A qualitative understanding of Service-Dominant Logic in the banking industry

ABSTRACT
Technology has impacted the way businesses operate and has influenced services by altering the way services are delivered (Bitner, Ostrom and Meuter, 2002. Electronic banking, encouraged by banks as a way to reduce service delivery costs and improve service quality for customers, is one technology that has streamlined business transactions (Sathye, 1999). Banking has attempted to move what used to be a physical transaction to one that is virtual and this is having implications for relationships between banks and their customers.

Recently the concept of Service-Dominant Logic has become an emerging area of research in the marketing literature (see Bitner, Booms and Mohr, 1994; Vargo and Lusch, 2004; Lusch and Vargo, 2006; Vargo and Lusch, 2008) and is gaining the attention of authors (see for example Brodie, Glynn and Little, 2006b; Gummesson, 2008a; Johns, 2008). This paper reviews the results and implications of an exploratory study conducted by interviews with six Australian financial institutions. Findings suggest that most banks do not have a unique competitive advantage and therefore it is difficult to differentiate from other offerings in the market. Furthermore, bank managers had limited understanding of the message promoted by the bank's materials, including web pages, and this could result in a lack of credibility for the message. Finally, banks are not co-producing with their customers, potentially impacting on relationship building.

Key Words: Service-Dominant Logic; self-service technologies; technology; relationships; value

INTRODUCTION
Vargo and Lusch’s 2004 paper and further works on Service-Dominant Logic have altered the direction of marketing, with an increased focus on service delivery. This research has been widely researched and discussed in the literature; however, limited empirical testing has been undertaken. Furthermore, businesses are increasingly using technology in their operations and it is essential to understand the impact of these technologies on the relationship, business processes and productivity. In particular, the increasing use of self-service technologies (SSTs) within relationships removes face-to-face contact traditionally believed to be important in relation to service delivery between an organisation and their customers. This paper seeks to explore the application of Service-Dominant Logic in a banking context. Interviews with a sample of Australian banks provided an understanding of the usefulness of this body of literature in a banking context. This paper examines Service-Dominant Logic from in banking context, from the perspective of banks and their relationships with customers and stated competitive advantages. The paper will first provide an overview of Service-Dominant Logic. A summary of implications for theory and practice based on a study with Australian banks will conclude the paper. As Service-Dominant Logic is increasingly being considered in the marketing literature, it is essential to understand the applicability of this body of literature.

OVERVIEW OF SERVICE-DOMINANT LOGIC
When production and consumption are separated, exchange between marketer and customer is affected. Goods evolve from being items of value to items with an exchange value. When marketers switch to a value perspective, customers are considered both producers and
consumers. The role of the supplier then becomes supporting the customer’s value creating process, regardless of whether the product is a service or a good (Ballantyne and Varey, 2008). To adopt Service-Dominant Logic, firms needs to be able to work well with other parties, collaborating, while demonstrating knowledge of the environments (absorptive capability) (Lusch et al., 2006). In order to implement this philosophy, a strong understanding of core competencies is required, to match them with potential (and existing) customers. A clear understanding of a firm’s core competencies and capabilities of the firm and firm resources all contribute to competitive advantage.

Service-Dominant Logic is concerned with operant resources (resources that produce effects – (Constantin and Lusch, 1994)) rather than operand resources (resources on which an operation or act is performed to produce an effect -(Constantin and Lusch, 1994)). This means that the competencies and resources of the firm become the competitive advantage of the firm and producing transforms into ‘resourcing’, allowing value-creation (Lusch et al., 2008b). Collaborating with and learning from customers is essential within a service centered logic and means that value is defined by and co created with the customer (Vargo and Lusch, 2004) obviously having implications in regards to self-service technologies. Kalaignanam and Varadarajan (2006) draw the parallel of co-production of value to self-service technologies, indicating the relevance of Service-Dominant Logic in a self-service context. Service-Dominant Logic relies on the use of operant and operand resources to provide an offering to customers. Through this, Service-Dominant Logic alters the marketing mix. Rather than a focus on product, Service-Dominant Logic is about co-creation of service and price becomes the co-creation of value propositions. Co-creating conversation and dialogue, rather than promotion, is key in an interactive, collaborative exchange. Finally, rather than ‘distributing’, organisations implementing Service-Dominant Logic are co-creating value processes and networks (Lusch and Vargo, 2006b).

Co-creation is a unique form of collaboration and results in unique value starting with interaction through dialogues between the marketer and the customer (Ballantyne and Varey, 2008, Ballantyne and Varey, 2006). Vargo and Lusch suggest that “from a service centred view of marketing with a heavy focus on continuous processes, the consumer is always involved in the production of value” (Vargo and Lusch, 2004: 11). This means that by focusing on service, rather than services, organisations are able to provide value offerings to customers, who will in-turn co-create value with the marketer. Value is an increasingly important aspect of marketing, and with the use of self-service technologies, Marketers are requesting customers get involved in the production of value themselves, which can impact on satisfaction with the service, and ultimately the brand. Service-Dominant Logic can enhance productivity and decrease customer alienation (Lusch et al., 2006). In order to implement this philosophy, a strong understanding of an organisation’s core competencies is required, so that they can be matched with potential customers. This is important to consider from a strategy perspective. Organisations must use their core-competencies. Core competencies include “communication, involvement and a deep commitment to working across organisational boundaries” (Prahalad and Hamel, 1990: 82), ultimately creating value. The interaction in Service-Dominant Logic is applicable in a service context equally to a goods context. Goods-Dominant Logic and Service-Dominant Logic have differences in terms of their impact on relationships and implications. A Goods-Dominant Logic follows traditional relationship marketing principles of trust and commitment, while Service-
Dominant Logic does not and its focus is on the co-creation of value. Table 1 indicates the differences between the two.

Table 1 Differences between Goods-Dominant Logic and Service-Dominant Logic

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<thead>
<tr>
<th></th>
<th>G-D Logic</th>
<th>S-D Logic</th>
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<tbody>
<tr>
<td>Meaning(s) of relationship</td>
<td>Dyadic bonds represented by trust and commitment</td>
<td>Reciprocal, service-for-service nature of exchange</td>
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<tr>
<td></td>
<td>Long-term patronage – repetitive transactions</td>
<td>Co-creation of value</td>
</tr>
<tr>
<td>Normative implications</td>
<td>Manage customers (through communications, satisfaction, etc.) to maximize CLV</td>
<td>Collaborate with customers to develop mutually beneficial value propositions</td>
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<td></td>
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<td>Share value perceptions across the firm</td>
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Source: Vargo, 2009

As evident in the above table, the differences between a Goods-Dominant Logic and a Service-Dominant Logic is on the focus on working with customers, rather than managing customers. Co-creation of value means that the marketer and customer work together, rather than relationships being managed. Despite the positive focus relating to Service-Dominant Logic in the literature, there are criticisms of Service-Dominant Logic. Although Vargo and Lusch’s work has gained popularity in marketing literature and in marketing debate, there is concern about the application of the work. The major criticism of Service-Dominant Logic is that it is ‘nothing new’ in its contribution (Stauss, 2005, Johns et al., 2009, Achrol and Kotler, 2006, Hazdra, 2010), however there is also the concern that the focus on the Service-Dominant Logic means major changes to the direction of marketing thought, altering the direction of marketing and even the definition of marketing. This raises issues with the tension between theory and practice and ways to empirically evaluate Service-Dominant Logic (Brodie et al., 2006a). Service-Dominant Logic requires a re-thinking of the way the Marketing Mix is utilised, however this does not mean that the marketing mix becomes irrelevant, instead it just means that they are used more strategically (Lusch and Vargo, 2006a). Rather than it being about a ‘product’, marketing should be about co-creating service. Similarly the focus on price should be less about the economics of pricing and become the co-creation of value proposition. Promotion becomes more about co-creating conversation and dialogue and finally distribution becomes the co-creation of value processes and networks (Lusch and Vargo, 2006a).

METHODOLOGY

Semi-structured interviews were utilised in this research, because they are deemed one of the best methods to explore an individual’s behaviour and attitudes (Tull and Hawkins, 1990). The banking industry has been selected for this study, as it is well known to provide a wide range of services (Eriksson and Marquardt, 2001) and is increasingly using self-service technologies. Furthermore, the impersonal nature of internet banking, increasingly being utilised, could have either a positive or negative effect on relationships. In this study, six interviews were undertaken with banks to discuss their strategy decisions, relating it to Service-Dominant Logic. At this point, it was determined that data saturation was reached. To ensure research soundness and sufficient depth of analysis, this exploratory study has been conducted with great care and provides a comprehensive investigation into the impact of technology on relationships in a banking context. Despite this, there are some limitations which impact on the application of the findings and therefore must be considered. Firstly, the study is exploratory only. Grounded theory was utilised to explore a previously under-researched body of work. To have an
understanding of Service-Dominant Logic, it was useful to interview marketers, however further research is essential to have a greater understanding of this emerging field of work. Nevertheless, that is the nature of exploratory research and this has provided a series of further research streams which would be of interest to marketing academics. Implications from the findings will be discussed.

**DISCUSSION**
There is limited empirical testing of Service-Dominant Logic, despite it being an emerging contemporary area of marketing thought. This is partly because the logic is still emerging and partly because it is difficult to ‘test’ service principles without focusing on service quality evaluations, which is not the main focus of Service-Dominant Logic. Although it is difficult to evaluate ‘value’ perceptions with both marketers and business customers, it is an essential part of business. This study has made a contribution toward exploring Service-Dominant Logic in practice, through talking with banks to determine to what extent principles of Service-Dominant Logic and the foundation premises were implemented. Evidence suggested that banks were not properly applying the foundations behind the ten foundation premises of Service-Dominant Logic. This had implications for co-creation of value and in many cases, organisations reported that banks were not fulfilling their requirements for the relationship. Qualitative research was necessary, from a methodology perspective, to explore this under-researched area. It is recommended that until there is a greater understanding of Service-Dominant Logic, exploratory research should be utilised, supporting Johns' (2008) call for qualitative research in this area. Because customer perceptions of service quality are generally based on satisfaction with their relationship with the marketer (Berry and Parasuraman, 1993, Möller and Halinen, 2000), it is important that relationships are emphasised for those that desire them.

**MANAGERIAL IMPLICATIONS AND THEORETICAL IMPLICATIONS**
Marketers cannot offer value, but rather, they can offer value propositions which a customer may, or may not, accept (Vargo and Lusch, 2006). This essentially means that managers must have a complete understanding of their customer – something that is not currently occurring in practice in the banking industry – and offer value propositions that suit the market segment. Discrepancies between bank expectations of customer requirements and actual customer requirements existed, suggesting that a greater understanding is required. Respondents stated their competitive advantage, but this was mostly mismatched from the organisation's promoted perspective. Furthermore, all competitive advantages were easily substitutable, potentially having an impact on commitment to the relationship. An organisation seeking to build a competitive advantage should utilise technology to understand their customers, profile their customers (Gordon and Langmaid, 1988) and ultimately serve their customers appropriately. Through using technology, marketers should be able to tailor their communication and customise offerings (Gordon and Langmaid, 1988), but in reality, the banks appeared to target customers in a very similar way. When taking on a service centered view of exchange, the goal is to customise offering, and treat the customer as a coproducer, maximising consumer involvement so the product best suits the customers’ needs, and marketers should ensure they play a key role in ensuring services are customer centric (Vargo and Lusch, 2004). Theoretically, researchers must understand the core requirement to customize offerings to business customers. Furthermore, there has always been a service approach to goods and some marketers are applying a goods focus to service (Stauss, 2005) through reducing some of the differences such as variability of
service level by the introduction of information technology. This study has also contributed toward an understanding about the necessity of using qualitative research in this context. Service-Dominant Logic has been the subject of very limited empirical testing and therefore an exploratory study, using qualitative methods is deemed appropriate in this context.

CONCLUSION
The commentary throughout this study has highlighted a need for further research considering Service-Dominant Logic in a self-service technology context. Furthermore, the nature of this exploratory study sees an emergence of further research streams. Through the research, analysis and write up of this study, several key areas for further study in this field have been identified. There is still a call to empirically evaluate Service-Dominant Logic and although this study has begun a process of exploration, further evaluation is still required. As Vargo (2007) warned, it is essential to be careful when testing a logic which is still being developed, however he agrees that empirical investigation is required. Quantitative exploration of the philosophy is premature, without further exploration undertaken. Further qualitative work would therefore contribute greatly toward understanding the applicability. In particular, it would be useful to explore in more detail customer perceptions of value propositions and whether customers sense a value offering, particularly when self-service is provided. This would be particularly useful if done with matched samples of organisations and their customers.

Technology has altered business processes dramatically over the past two decades and the use of self-service technologies changes the nature of service delivery. The importance of developing and fostering relationships with customers has long been regarded as important within services marketing (Berry, 1983) and also within business-to-business relationships (Ford, 1990). In the 1980s and 90s, a shift in marketing focus has seen an increased emphasis on Relationship Marketing (Morgan and Hunt, 1994); however, the use of technology in business relationships has also increased. More recently, literature on a new dominant logic for marketing has emerged, that is, Service-Dominant Logic. This study reviewed the results and implications of recent research conducted with a sample of Australian banks to explore the application of Service-Dominant Logic. In exploring this research area, a greater understanding of banking relationships has been identified, however it is expected that results could have implications in other industry contexts. Self-service technologies have altered the relationship between the service deliverer and customer, however, customers still demand outcomes that are dependable, provide easy access, are flexible and that they are compensated if problems arise (Bitner, 2001). In other words, technology must work, marketers must understand customer requirements and must be willing to adapt to customer needs. Findings in this study have indicated that most banks do not have a unique competitive advantage and therefore it is difficult to differentiate from other offerings in the market and position itself in the minds of consumers. Furthermore, bank managers had limited understanding of the message promoted by the bank's materials, including web pages, and this could result in a lack of credibility for the message by customers. Finally, evidence from the qualitative interviews suggested that banks are not co-producing with their customers, potentially impacting on relationship building. It is essential for banks to work on these areas, to build and strengthen their competitive advantages and ultimately enhance their offering to customers.
REFERENCES


