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## German and Anglo-Saxon Approaches on Services and Services Marketing: Taking Stock – Looking Ahead

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## Content

<b>1</b>	<b>Introduction: paradigm lost – new paradigm found? .....</b>	<b>1</b>
<b>2</b>	<b>Three approaches to services marketing .....</b>	<b>3</b>
2.1	The service-dominant logic by Vargo and Lusch.....	3
2.2	The rental-access paradigm by Lovelock and Gummesson ..	6
2.3	The resources-processes-outcomes approach – a German contribution to services marketing .....	9
2.3.1	The transaction cost theory as the main pillar of the resources-processes-outcomes approach .....	10
2.3.2	The property rights theory as the main pillar of the resources-processes-outcomes approach .....	11
2.3.3	Bundles of goods, services and the rights assigned to them .....	12
2.3.4	The integrative value-creation chain .....	13
2.3.5	Three dimensions of a transaction .....	15
<b>3</b>	<b>The Anglo-Saxon approaches' grounding in economics.....</b>	<b>17</b>
3.1	Cooperation of market participants and co-creation of value: some reflections on the service-dominant logic ....	18
3.2	Characteristics of non-ownership transactions: property rights theory and its contribution to the rental-access approach .....	21
<b>4</b>	<b>Discussion of the two Anglo-Saxon approaches and the German approach.....</b>	<b>24</b>
<b>5</b>	<b>Conclusion .....</b>	<b>30</b>
<b>6</b>	<b>References .....</b>	<b>31</b>

## List of figures

Figure 1: The integrative value-creation chain. ....	14
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# 1 Introduction: paradigm lost – new paradigm found?

Despite the excessive use of the term “paradigm” after the publication of Kuhn’s “The Structure of Scientific Revolutions” (first edition in 1962), many philosophers of science but social scientists, too, have doubted that scientific revolutions have actually taken place in the social sciences. One reason for these doubts is that a social scientific revolution requires that there is a social science available (and not only a pool of loosely coupled approaches) that can be the basis for a revolution. The social sciences are not seen to be in a paradigmatic development phase where schools and theories have evolved which could be put into question and overthrown by subsequent generations of scholars.

As is well-known, Kuhn has been criticized because of his unspecified concept of paradigm (Masterman 1970).<sup>2</sup> It is however not the aim of this paper to delve into this matter. Nevertheless, we expect to gain some insights in the paradigmatic status of some developments in Anglo-Saxon services marketing which have been described in Kuhnian terms like “paradigm” and “revolution” by Lovelock/Gummesson (2004). Vargo/Lusch (2004, p. 1) point to the appearance of a crisis in services marketing theory. From the perspective of philosophy of science we will take the idea that empirical evidence as well as theoretical shortcomings which are the source of anomalies may cast some doubt on a theory, even on a well-established one. The theory<sup>3</sup> in question is the Anglo-Saxon mainstream approach on services which characterizes services as consisting of four specific characteristics (Araujo/Spring 2006, p. 798; Furrer/Sollberger 2007, p. 95; Lovelock/Gummesson 2004 p. 23): intangibility,

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<sup>2</sup> According to Kuhn’s early version, a paradigm is “the entire constellation of beliefs, values, techniques, and so on, shared by the members of a given community” (Kuhn 1970, p. 175). In reaction to the criticism on this early version’s concept of paradigm, Kuhn modified the concept of paradigm to that of a disciplinary matrix (Kuhn 1974). A disciplinary matrix is characterized by definitions and laws (symbolic generalizations), the metaphysical beliefs of those scholars who dispose of the theory in particular entities (like atoms but also services or goods), values and attitudes of these scholars as well as solved puzzles.

heterogeneity, inseparability, and perishability (IHIP). Interestingly, and in accordance with comparable developments in the natural sciences, marketing scholars critical of the IHIP-characteristics have directed their efforts at the development of a new approach (or paradigm) which can supersede its predecessor. We mainly discuss two alternative Anglo-Saxon approaches which are getting ready to succeed the mainstream, IHIP-based, approach: First, we refer to Vargo and Lusch's "new dominant logic for marketing." Second, we discuss Lovelock and Gummesson's rental-access approach (RAP). Whereas both approaches have been developed in order to renew the theory and practice of services marketing, the former turns out to be more broadly designed than the latter: What in the meantime is called "service dominant logic" (SDL) is much more difficult to comprehend in terms of one theory or one paradigm than the comparatively more focused RAP: The SDL refers to many aspects which are discussed in economics, social theory, and ethics, to mention just a few connections which can be established. Compared to that, the RAP mainly concentrates on the further development of services marketing based on ownership or non-ownership, respectively.

Both SDL and RAP base their criticism on the "received wisdom of services marketing" (Lovelock/Gummesson 2004, p. 20); however, they (as admitted by Lovelock/Gummesson 2004, p. 20) have barely taken into account the work of scholars in Europe. In response to this disregard but, of course, also because of its theoretical content, the paper discusses one European approach in services marketing, namely the German resources-processes-outcomes (RPO) approach or *leistungs*<sup>4</sup>-approach that emerged within the same parameters as both the SDL and the RAP. We argue that the RPO approach provides some answers to questions which are also addressed by the SDL and the RAP and that a comparison

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<sup>3</sup> Throughout this paper, we use the term "theory" in a rather loosely manner. In other words, we do not figure out if the approach in question can be reconstructed in terms of one of the theory conceptions within philosophy of science.

<sup>4</sup> Cp. Kleinaltenkamp/Jacob (2002). There is no unequivocal translation for the German term "Leistung". With reference to Araujo/Spring (2006), it can be characterized by its emphasis on preparation, performance and the results of the performance (output or value). We present a sketch of the resources-processes-outcomes approach or *leistungs*-approach, respectively, in section 2.3.



or appraisal, respectively, of the contributions of all three approaches will provide additional insights into their merits as well as shortcomings.

## **2 Three approaches to services marketing**

### **2.1 The service-dominant logic by Vargo and Lusch**

With their award-winning article „Evolving to a New Dominant Logic for Marketing“, Vargo and Lusch have heavily impacted marketing research in 2004. Their ideas quickly began to elicit positive as well as critical feedback from the scientific community (Lusch/Vargo 2006b). Vargo and Lusch (2004) vote for a paradigm shift from a goods-centered dominant logic (GDL) towards a service-dominant logic (SDL). SDL is expected to be able to better serve as an integrative framework for the highly fragmented fields of marketing research than GDL. SDL aims at simultaneously understanding buyer and seller behavior, institutional mechanisms, and the role of marketing in society (Lusch/Vargo 2006b, p. xviii). However, SDL is not a theory; it is rather a perspective or a philosophy and claims to provide a (new) mental model of exchange (Lusch/Vargo/Malter 2006, p. 267).

In the service-centered perspective, service is always exchanged for service. Being the ultimate unit of exchange, “service” is defined as „the application of specialized competences (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself“ (Vargo/Lusch 2004, p. 2). This definition clearly places the *process* in front of the *output* of an exchange situation (Lusch/Vargo 2006b, p. xvii). Central to their notion of service is the differentiation between operand resources and operant resources (Constantin/Lusch 1996, p. 143). Vargo and Lusch use this differentiation in order to contrast the goods dominant logic (GDL), wherein operand resources play the leading role, with the evolving service-dominant logic (SDL), wherein operant resources are the key factors of competitive advantage (Vargo/Lusch 2004, p. 2). Operand resources are primarily physical resources “on which an operation or act is performed to produce an effect”

(Vargo/Lusch 2004, p. 2). In contrast, operant resources are primarily intangible resources such as knowledge and competences. Operant resources are employed to act on other resources; they produce effects (Vargo/Lusch 2004, p. 2).

SDL highlights the continuance of the value-creation process by focusing on the value-in-use instead of focusing on the value-in-exchange, which is, according to Vargo and Lusch, the main concept of value in the GDL. From an SDL point of view providers and customers collaborate in two ways: First, the customer (consumer) always determines or co-creates value within the consumption process (value-in-use). Second, the customer (consumer) additionally may act as a co-producer by participating in the creation of the offering itself, e.g., through co-design, shared inventiveness or shared production (Lusch/Vargo/O'Brian 2007, p. 11). Because the customer (consumer) is always regarded as a co-producer and/or co-creator of value, the service-centered view is inherently customer oriented and relational (Vargo/Lusch 2004). SDL's marketing conception includes insofar consequentially the utilization of the exchange object by the customer, too.

As regards its ambitious and far-reaching agenda, the SDL has faced severe criticism (e.g. by Achrol/Kotler 2006; Schembri 2006; Stauss 2005): In SDL, as outlined above, *every* exchange is an exchange of services, and *each* customer-contact is relational. This broadening of the service-concept has been criticized as a *Pyrrhic victory* for the field of services marketing (Stauss 2005). Both the language of services marketing and the everyday language have identified – though not coherently – fundamental differences between service and a non-service which seem to be underestimated by SDL. Empirical evidence indicates that there are different kinds of output; this should be reflected in analysis or theory even if the differences are theoretically not maintainable. Kalaignanam/Varadarajan (2006, p. 172) for example maintain that “service-based solutions entail customers paying for temporary access, whereas goods-based solutions entail customers paying for ownership. This is a nontrivial



difference from the standpoint of both the firm and the customer.” We will further elaborate on this issue below.<sup>5</sup>

Empirical evidence indicates also that there are not only differences in output but also in the processes and activities which bring it about. So is the production of what is called in everyday language a service characterized to a higher degree by the need for cooperation by the customer than the production of goods. As regards the customer’s competences which enable him or her to cooperate, the provider has to cope with uncertainty, and vice versa. These uncertainties can affect both the efficiency and the effectiveness of the processes of production (Fließ/Kleinaltenkamp 2004). Our argument here parallels that from the paragraph above: Service providers cannot ignore particularities which manufactured goods’ sellers usually have not to take into account to the same degree. Again, our argument is not that, because there is a difference in empirical evidence, there has to be also one in theory. The question is, of course, if the differences are theoretically relevant and how they are accounted for in the theory.

The SDL advocates a normative approach with respect to *marketing ethics*.<sup>6</sup> The authors provide several normative guidelines for managers, which *should* be followed (Lusch/Vargo 2006a, p. 415f.). The central proposition of SDL can be described as “the more a firm follows the SDL, the more it will be able to achieve a competitive advantage” (cp., e.g., Lusch/Vargo/O’Brian 2007). These guidelines serve not only as a means to achieve competitive advantages for firms; they also serve as a “moral compass” that shall guide managers’ behavior.

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<sup>5</sup> Kalaighnam/Varadarajan’s hypothesis indeed has been backed up by empirical research recently published: Söderlund/Öhman (2005) find that in a service setting there is a relatively weak correlation between actual customer behavior and the behavior planned before entering the service encounter. They explain their result as follows: “[...] compared to a good, that one owns and thus controls, the consumption of services will be subject to more external restrictions – and these restrictions will make it more difficult for intentions to materialize in the form of behavior” (Söderlund/Öhman 2005, p. 179). The customer participates as a co-producer in the service production process. Co-production involves a flow of interactions between him and service personnel or other customers, so that he is not completely free to use the service as he would like, for example as he has to follow the rules and regulations compiled by the service provider.

## 2.2 The rental-access paradigm by Lovelock and Gummesson

Compared to SDL, the diffusion of the rental-access paradigm (RAP) into scientific community has not been as successful. However, it has already found its way into leading textbooks such as Kotler/Keller (2006, p. 402), Grönroos (2007, p. 55) and, of course, Lovelock/Wirtz (2007, p. 12).

Contrary to SDL's statement that every result of a firm's performance is a service, the RAP states that services can be distinguished from goods: According to the RAP, services are transactions that do *not* include a transfer of ownership from seller to buyer. Compared to ownership (of goods), services offer benefits to customers through temporary access or usage, with payments taking the form of rentals or access fees. Five types of services are identified (Lovelock/Gummesson 2004, p. 34): rented-goods services, place or space rentals, labor or expertise rentals, physical facility access or usage, network access or usage. The implications of the RAP for a firm's services marketing are the following (ibid., pp. 35):

- A wide array of tangible goods, such as automobiles, computers, industrial machinery and equipment, can be rented to customers in return for a periodic payment. Rented goods can form a base for services because customer needs may be better met thereby. Choice criteria, thus, will differ between rentals and purchases.
- "Service" often means selling parts of a larger space: "Customers gain the right to exclusive but temporary use of a portion [of a resource] that they can legitimately describe as 'my seat', 'my room', [...]" (ibid., p. 35). It is beneficial to share this larger space with other users. On some occasions, this may be regarded as a trade-off against more expensive alternatives, for example, when using a public transport system; on others, the interaction between

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<sup>6</sup> "As a potential theory of the firm, S-D logic is highly prescriptive regarding ethical issues" (Lusch/Vargo 2006a: 415).



customers is perceived as positive as, for example, in a football stadium.<sup>7</sup>

- In a service setting, the provider has to control how customers make use of the provider's equipment and facilities, co-produce with its personnel, and interface with systems and networks (Lovelock/Wirtz 2007, p. 14). This is not the case when a customer acquires ownership of a good: As long as he or she abides by the law, he or she can do with the good whatever he or she likes to do. After the transaction is finished, he or she is neither accountable to the seller nor to anyone else.
- Access to or use of services is temporally limited. Time – and its perception by customers – plays therefore an important role in services marketing. Especially time-based pricing is seen as a main task a service provider has to pay attention to.
- “[In a world in which many resources are believed to be finite” (Lovelock/Gummesson 2004, p. 36), services allow sustainable resource exploitation in two ways: First, labor and expertise are renewable resources in services. Second, services offer opportunities for sharing resources such as goods, physical facilities, systems, expertise etc.

Although RAP is meanwhile mentioned in textbooks, among marketing scholars there has been almost no discussion about the RAP and its implications for services marketing so far. This is not surprising as the RAP is neither based on empirical research, nor deduced from prior theories (Edvardsson et al. 2005, p. 113). It is therefore hard, if not even virtually impossible, to evaluate systematically the RAP's propositions against this background. If the RAP turned out to be an alternative to the dominant IHIP approach in services marketing, it would have to provide more clarity concerning its basic assumptions and behavioral model.

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<sup>7</sup> In both cases, the consumption by one customer does not curb the consumption of the same match by another, or in other words: group consumption is perceived as non-rivalrous (Cornes/Sandler 1996: 8). In economics, to this type of services is referred as “club good” (Buchanan 1965).

Lovelock/Gummesson (2004) and Lovelock/Wirtz (2007) do not address these points that are, however, crucial for the discussion about RAP and its contributions to services marketing.

At the present time, the RAP can rather be interpreted as a substantial contribution to the discussion on the character of services and their differences to goods than a new approach in services marketing. In this regard, within services marketing, it may pave the way to interesting insights on the role of property rights and the particular contract forms to which they will give rise (even though it does not explicitly draw on property rights). Nonetheless, as the RAP has till now not worked out clearly what is so specific about services, it seems that it exhibits some shortcomings even in face of the requirements of this limited domain. Its above-mentioned distinctions between between five types of services draw rather on everyday language than on theory. A good starting point to address this issue might be to clarify the concepts of ownership and, especially, non-ownership: According to the RAP, service transactions do not involve a transfer of ownership. At least two questions arise from this: First, what else is then being transferred? In other words, which are the main characteristics of a service transaction? Second, is it possible to identify different types of “non-ownership” transactions? Otherwise RAP could not provide an interface to the conviction, widespread in the field of services marketing, that there are different kinds of services (Araujo/Spring 2006, p. 797).

Lovelock/Gummesson (2004) and Lovelock/Wirtz (2007) provide no answer to these questions. They neither define “non-ownership” nor illuminate their understanding of this term; in addition, they do not generate their five types of services from this understanding. In the face of these omissions, the types as well as the marketing implications based on them seem rather to be randomly chosen. It is at least not clear how the authors have hit on them.

To sum up: A clarification of the basic concepts of the RAP is still missing. Insofar we agree with Stauss (2005, p. 227) that the RAP is a very promising approach that still awaits for its working out. We believe that the



property rights approach will provide a sound basis for such an endeavor. In section 3.2, we sketch this out in more detail.

### **2.3 The resources-processes-outcomes approach – a German contribution to services marketing**

The resources-processes-outcomes approach or ‘leistungs’ approach (RPO approach) in Germany’s services marketing has been developed by German researchers in the 1990s. In the meantime, despite the variety of approaches in Germany’s services marketing, it has found widespread attention in the German marketing community (Saab 2007). Although RPO approach’s exponents published their ideas several times in Anglophone journals (Fließ/Kleinaltenkamp 2004; Frauendorf et al. 2007; Kleinaltenkamp/Jacob 2002), the approach is still relatively unknown in the international marketing community. For this reason, we sketch its main characteristics below.

Compared to the SDL and the RAP, the RPO approach has the advantage of a double grounding first in the German business economic theory of the firm, namely the Gutenberg school, and second in the new institutional economics (NIE). From the first, it has inherited a point of view on activities, tasks, and processes, which take place within a firm that can be called *production theoretical*. Compared to its origin, however, this production theoretical view has been extended in a twofold manner: first, a broad concept of production has replaced the narrow one that only includes the production of industrial goods; second, the recording of all activities inside of the firm into categories like procurement, production, and sales has been transcended in favor of a cross-sectional view. From the institutional economics, the RPO approach took over the concept of transaction (Commons 1931; Williamson 1985) as the main category for the analysis of economic organization both of market and organizational activities. The transaction is also the starting point for the RPO approach’s linkage to the property rights theory.

### **2.3.1 The transaction cost theory as the main pillar of the resources-processes-outcomes approach**

Coase's work on transaction costs and property rights (Coase 1937; Coase 1960) has attracted more attention than Commons' mainly historic-descriptive work on the developments of property rights in the US (Ward 1966, p. 187). Commons however provided substantial contributions to the understanding of the transaction as the unit of economic analysis: He made the transaction "the ultimate unit of economic investigation, a unit of transfer of legal control. This unit enabled me to classify all economic decisions of the courts and arbitration tribunals under the variable economic factors involved in transactions as they actually are made" (Commons 1959, p. 4).

The transaction can be named the smallest unit of economic organization (Williamson 1985). It is the unit of analysis where advisements about the ends and means of activities, the interests of the involved parties, the condition and composition of the involved resources as well as the property rights assigned to them, the legal order of the economy, ethical considerations, a. s. o., are brought together. As a unit of analysis, a transaction is characterized by the institutional arrangements, the organizational and technical arrangements related to factor combinations, and by the communications between those economic actors involved in this procedure, designated throughout this paper as "provider" (supplier) or "customer" (buyer).

According to Commons and quite contrary to the understanding of the term "transaction" elsewhere in services marketing (Vargo/Lusch 2004, p. 12), transactions are "really trans-actions instead of either individual behaviour or the exchange of commodities" (Commons 1931, p. 652).<sup>8</sup> The actors involved in transactions interact with each other in order to accomplish their ends. These interactions are executed by individuals who

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<sup>8</sup> As Furubotn/Pejovich (1972: 1139) point out, "property rights do not refer to relations between men and things but, rather, *to the sanctioned behavioral relations among men that arise from the existence of things and pertain to their use*" (italics in the original).



act according to their interests, which are not totally harmonious with each other and which are directed at the configuration and accomplishment of action opportunities. Conflicts emerge throughout the course of a transaction and are to be regulated or solved by the transactions parties' joint efforts. Commons' (1931) characterization of the transaction by means of the terms "conflict," "order," and "mutuality" applies.

### **2.3.2 The property rights theory as the main pillar of the resources-processes-outcomes approach**

From the perspective of the PRT, a transaction is understood as a form of social interaction between economic actors (individuals as well as organizations) in markets (bargaining transactions) and within organizations (managerial transactions) that results in an exchange of property rights. Property rights are defined as "rights of action" over resources (Demsetz 1988, p. 36). The specific assignment of property rights determines the actual set of options (opportunity set) that is attainable by the buyer. The property rights theory draws on the distinction between four types of property rights to a resource (Demsetz 1998, p. 144; Eggertsson 2005, p. 34; Furubotn/Pejovich 1972, pp. 1139): (1) the right to use it (*ius usus*), (2) the right to appropriate the returns arising from exploiting it (*ius fructus*), (3) the right to change the form, substance and place of it (*ius abusus*), (4) the right to transfer all or some of the above-mentioned rights to that commodity to others (*ius successionis*).

The PRT is one main pillar for the RPO approach's characterization of the transaction. The transaction as a unit of analysis is characterized by the arrangement of property rights on which the actors have negotiated, by the economic organization of the processes of labor required for the achievement of those ends which are intended to become accomplished by means of the transaction, by the internal and external factors of production which have to be combined in order to bring about the intended outcome, by the communications related to this complex process that bonds (but not necessarily harmonizes) the interests and endeavors of the

parties involved, and by the dispositions of all these components and activities.

In the PRT, the narrow goods-centered view has been transcended in favor of a view that emphasizes the action opportunities based on a particular arrangement of property rights. In the NIE, thus, the importance of scarcity as a motivation for economic activities has come under pressure. One can say that the concept of scarcity related to goods or their attributes has been enhanced by the perspective of action opportunities to which the goods – as well as particular activities – are a means. The consideration of action opportunities paves the way for the analysis of institutions which, on the one hand, enable actions, and, on the other, limit them.

Such rights-based action opportunities are the economic foundation of user processes which are put in foreground by the SDL in the context of its interpretation of “value-in-use:” The utility that goods render (mostly in connection with activities) arises from the achievement of those ends to which they contribute; utility is determined by the property-rights structure assigned to bundles of goods and services. Referring to this, the negotiation of economic property rights (Barzel 1997: 4) is an important subject matter of the actors’ activities directed at the achievement of their economic ends.

### **2.3.3 Bundles of goods, services and the rights assigned to them**

In contrast to the SDL, the RPO approach has not gotten rid of the use of everyday language in order to describe the problems in its domain: It assumes that the outcome sold to the customer is always a bundle composed of goods *and* services (Engelhardt et al. 1993). Thereby, it refers to a finding long established in marketing literature (Lovelock/Gummesson 2004, p. 26), namely that there is an interdependence between goods and services or different kinds of output. Shostack (1977, p. 75), as an example, has remarked that most offerings are “combinations of discrete elements which are linked together in



molecule-like wholes. Elements can be either tangible or intangible.” All activities in everyday language subsumed under the term “service” at least require goods to support and facilitate the delivery system (Jacob et al. 2008). Some are even goods-centered as, for example, the above mentioned services based on rented goods. For this reason, the RPO approach has abandoned the view that firms have to market either goods or services; instead of this, it advocates the idea that customers purchase *bundles* of goods and services which together provide them with a value and a “leistung” respectively. With it, of course, the possibility that there will be one day an adequate definition of the concept of service is not excluded; in addition, the use of the terms “good” and “service” in everyday language is not affected (at least not in the short run). However, it is remarkable that to date theories in the field of services marketing have not been able to derive the concept of service from their conceptual frameworks (Haase 2005).

#### **2.3.4 The integrative value-creation chain**

From its production theoretical heritage, the RPO approach has adopted the view that the customer has to contribute to the process of value creation that gives rise to a co-production of the outcome by the provider and the customer (Fließ/Kleinaltenkamp 2004, pp. 393). The customer’s contributions are conceptualized as *external resources* which are in need of combination throughout the process of value creation or production.<sup>9</sup> External resources – delivered by the customer – are categorized as human resources, physical objects, rights, nominal goods, and information (Kleinaltenkamp 2005, p. 71). External and internal resources are combined into an integrative value-creation chain (see Fig. 1); integrative production thus results in the above mentioned outcome or goods-services bundles (Fließ/Kleinaltenkamp 2004, p. 394; Frauendorf et al. 2007, p. 30; Kleinaltenkamp/Jacob 2002, pp. 153). Compared to external resources,

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<sup>9</sup> Throughout the paper, we use the terms “value creation” and “production” as synonymous.

internal resources are the provider's resources such as assets (human resources, buildings, computers, software, etc.), commodity factors (paper, pencils, energy etc.), semi-finished and finished goods (Gutenberg 1983, pp. 2) that also enter the collective process of production.

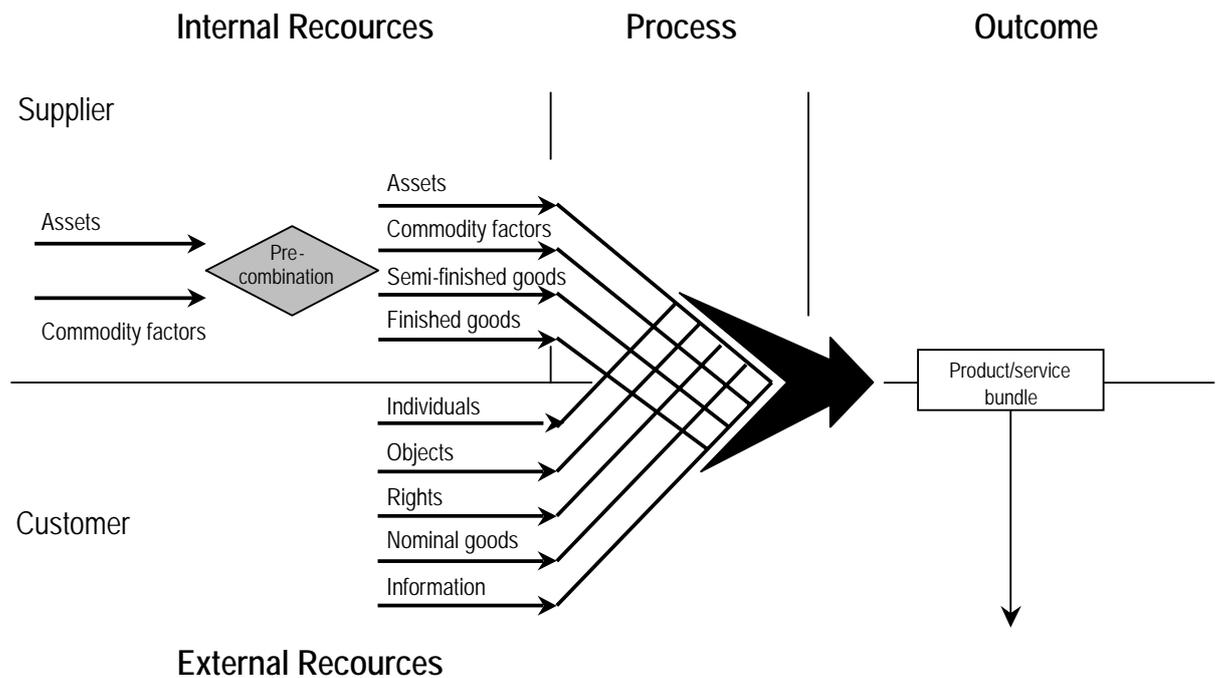


Figure 1: The integrative value-creation chain (Fließ/Kleinaltenkamp 2004, p. 394).

In the RPO approach, there is an additional way in which the customer's contribution is conceptualized. It relates to both the manner and degree in which the customer gains influence on the joint activities required according to the process of outcome production. On the one hand, the customer's influence can be limited to the provision of external resources. In this case, the customer does not take influence on the design and management of the factor combination processes, that is, these tasks are executed by the provider or owner of the internal resources. On the other hand, for several reasons it may be required that the customer gains influences on the decision on which combinations of resources have to be executed and how this shall take place. This case is characterized by a



particular need for integration, or by a particular interest of the customer in his or her involvement in the design and management of the process of integrative production.

### **2.3.5 Three dimensions of a transaction**

According to the RPO approach, a transaction is characterized by three areas of activities singled out by reference to resources, property rights and information and communication respectively. They also provide the starting point for the marketing management of a firm (Kleinaltenkamp 2005, pp. 67):

- **Combination of resources:** Integrative production means that value is jointly produced by a combination of external and internal resources. Because the utility functions of provider and customer are interdependent (Grossman/Hart 1986), it is the firm's marketing management task to provide the conceptual design and organization for the provider-customer interactions. The value that can be jointly produced is expected to increase if both provider and customer invest specifically in the joint process of production (Jap 1999, Kleinaltenkamp/Ehret 2006, Rokkan et al. 2003). But this also increases the probability of conflicts which are caused by the appropriation of the jointly created value (Furubotn/Richter 2000, p. 131). The returns from specific investments are endangered if one party tries opportunistically to take advantage of the dependency of the other. Given the opportunity, it is expected that some decision makers will unscrupulously seek to serve their self-interest. As it is difficult to know a priori who is trustworthy and who is not (Williamson 1985, p. 85), the economic actors always have to take measures against this possibility.
- **Property rights assignment:** Based on the concrete design of transaction arrangements, property rights are temporarily transferred during the period of joint production: on the one hand,

the supplier who holds “ius usus” or “ius abusus” or “ius usus fructus” to his or her resources allows the customer to take over one or a combination of these rights from him or her. On the other hand, as the production of the output is based on them, “ius usus” or “ius abusus” related to external resources are required for the achievement of integration of the external resources. The RPO approach so highlights the fact that integrative production is characterized by what is called *attenuation* of property rights (Furubotn/Pejovich 1972, p. 1140) to resources which affects *both* parties of the transaction. As will be discussed below in section 3.2, the attenuation of property rights can give rise to negative external effects. Marketing management cannot ignore this constellation; therefore, it has to develop solutions that minimize uncertainties arising out of this (Fließ/Kleinaltenkamp 2004, p. 401).

- Stream of information: The management of information processes is central to the RPO approach as it combines the area of property rights assignment with the area of combination of resources. For the RPO approach, exploring and outlining the flow of knowledge within and between markets and organizations is one of the main marketing-management challenges (Haase/Kleinaltenkamp 2004, p. 89). The RPO approach regards information, which is gathered in the course of a single transaction as an important source of knowledge creation for both the provider and the customer. In this vein, information is an important element of the system of production factors. For both parties, integrative production is a source of learning processes which can address the execution of activities related to the combination of resources as well as the respective other parties’ skills, competences, knowledge, or willingness to cooperate.

In the RPO approach, information inflow that follows from provider-customer interactions in the course of a single transaction (process-based information) results from *communication* between supplier and customer; for this reason (and others) it is differentiated from



autonomously gathered information through market research activities (and the like). These two kinds of information inflow lead to qualitatively different types of knowledge acquisition or knowledge creation; traditional market(-segment) oriented research is supplemented by communication processes that pave the way for “the voice of the customer” (Jaworski/Kohli 2006) into the firm.<sup>10</sup>

From our point of view, the RPO approach has a lot of potential in dealing with the matter of customer integration in the field of (services) marketing. As a social scientific theory, the RPO approach also demonstrates how social-scientific recognition is embodied in different but interrelated theories. The RPO approach’s advocates are, however, a far cry from understanding or conceiving all interrelations between the theories at stake. In addition, only recently have they begun to address the empirical dimension of their approach. Against this background, the RPO approach has theoretical promise but serious gaps with respect to its empirical application.

### **3 The Anglo-Saxon approaches’ grounding in economics**

From our point of view, what is still missing with respect to both the SDL and the RAP is the consideration of more recent developments in economics, in particular of the new institutional economics (NIE). We are convinced that (services) marketing research in general and in particular the SDL as well as the RAP will gain from a clarification of its relations to the NIE. As will be shown in this section, the alleged new perspectives on services marketing of both approaches are, at least in part, foreclosed by the NIE.

Both the SDL and the RAP are silent on their relations to the NIE. For several reasons, this is a significant omission: First, the NIE does provide

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<sup>10</sup> For a discussion of the ethical dimensions of customer integration, see Haase (2007a).

a theoretical framework supportive to an economic understanding of cooperation between market participants without being forced to build on charity rather than rational action as the SDL does. Second, the NIE provides solutions to some problems which affect both the SDL and the RAP (e.g., that the SDL has no concept of the termination of the interaction between buyer and supplier, namely no concept of transaction; or, that the RAP has no concept of ownership). Third, the NIE has already undertaken enhancements or revisions of neoclassical economics which are of importance for new developments in services marketing (e.g., in the property rights theory the abandonment of the goods-centered view by the conceptualization conception of transactions as an exchange of property rights to a resource).

In the following sections, we will show that the NIE, especially the property rights theory, can contribute to the clarification of positions of both the SDL (3.1) and the RAP (3.2). The RPO approach's foundation in the NIE is discussed in the final part of this chapter (3.3).

### **3.1 Cooperation of market participants and co-creation of value: some reflections on the service-dominant logic**

Vargo/Lusch (2004) are convinced that marketing has inherited from economics the model of exchange or what they call a *goods dominated logic*. According to them, marketing scholars are should redefine the value creation process. Value-in-use instead of (in goods) embedded value, should be in the focus of interest. In addition, the value-creation process is something that takes place together with the customer. We agree on this, however, we believe that the distinction between production and consumption should be maintained. The reason for this is although the consumption process can be seen as a process of value creation it is not a process of cooperative value creation. The *co-creation* of value is the result of a market transaction, i.e. the *social interaction* between (at least)



two market participants,<sup>11</sup> whereas consumption processes often do *not* require cooperation. The NIE suggests that this difference is non-trivial. In case of a co-creation of value, producer and consumer co-operate and form an integrative value chain. As outlined above in section 2.3, joint value creation can face post-contractual opportunism<sup>12</sup> or a conflict between the parties with regard to the distribution of the jointly produced value. The latter can mean that the whole quasi rent<sup>13</sup> of the respective transaction is captured by only one party to the transaction. The co-creation of value leads to specific marketing challenges as, e.g., the challenge of what can be done to counteract these potential “hold up” situations, a topic completely ignored by the SDL. According to the NIE it is indispensable that marketers develop institutions<sup>14</sup> that might help reduce customers’ fear of “hold up”. Among such institutions are for example contracts, specific assignments of property rights (see for more details on property rights section 3.2), or the development of reputation based on reliable actions and fair play (Furubotn/Richter 2000, p. 131). The creation of institutions which facilitate transactions lies within the interest of each individual supplier – not because he or she wants to change the world into a better one, as suggested by the SDL, but because it is rational to act so as otherwise profits might move to competitors. Because the SDL has no understanding of the particularities of value creation that can take place in the course of a market transaction, it ignores these problems and, of course, also the task of customer integration in general, i.e. the managerial functions which are to be fulfilled in order to generate the quasi rent. Actually, the SDL has no concept of (market) transaction at all.

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<sup>11</sup> In case of BtB transactions the interaction takes place between firm and firm; in case of BtC transactions between firm and consumer, or household, respectively.

<sup>12</sup> In the NIE, to this form of opportunism is referred as “hold up” (Furubotn/Richter 2000, p. 131).

<sup>13</sup> “Quasi rent” is defined as the excess of value of an asset that accrues from a particular transaction minus its salvage value, that is, its value in its next best use (Klein et al. 1978, p. 298).

<sup>14</sup> The concept of institution is defined as “the sets of working rules that are used to determine who is eligible to make decisions in some arena, what actions are allowed and constrained, what aggregation rules will be used, what procedures must be

The SDL may be seen as a new perspective on phenomena related to what in everyday language is called “goods” and “services”. However, we doubt that it is justified or useful to make “service” the overarching term for them. According to the SDL, services are mental and physical activities (Vargo/Lusch 2004, p. 12). The SDL is right insofar as it focuses on activities, and not only on output with good characteristics. As we sketched above, the RPO approach proceeds in the same manner.<sup>15</sup> That notwithstanding, what consequences are to be drawn from the fact that to date services marketing theories have not been able to theoretically reproduce the everyday language’s distinction between goods and services?<sup>16</sup> Is services marketing enforced or well-advised to take over this distinction? As we have argued above, the everyday language’s distinction is not to be disavowed. Services marketing as well as services marketing theories have thus to deal with it – at least as long the market participants interpret their activities in its light. Nevertheless, even if there is no doubt that the above-mentioned problems which have given rise to the very field of studies that makes up services marketing cannot be neglected, there is no need to take over the terms that indicate the existence of these problems or to substantiate the empirical distinction on the theoretical level. Quite the contrary, a theory that only records, sorts, and reformulates those sentences which express empirical evidence will probably contribute less to recognition than one that provides new and provoking or, at least at first glance, less understandable insights to a problem. So, we do not bemoan that the SDL dissolves the distinction between goods and services or, generally speaking, that it offers a new or radical perspective on this issue. Rather, we criticize the way it is done and its result, respectively. From our point of view, it is inexpedient to equalize “services” and “activities” as this approach ignores the

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followed, what information must or must not be provided, and what payoff will be assigned to individuals dependent on their actions” (Ostrom 1990, p. 51).

<sup>15</sup> For this reason, it is a theory of production, and, interestingly, it can not make a distinction between goods and services based on its theoretical framework.

<sup>16</sup> We do not claim that the IHIP characteristics are generally useless or mistaken; nevertheless, they do not provide adequate criteria for a definition of the concept of service.



particularities of activities that take place during market transactions and cooperative value creation respectively as we have outlined above.

### **3.2 Characteristics of non-ownership transactions: property rights theory and its contribution to the rental-access approach**

In economics, the property rights theory (PRT) has emerged in the 1960s and 1970s. Topics like externalities and social cost (Coase 1960), the efficiency of economic systems (Alchian 1977, Furubotn/Pejovich 1972) or common pooled resources (Libecap 2005, Ostrom 1990) were of particular interest at that time (De Alessi 1980) and dominate scientific discussion in economics up to this day (Furubotn/Richter 2000). Applications of the PRT to the academic field of business administration are rather seldom, even though there is overwhelming empirical evidence that a specific assignment of property rights affects individual economic behavior in a specific and predictable way (De Alessi 1980, Furubotn/Pejovich 1972, Furubotn/Richter 2000, Libecap 1986, Libecap 1989, North 1978).

As remarked above, the RAP does not theoretically substantiate its distinction between ownership and non-ownership. It is thus appropriate to begin with the PRT's understanding of the term "ownership:" According to the PRT, *ownership of a resource* means that the four types of property rights mentioned above in section 2.3 are held exclusively by one person. A resource, though, is not understood as a homogenous unit; it consists of several attributes each of which can be separately marketed by its owner (Barzel 1997, pp. 4). So, for example, in case of a professional football match, the resource itself would be the football stadium whereas an attribute to put on the market would be the ticket that allows its holder (buyer) temporary access to the stadium to watch the match.

Central to RAP is its assumption that services are those transactions that do not involve a transfer of ownership from seller to buyer. In section 2.2, the question arose of what else is then being transferred. This can now be clarified: according to the PRT, a transaction is a means for the transfer of property rights to a resource. Two types of transactions can be identified

(Ullrich 2004, p. 173): (1) transactions which involve a transfer of *all* property rights to a resource and therefore result in a transfer of ownership as defined above, (2) transactions which involve a transfer of *one or a combination of the first three* property rights to a resource and therefore do *not* result in a transfer of ownership as defined above. According to the RAP, to perform the second type of transaction would be tantamount to performing a service transaction.

Property rights in a resource can be partitioned, divided and reallocated, in most cases temporally limited, so that they are partitioned among two or more parties, as, for example, in the case of a flat the right to use and the right to appropriate its returns (as, e.g., the rent that has to be paid to a landlord). In the PRT, this partition is referred to as *attenuation*<sup>17</sup> of property rights in a resource.

There is a second type of attenuation considered as “resource sharing” (Alchian 1977, pp. 135): if a resource is shared, then the same bundle of property rights in a resource is allocated to a group of people as, for example, in the case of the above-mentioned football match where there are often thousands of ticket holders. If we consider this dimension of attenuation, too, we can identify two types of services, or in terms of the RAP, two types of service transactions that do not involve a transfer of ownership: such with and such without resource sharing. In the first case, *common* access to a resource – temporally limited – is allowed. In the second case, access to resources is given *exclusively* for a specific time period.

The PRT makes a distinction between two types of resources to both of which access can be gained collectively or individually: capital and labor (Ullrich 2004, p. 174). “Capital” can be equated with “capital goods” or kinds of infrastructure (space, physical facilities, networks etc.) to which one usually can have access by a form of rental agreement. Based on this agreement, there are two types of activities appropriate for the (following)

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<sup>17</sup> As Furubotn/Pejovich (1972: 1140) emphasize, the term “attenuation” “will always signify the existence of some degree of restriction on the owner’s right to: (1) change the form, place, or substance of an asset, (ii) transfer all rights to an asset to others at a mutually agreed upon price.”



exploitation of a resource *R*: first, the renter makes himself or herself use of *R*. Second, the renter of *R* additionally hires labor as a complementary resource that makes use of *R*. This rental of labor as a resource complementary to already available capital goods is temporally limited to the time the transaction takes. Throughout the time the transaction goes on, the activities required for the creation of value are then executed by the personnel of the provider of labor.

With reference to the RAP it can be stated that place or space rentals, physical facility access or usage, and network access or usage fall into the category of common access to capital; rented goods services and rented labor or expertise fall into the category of exclusive access to capital and labor. According to the PRT, a differentiation between space, physical entities and networks, as undertaken by Lovelock/Gummesson (2004), does not make sense at the theoretical level, whereas the one between exclusive and common access to labor might be important. Lovelock/Gummesson (2004), however, ignore this latter-mentioned type of services completely that, for example, takes place in the case of a university lecture, in a theater, or when watching a football team playing.

The PRT can thus contribute to both the clarification of the basic concepts of the RAP and initiate a discussion about the RAP and its propositions with respect to services. The PRT also provides a behavioral model that is missed in the RAP. According to the PRT, individuals maximize their utility function against the background of the prevailing system of economic and legal property rights.<sup>18</sup> As regards the future transactions which they are aiming to design, they also take into consideration the structure of property rights required in order to accomplish their ends. Changing property rights assignments lead to changing incentive structures and, therefore, take influence on the choices open to the decision makers. This hypothesis, central to the PRT, has been supported so far by a huge amount of empirical research (De Alessi 1980, Furubotn/Pejovich 1972,

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<sup>18</sup> Barzel (1997, p. 90) defines an individual's "economic rights" over an asset as "the individual's ability to directly consume the services of the asset, or to consume it indirectly through exchange." Compared to this, "legal rights" are "defined as what the government delineates and enforces as a person's property" (ibid.).

Furubotn/Richter 2000, Libecap 1986, Libecap 1989, North 1978). One finding of interest was that privately owned resources – in the above defined way – are more efficiently used than resources which are subject to attenuated property rights. Any attenuation of property rights to a resource is a source of externalities; throughout a transaction, the behavior of the other individuals who are involved in the transaction or hold property rights to a resource involved in it, can take (negative as well as positive) influence on the economic situation of the resource owner (the person who holds at least the “ius successionis” right).

The matter of fact that, from the perspective of the PRT, attenuated property rights are constitutive for what has been named above *service transactions* gives rise to several consequences for services marketing. The service provider obviously accepts the attenuation of rights only because he or she expects that the resource owned by him or her can earn higher rents this way. But he or she has also to consider that customers using this resource face reduced incentives for a careful handling of it – a problem referred to in economic literature as the “tragedy of the commons” (Hardin 1968) that is basically nothing but a negative externality. It is in the service provider’s interest to take certain measures to avoid this kind of customer (mis)behavior. The PRT suggests that it might be fruitful to change the customers’ incentive structure so that it can be expected to behave like an owner of the resource in question. It is, for example, not unusual to request a deposit from a renter that he or she only gets back if he or she returns the rented object in good order and condition.

#### **4 Discussion of the two Anglo-Saxon approaches and the German approach**

If we had to sort the three approaches discussed in this paper according to the broadness of their domain, then we achieved a ranking with the SDL at the top. Without doubt, the SDL is the broadest approach with the most far reaching pretensions and claims (e.g., to provide a new logic of



exchange). The main themes of the SDL are the reasons assumed for the division of labor as well as its consequences on the organization of work. In this ranking, the SDL is followed by the RPO approach that is restricted in its domain to economics, particularly to business economics. The most focused approach is the RAP.

The SDL addresses many issues which are important in the RPO approach, too: the focus on processes or activities which are structured in the RPO approach by its production theoretical view. Both the SDL's service-centered view and the RPO approach's production theoretical view have created a change in perspective that has the potential to change the understanding of marketing science and practice: With respect to the activities, a cross sectional view with the information function of marketing is in the foreground; communication theory and marketing are at an intersection; and marketing management is seen as a core-competence of the firm.

With the help of the concept of transaction, the RPO approach is able to provide the processes or activities, which arise in the context of an economic relationship, with a structure or edifice that is based in economics. This structure is particularly missing in the SDL that is thus unable to establish a border between production and consumption. We agree with the SDL that the concept of consumption is too limited to grasp the complex user demands and processes (in particular with respect to business-to-business transactions); we affirm that the customer participates in the processes related to the division of labor (that there is co-production between provider and supplier); we also affirm that there are processes in which consumption and production take place "uno actu". We are however convinced that it is useful to separate user processes which take place throughout a transaction from those which occur after its termination.

We further appreciate that many of the SDL's "new perspectives" on the issues of service marketing draw on economic insights and grassroots. One of SDL's fundamental propositions (Vargo/Lusch 2004, p. 10), for example, says that all economies are services economies: knowledge and

specialized skills have been of importance in all economies till this day, independent of how they are named (hunter-gatherer, agricultural, industrial). This argument partially parallels that of neoclassical growth theory (Solow 1956) as it came under attack because of its treatment of knowledge as an exogenous variable in standard models of growth.<sup>19</sup> Behind the criticism on the standard theory of economic growth was the idea that the development of knowledge and the influence of ideas should not be taken for granted but have to be explained by economics (Romer 1990).

Compared to neoclassical economics, the new institutional economics embodies already a new logic of cooperative exchange available based on a new view on economic actors and their need to cooperate in order to obtain the rents related to their assets, the transaction object that is mainly determined by the property rights assigned to it, and the consequences on economic organization including communication and other marketing tasks which follow from that. From the perspective sketched above, we see the limitations of the goods-centered view but no need for a new logic of exchange.

The action or process perspective on output that has been adopted by both the SDL and the RPO approach does not imply that, as in the SDL, “service” is now the overarching term. The SDL is perhaps enforced to proceed this way because it lacks a *theoretical framework* that is able to bring its concepts and conceptualizations into order and integration. This is the reason why the SDL equates, e.g. mental and physical activities with “service” – otherwise its “new logic” would disappear from marketing theory and appear as something from social theory, social psychology, or cognitive psychology.

From the holistic point of view of social scientific recognition, i.e., from the interrelated structure of theories which embody it, the SDL is thus not as radical as it is believed to be. Although it presents a host of ideas and conceptions, it does not provide a detailed discussion of how they are related to its conceptual framework. In other words, the SDL claims

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<sup>19</sup> Vargo/Lusch (2004, p. 9) refer to new growth theory.



relations to many other ideas and points of view but does not elaborate on them. Because of this, and perhaps also by intent, it appears to be rather a kind of extended mission statement or programmatic discourse among scholars than a theory.<sup>20</sup>

In any case, though a stimulating discussion has been caused by the SDL, a price is paid for its broadness in terms of vagueness. However, as we have argued above, there is a way to reduce this vagueness: In particular with respect to the possibility of achieving a conceptualization of activities and processes within an economic language, we are convinced that the NIE can contribute to the SDL. A production theoretical view, as enshrined in the RPO approach, can also provide a framework for the complex processes related to the cooperative creation of value between provider and customer.

As regards goods, the SDL's line of argumentation is similar to that of the PRT: people demand goods not because they are an end in themselves<sup>21</sup> but as a means to the achievement of something else. This "something", of course, differs with respect to the PRT and the SDL: According to the SDL, it is service or activities; according to the PRT, it is opportunities of action.

Compared to the SDL and the RAP, the RPO approach is the most advanced approach with respect to the clarity of its theoretical framework and statements. Its linkage to the NIE has enabled it to provide conceptualizations of transactions from the perspective of the business-economic theory of the firm. From its business-economic heritage, it has developed a conceptual framework that structures the different kinds of activities necessary in order to, e.g., run a business, link its internal and external organization in order to jointly produce the output with the customer, and to establish an adequate marketing communication. Though there might be other suggestions or solutions to the problems identified and solved by the RPO approach, or to problems close to those,

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<sup>20</sup> According to Vargo/Lusch (2006: 51), SDL "is a work in progress. (...) It is too early to make claims about S-D logic being a new theory, let alone a 'general theory' or a paradigm shift for marketing."

<sup>21</sup> Actually, even neoclassical economics would not claim that.

we refrain from expressing our opinion that the RPO approach is on the right track if we aim at the development of a post-IHIP perspective on services marketing, or a new paradigm able to supersede the mainstream approach.

As discussed above, Lovelock/Gummesson (2004) have attempted to base the distinction between goods and services on the economic actors' interest or disinterest in achieving ownership of a resource. There are, of course, differences in the output of a firm which are grasped in every day language by the terms "good" and "service." Property rights theory contributes in particular to the understanding of these differences. This does not imply, however, that the everyday language's terms need to be maintained in the conceptual frameworks of services marketing's theories. In Germany's services economics there has also been some endeavor to make the property rights approach fruitful for a better understanding of the nature of output and improving marketing practice based on this line of thinking (Kleinaltenkamp 2005, Ullrich 2004). Although the PRT is able to substantiate the use of the distinction between ownership and non-ownership by the RAP, we are not convinced yet that with it the services-goods duality will be maintained or theoretically reproduced; in any case, we assume that approaches which focus on the interplay of different kinds of output and put action opportunities into the foreground, will be able to stimulate scientific progress in the field.

From the discussion of all three approaches, it can be concluded that they share many characteristics. There are, however, also differences. As we have pointed out above, we believe that the use of the concept of service in the SDL is too broad and thus inadequate; however, this deficiency can be corrected by reference to theories which provide a conceptual framework for the analysis of these kinds of actions. We see these theories mainly in the NIE. Evaluated against this background, both the SDL and the RAP might develop into a vehicle for improving the acceptance of the NIE as a basis of marketing theory. For this reason, they may pave the way for a closer relationship between economics and marketing research.



All approaches demonstrate how deep today's services marketing is rooted in social science, particularly in economics and social theory. The RPO approach is directly linked with the NIE that is anchored in social theory because of the social-theoretical dimensions of the concepts of transaction and property rights. SDL draws directly on social-theoretical concepts because of the missing intermediation by means of an economic conceptual framework. The RAP harks back to the concept of ownership that is rooted in law and economics.

As the paper has shown, theoretical analyses and policy implications based on them require a linkage between the roots in social theory, law, and economics and the services marketing's body of knowledge. The NIE paves the way for the services marketing's theories to move from fundamental social-theoretical issues (interaction, communication, knowledge generation) to the more specific topics and tasks in services marketing and management.

In the field of services marketing, the RPO approach has made the most comprehensive use of the NIE's conceptual framework and insights till now. With respect to the theoretical or conceptual level, it is thus a positive exemplar within services marketing. Against the background of the NIE, in particular concerning the predominant position of the assumption of opportunism, it is often overlooked that its main managerial implication is to bring about the positive potential of cooperative value creation (Haase 2007b). As introduced above, with respect to management, the RPO approach's focus is on economic organization. However, its managerial implications are rather fundamental and general. The realization of the RPO approach's policy implications opens up to managers a comparatively broad range of action that has to be translated into economic decisions by the managers themselves. It has also to be shown that the linkage between the NIE and RPO approach (as well as other approaches) does not only pave the way to allegedly important theoretical insights but also to evidence-based information and understanding in their fields of analysis.

## **5 Conclusion**

It seems that the diagnosis of the advocates of the two Anglo-Saxon approaches to which this paper refers is right: there is a crisis in services marketing theory. No doubt, the unifying power of the IHIP-characteristics is declining; in addition, the time seems to be ripe for the development of new perspectives. No wonder then that new strands in Anglo-Saxon services marketing have emerged: Whereas the RAP elaborates on a specific but nevertheless important issue, the SDL possesses the potential to evolve into a more encompassing alternative to the established IHIP-based approaches. From the today's point of view, however, the SDL is rather a collection of main ideas collected around the division of labor and the problems resulting from that than an alternative to the orthodoxy. The RPO approach has been proved to be an example for the lines along which such an alternative can be designed. We have emphasized the important theoretical input that the NIE can provide in this regard. Marketing scholars interested in the development of a new paradigm are invited to inspect the NIE's potentialities in this regard. Generally speaking, a business-economic approach or more specifically, a services marketing approach, is presumably well-advised not only to walk the line the NIE has proposed but to develop its own style of problem identification and solution.



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