of emerging economies such as China and India, their access to “cutting edge information tools,” and the maturing of the major western markets, they go on to conclude “marketers have to change a great deal to adjust to this new world order” (p. 332).

The Vargo and Lusch Response

With these concerns in mind Vargo and Lusch (2004) proposed an alternative to the conventional product-dominant logic that underpinned much of contemporary marketing thought and practice, replacing it with a service-dominant logic. As they noted “marketing has shifted much of its dominant logic away from the exchange of tangible goods … and toward the exchange of intangibles, specialized skills and knowledge, and processes …” (p. 4). In this view, buyers and sellers become equally important as co-producers of a mutually beneficial outcome, drawing on the knowledge and skills of both participants to achieve this end. In a subsequent paper (Lusch and Vargo, 2006a) they comment “Goods, money, organizations, and networks are intermediaries in the process of exchanging service for service,” and conclude by defining marketing as “the process in society and organizations that facilitates voluntary exchange through collaborative relationships that create reciprocal value.
through the application of complementary resources” (p. xvii).

The primary purpose of the present paper is to suggest that Vargo and Lusch (2004) did not go quite far enough and that a further relatively simple shift in focus opens up a significant extension of the proposed dominant logic. Vargo and Lusch drew attention to the creation of reciprocal value that characterizes many voluntary transactions, highlighting the systemic nature of the underlying buyer-seller interactions. It is a simple extension of this idea to suggest that the dominant logic of marketing should move beyond the transaction in which co-production takes place to focus on the wider marketing system in which a transaction is embedded. This shifts the emphasis in an emerging dominant logic from the transaction to a marketing system, placing the transaction in a setting where the processes involved in the creation of reciprocal value can be seen in an appropriate context. The specification of a relevant marketing system will help clarify the parties involved, directly or indirectly, in the transaction; their roles and relationships; the relevant networks can be explored and mapped; and the underlying flows of ownership, possession, finance, risk, and information that are needed for the co-production of value to take place can be clearly identified. While it is the transaction where the creation of value can be seen most clearly, it is the marketing system, where the full range of both primary and secondary effects transpire, which could or should be at the center of marketing thought.

The fundamental unit of analysis then is not the transaction but the marketing system within which the transaction is embedded, a system that could range from a micro system in which the co-production of value in a single transaction between a buyer and seller is considered, to purposeful systems created by business (such as supply chains or ecosystems), to an aggregate marketing system for a specified economy. The service-dominant logic of the transaction is preserved, but now considered within the context of a relevant marketing system.

## Ideals and Dominant Logics

In the best of all possible worlds, what should we look for in considering a proposed dominant logic for the discipline of marketing? Lusch and Vargo (2006a) link the idea of a dominant logic with that of a world view, noting that “a worldview or dominant logic is never clearly stated but more or less seeps into the individual and collective mind set of scientists in a discipline” (p. 7). While usually slow to change, a dominant logic or world view can change over time, often in response to an underlying paradigm shift. In economics, for example, the neoclassical model is gradually being displaced by a new world view in which rationality, greed, and equilibrium are replaced by uninformed or imperfect choice, complex motivation, and dynamic disequilibrium. Similar world views in related disciplines that have gradually been displaced include the ideas of modernization in development studies, Freudian ideas in psychology, or the realist focus on power in international relations.

If indeed we are engaging in such a fundamental reappraisal of our disciplinary foundations, it is perhaps relevant, although somewhat unusual, to ask what criteria an acceptable world view or dominant logic should satisfy. Experience in related disciplines such as economics and sociology, where world views are also under challenge, suggests that the important criteria would include:

1. **The central ideas should be natural, intuitive, and universal.** In part this is an appeal to common sense, to ensure a connection to a shared reality, and in part it reflects the view that the reach of the ideas should include most or all of the phenomena that could or should be of interest to scientists in the discipline.

2. **Discipline boundaries should be specified that are both inclusive and exclusive, distinctive and defensible.** We should be clear as to what is included and what is not included in the discipline. And we should be clear as to what it is about the phenomena that is distinctively related to the discipline—important simply because in most social sciences the same phenomena can be looked at from many quite different points of view. The specific point of view taken by the discipline must then rest on insights not to be found in other related disciplines, on concepts and ideas that are clearly and uniquely part of the discipline in question.

3. **Where the boundaries touch those of other disciplines there should be some commonality of ideas and insights, and perhaps of language, allowing for the emergence of boundary spanning studies.** As Gintis et al. (2005) noted, in a discussion of the transdisciplinary synthesis that is characteristic of 21st-century behavioral sciences, “when different disciplines focus on the same object of knowledge, their models must be mutually reinforcing and consistent where they overlap” (p. 4). Put another way, the dominant logic under consideration should constitute an open rather than a closed system of thought. Interfacing with related fields should be possible.

4. **Scale consistency should be possible.** Similarly, as we move from one level of aggregation to another, from fine-grained to coarse-grained modeling, the theoretical framework in use should facilitate a smooth transition of ideas, in processes ranging...
from simple addition to the emergence of new variables, often interacting in the unexpected patterns characterizing multilevel complex adaptive systems (Holland 1998, 29; Colander 2000).

5. The world view should be responsive, adaptive, evolutionary, resilient, open to new perspectives. It should include both structural and dynamic analyses; equilibrium and disequilibrium frameworks; chaotic as well as stochastic models. Rather like a spider web it should give a little, stretch rather than break, in the face of intrusive new ideas and events.

While some or all of these criteria are arguable, and the list almost certainly incomplete, agreement on something like this list is needed, if only implicitly, in considering whether to adopt a new world view or dominant logic. The issue here is not quite one of a Kuhnian paradigm shift. Rather it is one of thinking through the nature of the appropriate adaptive responses of a mature discipline to the challenges of a changing factual environment.

One Step Beyond A Service-dominant Logic

In proposing a service-dominant logic Vargo and Lusch (2004) followed a long tradition in marketing in choosing to make the exchange transaction the fundamental unit of analysis. They argued persuasively that “The essence of service-dominant logic, then, is that service provision is the fundamental purpose of economic exchange and marketing” (Lusch and Vargo 2006a, p xvii) and went on to highlight some of the insights flowing from the service-dominant (S-D) logic. These included (1) that customers are treated as being of equal importance to the firm; (2) “the firm has a theoretical foundation that is applicable regardless of offering”; (3) a “theory of marketing that positions marketing as the dominant harmonizing force behind both marketing strategy and overall business strategy”; (4) “S-D logic aligns society, markets, networks, organizations and marketing, all as institutions for the exchange of applied operant resources (mental and physical skills)—service”; (5) “marketing has a theoretical basis that informs marketing action (both micro and macro) that is liberated from the unrealistic assumptions of the standard microeconomic paradigm, one that has the potential of providing a foundation for a general theory of marketing” (2006a, xviii). They conclude by highlighting the potential that the S-D logic offers of unifying insights into “buyer behavior, seller behavior, institutional mechanisms that bring buyers and sellers together, and the role of marketing in society” (2006a, xviii).

Each insight is important to the future of marketing as an academic discipline and as a profession. But is each insight sustainable as an outcome of the service-dominant logic alone? Looking back at the criteria suggested as appropriate for a workable world view of marketing it is evident that all are satisfied to an extent, but not completely. In particular, the focus on exchange transactions per se limits the universality of the proposed logic by in effect assuming that insights into markets, institutions, and the role of marketing in society will flow from an aggregation of individual transactions and that an understanding of the transaction, a micro-level phenomenon, will be sufficient to yield an understanding of macro or institutional outcomes. There is an increasing awareness that this is not the case in economics (Colander 2000) and it is highly likely that it will not be true for marketing either. In both disciplines the integration of micro- and macro-level theory turns on an explicit recognition of the interdependencies among the individual actors. Macro outcomes flow from emergent patterns and not simply from aggregation.

This can be accomplished without disturbing the essential insights of the service-dominant logic simply by embedding the reciprocal creation of value through an exchange transaction in the context of a marketing system and making the latter the fundamental unit of analysis. What then is a marketing system? As Layton (2007) points out, the term has been widely used in the literature on marketing and society, and in particular in discussions of macromarketing, usually without formal definition. A slight adaptation of his approach leads to the following definition:

A marketing system is a network of individuals, groups, and/or entities, linked directly or indirectly through sequential or shared participation in voluntary exchange, which jointly creates, assembles, transforms, and makes available assortments of products, services, experiences, and ideas, provided in response to customer demand.

In this definition, product is used in the sense suggested by Houston, Gassenheimer, and Maskulka (1992, 155) to include goods, services, ideas, behaviors, personalities, experiences, organizations, exchange media, places, exchange experiences, and exchange consequences. The linkages may be based on many factors including friendship, trust, and power, and may be formal or informal, short- or long-term in nature. The entities involved may fill primary or facilitating roles associated with the critical flows of value and information.

Figure 1 sets out what is perhaps the simplest example of a marketing system in which a seller and buyer are interacting over time in the co-production of value. Each is linked to suppliers and/or customers that, while falling outside the immediate system, form an essential element in the immediate or task environment of the system. The
distant environment then adds the institutional framework within which the system is operating. By embedding the exchange within a relevant marketing system, the co-production of value through exchange now does not stand alone or in isolation—it is part of a more complex whole and takes on meaning from that whole. Exchange in isolation is a theme common to many disciplines; the co-production of value through voluntary exchange embedded in a marketing system has the capacity to be distinctively a marketing concept.

Defined in this way, a marketing system of interest may be specified at levels of aggregation ranging from the single transaction (a micro system) or set of transactions involving specific buyers and sellers to the highly complex array of transactions characterizing a complete economy—the aggregate marketing system described by Wilkie and Moore (1999)—and including at intermediate or meso levels entities such as franchise networks, distribution channels, primitive trade routes, traditional or contemporary markets and marketplaces, networks, alliances, and business ecosystems (Moore 1996; 2006).

In keeping with this view, the entities that compose a marketing system may themselves be marketing systems and analyzed as such or, in a multilevel approach, further disaggregated into component individuals, groups, or entities. The possibilities are illustrated in Figure 2 where a multilevel approach to the analysis of organic retailing is explored. At level 0 the focus is on a specific retailer, its suppliers and its major customer groups. At level –1, the focus shifts to a specific category or SKU, the suppliers and the customers. At level +1 interest centers on the retailer as one of many competing in a market for customers and for suppliers.

A marketing system viewed either as a component of a higher-order system, or as an entity in its own right, may take various forms. It may be a purposeful system (Ackoff and Emery 1972) or in Alderson’s terms, an organized behavior system (Alderson 1965); or structured, where the entities that compose the system agree on a common set of objectives to be implemented over time through continuing relationships such as formal or informal alliances, joint ventures, cooperative agreements, and the like; or, rather than being the outcome of conscious choice or plan, it may take the form of patterned behavior, emerging from the complex interactions of the entities comprising the system. While purposeful or structured systems are at least partially goal oriented, the emergent patterns created through complexity will not be goal oriented but will have an internal dynamic reflecting the relationship networks making up the system. The important point here is that a marketing system may be purposeful (an organized behavior system), structured, emergent where it is closer to a market formed within a set of regulatory or other system constraints, or, just possibly, comprise random acts of exchange.

The diversity of marketing systems in which S-D exchanges could be embedded is illustrated in Figure 3. The figure positions a number of examples on a two-dimensional continuum where the vertical axis distinguishes macro, meso, and micro levels of analysis and modeling, and the horizontal axis ranges from purposeful, goal directed, hierarchical systems, through more loosely connected but still goal-directed structured systems, to systems that emerge from the dynamic interaction of participants each seeking individual goals, to random groupings of individual participants. From a slightly different point of view, the vertical axis ranges from systems where the focus is on the decision making of individuals or entities that compose a system, to one where interest centers on the behavior of groups of firms.
or systems joined in a common enterprise (a meso focus), to one where it is the society or community as a whole that is of interest. Similarly the horizontal axis identifies the base for the interactions defining a marketing system, ranging from power, through persuasion, to participation, and simply presence or being there. Each example provides a distinctive setting for an exploration of the exchange suggesting important questions as to the aspects of exchange that are common and those that are different depending on the characteristics of the relevant marketing system.

In each case, the output of a marketing system is an assortment (consistent now with service-dominant logic) provided in response to perceptions of customer demand. Where the system is purposeful or structured, the properties of the assortments generated will be reflected in system goals or purpose, as well as generating wider social or environmental outcomes; where the system is emergent, it is the social or environmental outcomes that are primarily of interest.

The concept of a marketing system, defined to include transactions involving a service-dominant logic, can now be used in the context of Hunt’s definition of macromarketing. Embedding service-dominant logic in a marketing system and allowing for the specification of the relevant system to range from the individual transaction (the basic concern of micromarketing), through increasing levels of aggregation, to the aggregate marketing system, provides a natural context for the study of service-dominant logic and its implications, in particular, for wider macromarketing concerns. It is this step that enables the service-dominant logic at the transaction level to provide the unifying insights into “buyer behavior, seller behavior, institutional mechanisms that bring buyers and sellers together, and the role of marketing in society” hoped for by Lusch and Vargo (2006a, xviii).

With this in mind, marketing becomes the study of (a) marketing systems; (b) the decision processes and choices made by the individuals, groups, and entities engaged in the voluntary exchange of service, and the co-creation of value within a marketing system; (c) the impact and consequences of marketing systems on society; and (d) the impact and consequences of society on marketing systems.

This is not the first time a solution along these lines has been proposed. In 1979 at the Fourth Macromarketing Seminar held in Boulder, a number of authors explored the systems approach to the macro/micro interface. Stidsen (1979) in a prescient discussion of “dyads, triads, strings and networks” suggested that “the concepts of market and market relations can serve as the link between and as the common focus for the concepts of micro- and macromarketing.” Mokwa, Enis, and Griffin (1979) drew on the work of Talcott Parsons to explore exchange within networks, and suggested that “the marketing system should be the focal unit of macromarketing analysis.” They went on to note that “a marketing system can be conceptualized as a set of organizations and individuals interacting in a purposive pattern of accommodating exchange relations where there is role differentiation in terms of structural patterns and exchange contributions” (p. 53). Glaser and Halliday (1979) pointed to the close link between Alderson’s concept of an organized behavior system and the purposeful systems explored by Ackoff and Emery (1972).

More than 20 years ago, Dixon and Wilkinson (1984), drawing on the work of Miller, Alderson, and Fisk, proposed an alternative functionalist paradigm for marketing that would provide a “general analytical framework for the study of marketing; one in which the study of marketing activities within a firm is placed in the context of a hierarchy of marketing systems” (p. 68). Over 10 years ago, Kiel, Lusch, and Schumacher (1992) revisited earlier studies of the role of exchange in marketing theory noting that in general these had failed to incorporate “human exchange into a larger intellectual framework that encompasses the importance of all exchange phenomena” (p. 60). Drawing on the natural science of exchange they focused on the concepts of exchange, supply, demand, attraction, and information. Their analysis drew on the concept of exchange within a marketing system where the latter is an open structure existing in a dynamic equilibrium with its environment, maintaining structural
integrity, and evolving to higher states of complexity through successive stages in repeated cycles over time.

In 2007 the question was again on the table, this time with a fresh set of insights into the nature of the fundamental exchange transaction, combined with a rapidly growing understanding of the nature and role of complex adaptive systems in economics and marketing, and a capacity for computer simulation that did not exist in earlier times. With this in mind, does this proposed embedding of service-dominant logic in the wider context of a marketing system (SESD logic) meet the criteria for a dominant logic or world view that could carry marketing forward as a discipline?

**Meeting the Criteria?**

1. **The Central Ideas Should Be Natural, Intuitive, and Universal**

   While there is little doubt that the central ideas—service for service exchange, seller and buyer equality, goods as service distribution mechanisms, customers as co-creators of value, the role of knowledge in competitive advantage—are natural and intuitive in the context of a discipline of marketing, there may be an issue with universality. As Vargo and Lusch (2006) note, some critics have suggested that S-D logic “does not go far enough because it does not move marketing beyond its present managerial, or firm-centric, orientation” (p. 51).

   While defending the managerial emphases embodied in the service-dominant logic, Vargo and Lusch go on to argue that it is not “inherently managerial,” and that the non-managerial implications need to be worked through.

   It is this aspect of the service-dominant logic that is of interest here. Putting the issue another way—what are the phenomena that could or should be explored in a discipline of marketing? While the list is endless, it should include the study of markets per se. This was highlighted by Venkatesh, Penalosa, and Firat (2006) who argued for the study of markets rather than marketing, noting the insights offered by sociologists, anthropologists, and economists, and arguing for the importance of the “sign economy” and a shift in the ideology of markets.

   As noted earlier, the marketing systems potentially of interest to marketing range from a single transaction to complex, continuing buyer-customer relationships; from primitive trade routes to peasants markets to main streets, shopping malls and auctions or exchanges; from renaissance shopping to the synthetic worlds of cyberspace; from street traders to business ecosystems or networks; from small franchise systems to WalMart-like retail networks to global enterprises such as Microsoft; in contexts that include western and non-western cultures, developed as well as developing communities; and in each case our interests should extend to marketing system dynamics, including evolution and change in developing country contexts, recovery from war and natural disasters, and historical studies of changes in everyday life and the institutions of marketing. Each of these examples of topics and issues of interest to a discipline of marketing turns on the definition and study of relevant marketing systems, which provide the context(s) within which buyers, sellers, institutions, and environments can be placed, and their interaction through service exchange studied.

2. **Discipline Boundaries Should Be Specified That Are Both Inclusive and Exclusive, Distinctive and Defensible**

   Hunt (1977) suggested that the subject matter of marketing could usefully be characterized by three dichotomies—micro and macro, positive and normative, profit and not-for-profit enterprises. If this be taken as a test of inclusiveness then it is apparent that the reformulation suggested meets the test. Exclusiveness is a little more difficult, and might turn the focus on voluntary exchange, suggesting that exchange that was non-voluntary or forced should be excluded from being part of the subject matter of marketing. As noted earlier, similar limitations were the subject of controversy some 30 years ago.

   The distinctive and defensible tests are even more difficult, raising questions as to just what it is that marketing as a discipline contributes that does not come from other related disciplines. Concepts that have their origin in the marketing discipline include a focus on the process by which transactions are carried out, buyer and seller decision processes, segmentation of heterogeneous markets, target market, market offer dimensions (4 P’s), co-creation of value involving both buyer and seller, the service-dominant logic underlying transactions, the structure and dynamics of marketing systems, transactions and channels of distribution, assortments offered and acquired, etc. Clearly, a list like this is controversial. It must however be possible to generate if we wish to see marketing emerge as a discipline taking its place alongside related fields such as economics, sociology, ethnography, and psychology. In the context of the proposed extension, where exchange is embedded within a relevant marketing system, the unit of analysis shifts from exchange (which is widely studied in the social sciences) to a relevant marketing system in which the exchange(s) are embedded. In this setting, the process orientation of marketing makes sense and each of the distinctive marketing concepts noted above finds natural expression.
3. Where the Boundaries Touch Those of Other Disciplines There Should Be Some Commonality of Ideas and Insights

The early dominance of management issues in the development of marketing thought over the last 40 years has been an important factor in contributing to the isolation of marketing thought among the major social disciplines. In part this reflected a rejection of the assumptions of the neoclassical microeconomic model and in part perhaps an overriding concern to tackle the management challenges arising from the new environments created by rapid, sustained economic and social change. Marketing theory was concerned with the decision processes and choices made by customers/buyers and sellers/firms as they entered into voluntary economic exchange. While much was borrowed from related disciplines such as microeconomics, psychology, and sociology, the underlying theoretical frameworks had little in common. In the midst of these changes in marketing, the desirability of an easy transition in thought in crossing the boundary between marketing and a related field such as economic sociology was overlooked. This is now unfortunate as many of the most interesting and challenging developments in the social and related sciences are occurring in the boundaries between disciplines. In particular, new and relevant ideas concerned with markets, market-related behavior, and market environments are emerging in fields such as the new microeconomics, computational economics, economic sociology and anthropology, strategic management, ecology, and the study of complex adaptive systems. A marketing world view that embeds exchange in a relevant marketing system should bridge easily into these and similar disciplines.

An example of the problem and some of its ramifications can be seen in the way the idea of a “market” is handled in marketing and cognate fields. In 1979, Arndt, noting the gap between the markets of microeconomic theory and the “domesticated” markets observed every day, suggested that the study of markets was, for marketing theory, a disciplinary imperative. Apart from interest from macromarketing scholars, little was done to develop the concept of a market in the mainstream of marketing other than an exploration of competition in markets defined in terms of product or industry. In a review of the field in 1999, Buzzell noted that “the proper definition of a market is a basic foundation for the design and modification of marketing strategies, the analysis of competition, and the evaluation of performance” (p. 61). This was still very much a focus on markets from a managerial perspective and in 2006, Venkatesh, Penalosa, and Firat, as suggested earlier, argued for “a major paradigm shift, from the study of marketing, to a study of market(s)” (p. 134). In macromarketing a similar call was made by Mittelstaedt, Kilbourne, and Mittelstaedt (2006), who responded to the growing need for a theory of macromarketing by drawing on research into the Greek agora or market showing the agora to be the “heart of an ancient city” (p. 131) where administrative, legislative, judicial, commercial, social, and religious activities all took place, to suggest that “macromarketing is the study of the agora, across cultures and through time, and that a theory of macromarketing is, in its truest sense, a theory of the agora” (p. 131). It is this emphasis on market that allows an effective interface with related social science disciplines.

In related disciplines such as economics and sociology there was also increasing interest in the concept of a market and in the role of markets in shaping economic and social change. In economics the three assumptions of rationality, greed, and equilibrium are being superseded by a broader theory based on purposeful behavior, enlightened self interest, and sustainability (Colander 2000). Markets once characterized by the three assumptions are now being replaced by markets where individual actors interact in complex noncontractual ways, where social norms and power play important roles, where both individual and social preferences influence outcomes, and where market outcomes are dynamic, complex, sometimes chaotic, and certainly not limited to a stable equilibrium (Bowles 2004). These markets become part of the institutional framework of a society and as such are subject to the short- and long-term forces that shape institutional change (North 2005).

Starting from a very different position, the work of Fligstein (2001) and his colleagues in the sociology of markets highlighted the wide variety of elaborated social structures to be found, depending on “how and when markets were founded, who dominates them, and the social relations among producers and their suppliers, customers and governments” (p. 7). Similarly, in anthropology, Seligman (2004) described her entry into a Cuzco market in these terms, “suddenly, I seemed to enter a different polity, with its own social relations, rules and regulations, organizations of space, politics and mores” (p. 25).

These insights into markets from economics, sociology, and anthropology all contribute potentially to a deeper understanding of market as a central idea in the discipline of marketing (Venkatesh, Penalosa, and Firat 2006). While the concept of a market is central, it is just one example of an idea that overlaps into related disciplines and, as Gintis et al. (2005) noted, it is important that the underlying models be compatible. Similar overlaps occur in models of individual choice behavior, in the study of networks and hierarchies, and in the specification and study of environments. In each case where the
overlaps are compatible, as could be the case here, a rapid growth in shared knowledge becomes possible.

4. Scale Consistency Should Be Possible

Just as it is desirable that there be a basic compatibility in shared or common concepts at the borders where disciplines overlap, it is also desirable that there is a fundamental compatibility in the concepts and ideas used in theories at the micro, meso, and macro levels of a discipline. The issue is one of a distinction between fine- and coarse-grained theories and, as Beinhocker (2006, 50) notes, “the key is that both the coarse and fine grained maps (theories) must agree with each other and with the observations of underlying reality.” In neoclassical microeconomics the assumptions of perfect rationality and full information lead to a theory of perfectly competitive markets in equilibrium that is clearly at odds with the underlying reality. As Leijonhufvud (1996) put it, the theory deals with “incredibly smart people in unbelievably simple situations,” while the reality is one of “believably simple people coping with incredibly complex situations.” The equilibrium that emerged from the first set of assumptions no longer exists (or is a limiting case) and in its place dynamic disequilibrium characterized by learning, adaptation, and evolution becomes the norm. In the first, time was largely irrelevant while in the second time is crucial. Working with the first set of assumptions, while the transition from fine-to coarse-grained theory is manageable, the result is incompatible with observed reality. While the second set of assumptions is closer to observed reality, working through the transition from fine- to coarse-grained theories is far more difficult and relies increasingly on ideas drawn from the theory of complex adaptive systems, agent-based modeling, and extensive simulation studies.

In marketing, while the issues are much the same as those noted above, the link between micromarketing (fine-grained theories) and macromarketing (coarse-grained theory) has largely been ignored. In response, Lusch and Vargo (2006b) suggest that the service-dominant logic applies not only at the level of the individual transaction but also at the level of the institution, pointing out that “institutions themselves are co-produced and co-production is a central concept in S-D logic” (p. 409). They go on to say “language, knowledge, norms, culture and scientific paradigms are all part of a network of co-creation activities by individuals and organizations that create society” (p. 409). However, just as with neoclassical microeconomics, the problem is not with the institutions per se, but with the processes whereby they emerge from micro phenomena.

The extension to the service-dominant logic of voluntary exchange proposed here, where the exchange transaction, embedded in a relevant marketing system, becomes the fundamental unit of analysis, shifts the focus from aggregation to emergence in the transition from fine- to coarse-grained theory. The marketing system in which the transaction(s) are embedded is a network where the actors are linked through participation in economic exchange. In sufficiently complex marketing systems, the decision processes adopted by these actors as they respond to each other and to changes both internal and external to the marketing system, have been shown to lead to the emergence of unexpected social structures and aggregate behavior. In a classic study, Epstein and Axtell (1996) showed how multilevel markets could emerge from the interaction of agents randomly placed on an economic landscape, trading with each other using simple nearest-neighbor decision rules.

It is this possibility of unexpected social structures and patterns of behavior emerging from the activities of the actors caught up in a marketing system that will serve to define the future of the relationship between micro- and macromarketing. It is no longer simply a matter of aggregation to move from a fine-grained to a coarse-grained analysis. Instead, the analysis turns on properties of the marketing systems at successive levels of nesting in which the transactions of interest are embedded.

5. The World View Should Be Responsive, Adaptive, Evolutionary, Resilient, Open to New Perspectives

The world view suggested here is far from a fixed or closed system of thought (as perhaps was the case with neoclassical microeconomics) and may well propel the discipline of marketing into the study of quite unexpected phenomena, from quite different points of view and with unanticipated insights. To a large extent this stems from the characterization of the phenomena of interest. A service-dominant view of economic exchange recognizes the fundamental role of specialized skills and knowledge in the co-creation of value. This is an inherently dynamic view of the processes involved, as knowledge is not static but changes through learning and experience. Embedding the transaction(s) and actors in a marketing system provides the immediate context for the study of systemic structure and of systemic change, adaptation, and evolution over time. It can absorb new insights into individual and organizational choice behavior; it facilitates theory development at different levels of aggregation using insights into emergent patterns in connected systems as the link between successive levels of...
nesting; and it provides a flexible framework for the modeling of system/environment interfaces distinguishing endogenous from exogenous variables in terms of defined system boundaries.

Where does this Leave Macromarketing?

In the preface to the volume of essays on S-D Logic, Lusch and Vargo (Lusch and Vargo 2006a, xvii) highlighted some of the important insights flowing from the service-dominant logic. Looked at again from the point of view of the system-embedded service-dominant (SESD) logic suggested in this paper, it is relevant to ask about the implications of each insight for macromarketing.

Their first point was simply that in the S-D logic formulation “customers are explicitly given equal importance to the firm,” and recognized as co-creators of value. In SESD logic the importance of the roles filled by system participants will depend on the definition of the system and its boundaries. While firm and customer will always be central, equal importance may attach to other roles, including those of information intermediaries, suppliers, etc. Not only are there strategic implications flowing from the specification of the system boundary (including specification of the task environment), but there are also important macromarketing implications. Getting role specification and importance right will, for example, have implications for system efficiency studies, for concerns about distributive justice within the specified system, and for questions about system stability and growth in differing environmental settings.

The second insight noted by Lusch and Vargo (2006a) was that in S-D logic “the firm has a theoretical foundation that is applicable regardless of offering.” In SESD logic this remains an important insight linked with the variety of roles that firms may fill as system participants. S-D logic, with its emphasis on the central importance of operant resources, is consistent with the resource advantage theory suggested by Hunt and with the growing interest in economics on the wealth creating effects of variety theory suggested by Hunt and with the growing economic and political performance” (North 2005, 2). For macromarketing the link between the institutional environment and firm behavior is of central interest. In the SESD logic both micro- and macromarketing meet in the study of the environment/firm relationship, albeit from differing points of view.

Lusch and Vargo (2006a) go on to note that S-D logic provides a “theory of marketing that positions marketing as the dominant harmonizing force behind both marketing strategy and overall business strategy.” SESD logic strengthens this insight, providing a multilevel, networked setting within which the search for strategy takes place. From a macromarketing perspective, SESD logic highlights the dynamic nature of the firm/environment interface in an institutional matrix, leading to an exploration of change, both incremental and sudden, in settings where innovation becomes a major driving force. In particular, the blending of marketing process thinking with multilevel strategy search and an understanding of the institutional setting offers a potentially important approach to the role of marketing in economic development.

As a fourth point, Lusch and Vargo (2006a) suggest that “S-D logic aligns society, markets, networks, organizations and marketing, all as institutions for the exchange of applied operant resources (mental and physical skills)—service.” Under SESD logic the alignment envisaged here can only occur in a multilevel systems setting. The conditions under which this alignment could take place are at present little understood and an important challenge to macromarketing.

Next, Lusch and Vargo (2006a) suggest that “marketing has a theoretical basis that informs marketing action (both micro and macro) that is liberated from the unrealistic assumptions of the standard microeconomic paradigm, one that has the potential of providing a foundation for a general theory of marketing” (2006a, xviii). The assumptions of the standard microeconomic paradigm have long been under challenge by economists (Colander 2000). New work in evolutionary and growth economics has drawn on complex adaptive systems research and the institutional studies associated with North to go well beyond the limitations of the old model. In an important sense, S-D logic does much the same for marketing. However, it is the SESD logic where a marketing systems framework is placed around the service-dominant exchange that brings the institutional environment clearly into the picture and opens the door to the sophisticated knowledge-based growth modeling that is now widespread in the economics discipline. Perhaps then with this addition we might be one step further on the way to a general theory of marketing.

Finally, Lusch and Vargo conclude by highlighting the potential that S-D logic offers of unifying insights into “buyer behavior, seller behavior, institutional mechanisms that bring buyers and sellers together, and the role of marketing in society” (2006a, xviii). The study of the institutional mechanisms identified here and the role of marketing in society is certainly of the greatest interest to
macromarketing. The SESD addition puts in place the first pieces of the conceptual bridge between micro and macro thought that might bring the hope into reality.

Conclusion

Is this framework for a discipline of marketing sufficient to enable marketing to coexist with other major social sciences, contributing distinctive insights to our understanding of social phenomena? It is the contention of this paper that embedding the reciprocal creation of value through voluntary exchange within a relevant marketing system adds significant differentiation to the study of exchange that is otherwise part of many related disciplines, and that marketing in this wider sense offers concepts and insights that add significantly to our understanding of exchange processes and outcomes, both short and long term, wherever these arise. Marketing in a managerial sense is untouched by this extension, and most likely significantly enriched by the study of systems and environments that become part of the wider discipline.

More controversially perhaps, a quick overview of the contemporary literature (much of it outside the specialist marketing journals) suggests that a meso level of analysis is indeed widespread, embracing studies of markets, competition, supply chains, channels, and similar phenomena in many different settings. It is often a meso-level analysis that provides fertile ground for the development of marketing as a distinctive discipline in its own right. It is at this level that we move away from individual choice where the analysis draws heavily on established disciplines such as psychology and organizational behavior, and avoid some of the broader environmental, social, and political debates that are dominated by other sciences.

The implications for macromarketing are considerable. If a meso level of analysis is fertile ground for the development of marketing as a discipline, then is this micro or macro? The answer may not really matter. It is perhaps enough that marketing as a discipline focuses on the phenomena where its distinctive insights can really make a difference.

References


Roger A. Layton is an Emeritus Professor at the University of New South Wales (UNSW), Sydney 2052 NSW, Australia; phone: +61-2-9997-1897; fax: +61-2-9997-8554; e-mail: rlayton@unsw.edu.au. He was appointed Foundation Professor of Marketing at UNSW in 1967. His publications have appeared in the Journal of Macromarketing, Journal of Marketing Research, The Service Industries Journal, and Journal of International Consumer Marketing. He was awarded the Order of Australia for his services to marketing, and is an Honorary Citizen of Guangzhou, in recognition of his contributions to higher education in China.