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Service-Dominant Orientation: Measurement and Impact on	Định hướng trọng dịch vụ: Đo lường và tác động đến kết quả
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Performance Outcomes

Abstract checked 2 h 53 9/10

A firm's ability to offer better service and to co-create valuable customer experiences is critically important to achieving competitive advantage. Service-dominant (S-D) logic, along with resource and capability perspectives, provides the underlying theoretical reasoning for the **relevance** of such capabilities. However, despite researchers' recent contributions to marketing theory, empirical support for S-D logic and its **implications** is very limited at the strategic level. An open question, therefore, is what empirically constitutes a value co-creation capability, and what is its impact on important performance outcomes. Building on the conceptualization of an S-D orientation as a portfolio of value co-creation capabilities, this research first operationalizes and validates **an S-D orientation measure** through a multi-study approach across different contexts. The authors then apply the measurement instrument to an automotive retail setting to investigate the outcomes of S-D orientation in terms of both customer- and firm-related performance metrics. Results provide the first empirical demonstration of the importance of S-D capabilities, and thus S-D

hoạt động

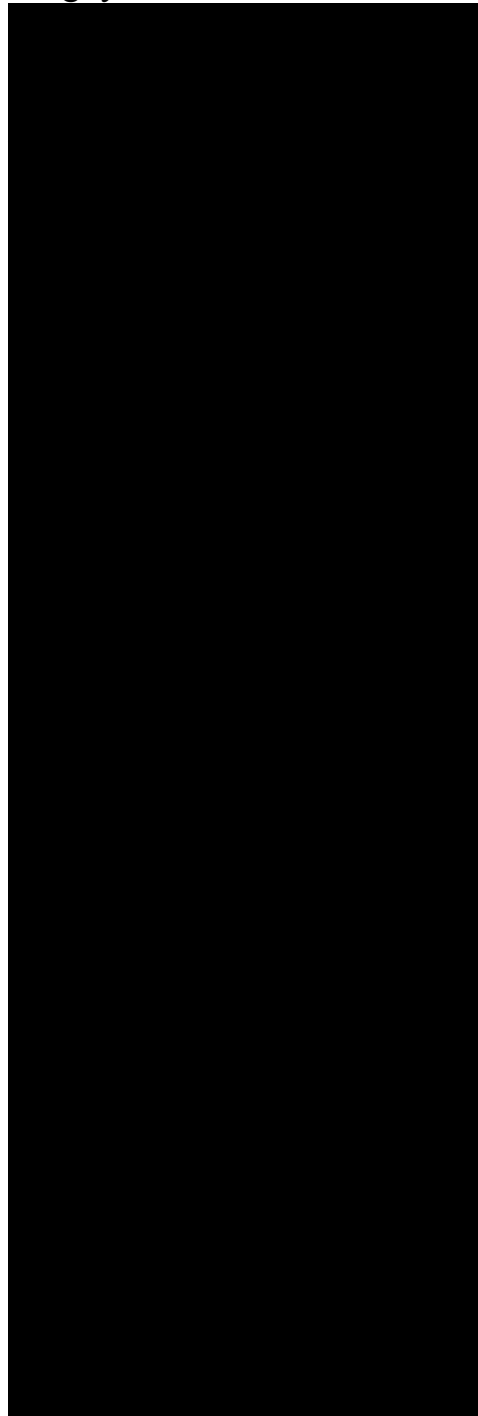
Tóm tắt

Khả năng của công ty trong việc cung cấp dịch vụ tốt hơn và đồng thời tạo ra những trải nghiệm tích cực cho khách hàng rất quan trọng để đạt được lợi thế cạnh tranh. Logic hướng dịch vụ (SD) cùng với các quan điểm về nguồn lực và năng lực tạo cơ sở lý thuyết chứng minh tầm quan trọng (tính thích đáng, mức độ liên quan, mức độ phù hợp) của những khả năng như thế. Tuy nhiên, mặc dù gần đây có nhiều nghiên cứu trong lĩnh vực lý thuyết tiếp thị, thực nghiệm về logic hướng dịch vụ và **ý nghĩa (gợi ý)** của nó rất hạn chế ở cấp độ chiến lược. Do đó, một câu hỏi mở là về mặt thực nghiệm điều gì tạo thành năng lực đồng tạo sinh giá trị, và yếu tố nào tác động đến các thành quả quan trọng. Xây dựng dựa trên khái niệm định hướng trọng dịch vụ là một tập hợp các năng lực đồng tạo sinh giá trị, trước hết nghiên cứu này triển khai và đánh giá các chỉ số đặc trưng cho định hướng trọng dịch vụ thông qua (cách tiếp cận) nhiều nghiên cứu trong các bối cảnh khác nhau. Sau đó, tác giả áp dụng công cụ đo cho hệ thống bán lẻ ô tô để nghiên cứu các kết quả của định hướng trọng dịch vụ theo cả các chỉ số hiệu quả của

logic, for firms.

Service is central to firms' competitive advantage, particularly in retail and manufacturing industries (Karmarkar 2004; Lusch, Vargo, and O'Brien 2007). Customers tend to develop preferences for firms that are better at facilitating their resource integration activities, enabling pleasurable interactions, efficient use processes, and achievement of desired outcomes (Gronroos, 2006; Zeithaml, Berry, and Parasuraman 1996), and better service can enhance these valued experiences. Theoretically, the literature has conceptualized this process as value co-creation, whereby market actors depend on and benefit from the ability to serve each other when integrating resources (Vargo and Lusch 2008). With this interdependence in mind, managers and scholars seek to determine critical service capabilities and their potential contributions to mutual betterment. In particular, service-dominant (S-D) logic (Vargo and Lusch 2004, 2008) and co-creation frameworks (e.g.,

khách hàng và công ty. Các kết quả đã bước đầu cung cấp minh chứng thực nghiệm về tầm quan trọng của các năng lực hướng dịch vụ, cũng như logic hướng dịch vụ đối với các công ty.



Payne, Storbacka, and Frow 2008; Prahalad and Ramaswamy 2004) challenge traditional business thinking, requiring strategy researchers to reconsider the relevance of service capabilities.

Karpen, Bove, and Lukas (2012) recently introduced the concept of S-D orientation, conceptualizing for the first time the capabilities that **enact** S-D logic by enabling organizations to co-create value through service exchanges with network partners. Six service-driving capabilities (relational, ethical, individuated, empowered, developmental, and concerted interaction) constitute this higher-order competence and enable value co-creation practices. While this conceptualization of the S-D orientation represents an important step toward developing middle-range theory of co-creation capabilities in the context of S-D logic (Brodie, Saren, and Pels 2011), its validation requires a measurement instrument. Moreover, without a measurement instrument the strategic implications for managers that may arise from an

Gần đây, đã
xây dựng (triển khai)
hợp phối
đánh giá
là điều

S-D orientation also remain speculative.

This paper empirically investigates S-D orientation and its co-creation capabilities by examining the construct's operational nature and nomological interdependencies. To this end, we develop and validate a hierarchical index to measure S-D orientation. In so doing, we focus on retail contexts, as retailers vary widely in how they prioritize and strategically leverage their service capabilities. To operationalize S-D orientation, we draw on a procedure from prior research in this journal (Brocato et al. 2012) and execute five stages of measurement development and validation with fresh discrete samples. Avoiding a potentially myopic, intra-organizational view of S-D orientation (Harris 2002), we capture customers' perceptions of S-D orientation in the context of a broader theoretically and managerially relevant nomological network.

The growing body of literature attesting to the importance of S-D logic and the need for its operationalization remains mainly theoretical. With this study, we advance marketing theory by demonstrating

suy đoán

báo

bản

trên phương diện lý thuyết Để
làm điều trên xây
dựng và đánh giá chỉ số phân
cấp

cách thức

động

biến

triển khai

tạp chí này

và đánh giá trên

quan điểm

không liên kết

trong

tương tác

quản trị.

empirically for the first time the strategic relevance of S-D orientation and, therefore, S-D logic for business performance. Using dyadic data obtained in a retail setting, we show that S-D orientation is an important driver of not only superior firm-related performance, such as financial and market performance, but also customer-related performance, such as perceived value, satisfaction, affective commitment, trust, repurchase intentions, and positive word-of-mouth. Overall, our results indicate that firms, especially retail firms, can significantly benefit from implementing an S-D orientation.

The paper is organized as follows. We first review the S-D orientation concept and its components. We then describe five stages of data collection designed to assemble and validate a measure of S-D orientation that we subsequently apply to an automotive retail context to test its strategic implications. We end with a discussion of the implications

and limitations of the study and suggest avenues for future research.

Conceptual Background

The Transition from S-D Logic to S-D Orientation

The introduction of S-D logic into the marketing literature has reinforced an emerging shift in marketing thought. On the basis of its evolving foundational premises (Vargo and Lusch 2008; Williams and Aitken 2011), S-D logic provides a service-based view of marketing phenomena that regards service as the core reason for exchange, enabled primarily by operant resources such as knowledge and capabilities and actualized through value co-creation processes. Market actors interact with and combine resources interdependently while individually determining the value of the associated experiences in terms of personal betterment. For instance, customers engage with car dealerships and purchase vehicles for the services the cars provide, such as transportation, social status, and emotional and sensory experiences. During any interaction with firm-provided resources (e.g., employees, websites, and products), customers, as network partners, co-create their own experiences

by integrating and potentially amplifying resources into valuable outcomes. A firm's role is to facilitate and enhance these experiences (Karpen et al. 2012; Payne et al. 2008) and subsequently benefit, for example, in the form of knowledge and financial returns. S-D logic accordingly represents a cognitive framework for mutual service provision with the potential to guide marketing theory development and practice (Lusch and Vargo 2006).

Although managers might also adopt S-D logic and its principles as part of their personal mindset, they would profit from actionable guidance beyond a cognitive framework to help their firm execute, and benefit from, S-D logic and S-D practices. In particular, firms “may successfully compete by integrating resources and developing superior competences to co-create high value” (Andreu, Sanchez, and Mele 2010, p. 242). However, the question arises as to which capabilities a firm should prioritize to facilitate and enhance value co-creation. In line with the definition of S-D orientation as a set of strategic capabilities that enable value co-creation in service exchanges

khi hướng đến triển
khai trong thực tế khởi

(Karpen et al. 2012), we argue that an S-D orientation can help to answer this question.

Being better at co-creating valuable experiences with network partners (any actors in the service system) is a strategic imperative for firms to achieve competitive advantage, and service-driving capabilities foster the transition from service thinking to service practice. Based on resource and capability perspectives (Barney 1991; Day 1994; Day and Moorman 2010; Hunt and Morgan 1995; Peteraf 1993; Teece, Pisano, and Shuen 1997), and in line with S-D logic, such capabilities build the foundation for competing on service.

On the basis of an in-depth literature review and the involvement of 21 leading S-D logic experts based in universities around the world, Karpen et al. (2012) propose a set of six strategic capabilities that, in combination, form a higher-order co-creation capability. Building on the conceptual understanding introduced by Karpen et al.

Làm tốt hơn trong việc tạo ra các trải nghiệm đồng tạo giá trị với các đối tác trong mạng lưới

Dựa trên các quan điểm nguồn lực và năng lực

theo

(2012), we view S-D orientation as a portfolio of organizational capabilities that facilitate and enhance the interdependent integration of resources through individuated, relational, ethical, developmental, empowered, and concerted interaction. These capabilities are manifested in organizational practices and support reciprocal value creation through mutually service-driving resource deployments. We briefly describe these capabilities in the following discussion.

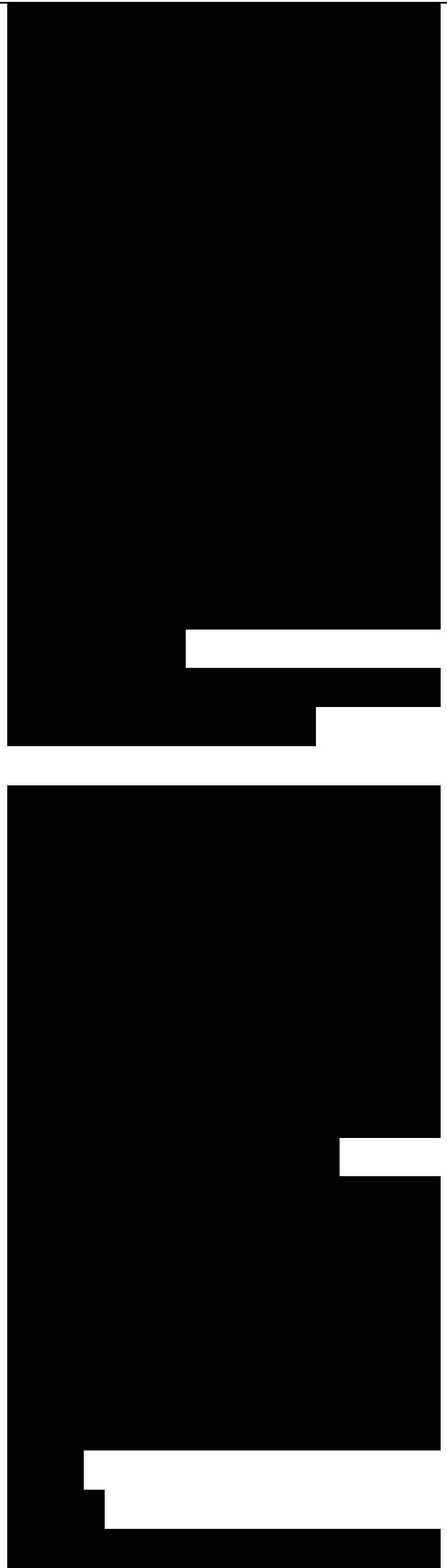
S-D Orientation Components and Measurement Considerations

Each of the six capabilities proposed by Karpen et al. (2012) facilitates and/or enhances collaboration with customers (and other network partners) to better integrate resources and interdependently create value (Vargo and Lusch 2008) as outlined in Table 1.

The capabilities in Table 1 constitute an S-D orientation and build a conceptual foundation in terms of executing and measuring S-D capabilities. To date, insights into its nomological network are based solely on conceptual grounds.

Table 1

Generally, the selection of a



measurement model should be a **conceptual choice** that is theoretically driven and relates to the conceptualization of the construct (Diamantopoulos and Siguaw 2006). In the case of S-D orientation, **a higher-order construct** is theoretically meaningful and provides, for example, the advantage of parsimony as a representation of the various facets (e.g., Law, Wong, and Mobley 1998). A higher-order model also lends itself to a formative model specification (at the second-order level) with regard to the decision criteria offered by Jarvis, MacKenzie, and Podsakoff (2003). For example, an organization might prioritize certain capabilities of the S-D orientation portfolio while achieving minimum levels for the other S-D orientation capabilities. Consequently, the components of the higher-order S-D orientation construct do not necessarily co-vary and may have differing antecedents and consequences (Karpen et al. 2012).

In accordance with prior research (Jarvis et al. 2003), this study proposes a Type II construct, consisting of **formative second-order and reflective first-order S-D orientation indicators**. Although

the latter indicators might capture slightly different facets of a construct, they have a relatively high degree of interchangeability. Dropping an item in this case does not alter the domain of the construct it is measuring. Rather, the items are merely different and imperfect realizations (having different levels of accuracy) of their construct (Wong, Law, and Huang 2008). In contrast, dropping a capability from the higher-order S-D orientation portfolio would significantly change the meaning of the construct (Karpen et al. 2012).

Consistent with the requirements of a latent model and in contrast to the higher-order level, we assume that all items within the specified components share a similar nomological network. For example, the indicators of ethical interaction, such as not deceiving, exploiting, or misleading customers, would be expected to be positively associated with management's emphasis on a service-oriented perspective and customers' trust in the firm (Homburg, Fassnacht, and Guenther 2003). Having set the operational frame for the measurement of an S-D orientation, we now turn to the actual process of developing the instrument.

Measure Development

Our operationalization, validation, and investigation of S-D orientation consists of five stages of data collection and analyses involving academic, customer, and manager perceptions. We follow an in-depth development procedure consistent with previous approaches (e.g., Brocato et al. 2012) and established research guidelines (e.g., Churchill 1979; Diamantopoulos and Winklhofer 2001; Gerbing and Anderson 1988; Wetzels, Odekerken-Schroder, and van Oppen 2009). The multiple samples collected for this study form the basis for a valid and generalizable measure of S-D orientation, which is then subjected to validity and hypotheses testing. Fig. 1 summarizes the stages of data collection and provides a description of the multiple samples.

While the literature offers guidelines for developing either purely reflective (e.g., Churchill 1979; Gerbing and Anderson) or purely formative constructs (e.g., Diamantopoulos and Winklhofer 2001), both types are relevant to S-D orientation since it is a Type II construct consisting of reflective first-order and

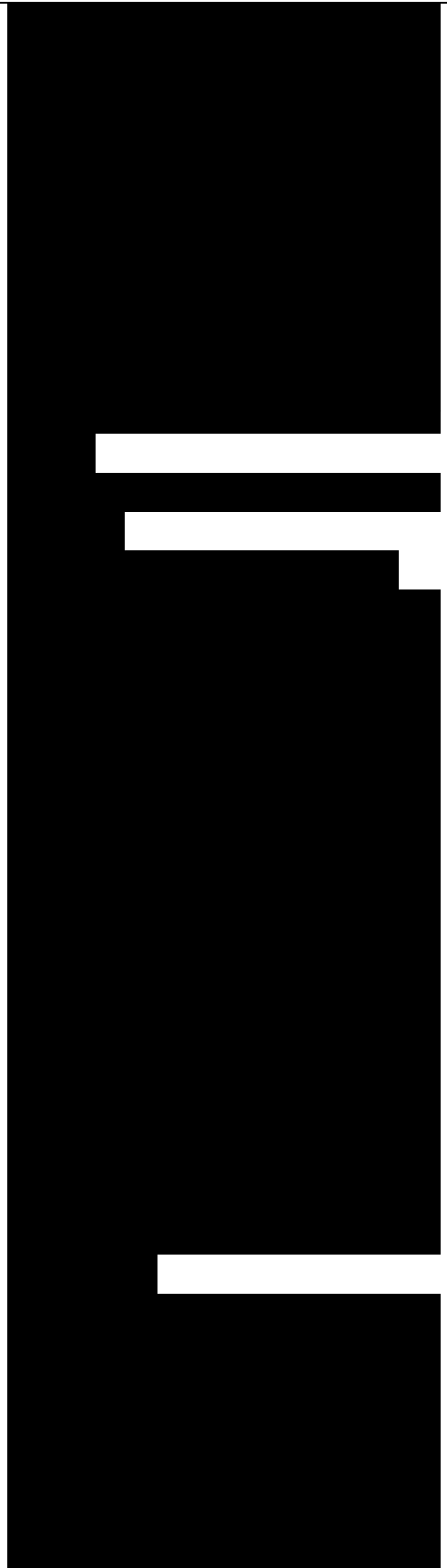
formative second-order indicators. In line with the benefits of PLS path modeling (Hair et al. 2012), we follow the guide-lines (Becker, Klein, and Wetzels 2012; Wetzels et al. 2009) and specifically the application for specifying formative hierarchical construct models (Wilden et al. 2013).

Fig. 1. Stages of measure development.

Stage 1: Item Generation

The development of formative and reflective measures requires a domain specification that delineates the content of the new concept. Clear construct definitions specify the scope of the overall S-D orientation index and its components (Karpen et al. 2012). We developed an initial comprehensive pool of 75 items to address the content of the sub-constructs by reviewing, in depth, the literature of S-D logic, service marketing, relationship marketing, business marketing, marketing strategy, and management.

~~In developing the items, we focused on organizational behaviors that customers would be able to assess after multiple interactions with the organization. Given customers' value- contribution role in~~



resource integration processes (Vargo and Lusch 2004, 2008), we argue that, as key network partners, customers are in a meaningful position to assess their interaction experiences with the organization and reflect on whether such interactions have advanced their circumstances. For example, a retail salesperson may have sufficient training in service and customer interaction, but unless this capability translates into behaviors customers can observe, an internal perspective might be biased or self-serving.

As a check of the content and face validity of our initial item battery, we conducted ten face-to-face interviews with S-D logic experts in the U.S., New Zealand, and Australia. We selected these experts because they had participated in a special issue of *Marketing Theory* (2006, Volume 6, Issue 3) on S-D logic. During the interviews, we screened and adjusted existing items and labels for clarity, readability, and relevance. To detect item omissions and/or reword items to improve comprehension, we also pre-tested the item battery with a convenience sample of twenty consumers and followed up with

face-to-face feedback.

Stage 2: Item Evaluation

We submitted the resulting 66 measurement items to a different sample of 11 academics who were very familiar with S-D logic through their own published research. We asked these experts to rate the representativeness of each item vis-a-vis the definition of the S-D orientation components. The key item deletion/retention criteria were (1) conceptual relevance and (2) a 70 percent average score on a five-point rating scale (Lytle, Hom, and Mokwa 1998). Participants also had the option of providing feedback to justify their ratings and list alternative or omitted items. On the basis of this feedback, we modified or replaced poorly performing items. The net result was a refinement of the initial 66 items with 11 manifestations per component.

Expert evaluations are necessary for formative constructs to ensure the relevance of the proposed construct indicators or components (Diamantopoulos and Winklhofer 2001). Hence, the eleven experts also evaluated

the perceived importance of each capability in terms of defining the S-D orientation construct and indicated whether any theoretically relevant component had been omitted. On a five-point rating scale, the lowest mean importance score was 3.70 (ethical interaction) and the highest was 4.44 (relational interaction). All components thus reached at least 70 percent of the maximum importance score, confirming their individual relevance. The experts suggested no additional components.

In a final round of expert evaluations, we asked an independent sample of 20 marketing faculty to match the remaining 66 items to the most appropriate dimension. As our aim here was to further consolidate the item battery, we retained items if they were grouped into the same category in at least 60 percent of the cases (Allison 1978). Through this process, we retained 42 of the 66 items for subsequent exploration and purification.

Stage 3: Item Purification

Data collection

As argued previously, customers are in a meaningful position to

judge an organization's S-D orientation because of their involvement in value creation processes. In line with prior research (Brocato et al. 2012), data for our item purification process were gathered through a convenience sample of 222 undergraduate students from a large Australian university. The sample was representative of the demographic characteristics of the student cohort, as the typical student was female (56 percent), between 20 and 35 years of age (68 percent). We asked respondents to evaluate the university with regard to its S-D orientation. Student perceptions of the university and its staff are particularly study-relevant because many internationally competing universities define themselves as service institutions (Hennig-Thurau, Langer, and Hansen 2001). Given their frequent interactions with university staff, students are in an excellent position to evaluate co-creation processes and experiences.

Item purification

We individually discussed the 42 items with a convenience sample of five students, which resulted in some minor adjustments. Subsequently, we performed an

exploratory factor analysis as a preliminary evaluation of the dimensionality of S-D orientation. We used a principal axis factoring approach with a promax rotation (Russell 2002). Both the Kaiser-Mayer-Olkin test and Bartlett's test of sphericity indicated that a factor analysis was appropriate. Six factors emerged with eigenvalues >1 that correspond with the a priori specified components (Karpen et al. 2012). Following Steenkamp and van Trijp (1991), we subsequently analyzed each component individually and assessed its psychometric properties and unidimensionality. In the interest of achieving a parsimonious measure, we purified the items according to several criteria, including within-dimension item-to-total correlations, reliability contribution (Cronbach's coefficient alpha), nature of item loadings (without specifying a stringent cut-off at this exploratory stage), and unique conceptual indicator contribution. Of the initial 42 items, we retained 30 (five for each of the S-D orientation components).

Stage 4: Item Finalization, Model Comparisons, and Intra-Construct Validation

Data collection

To assess the psychometric properties of the S-D orientation construct and further purify the new measure, we collected data from a second convenience sample of 301 students from a different large Australian university. The typical student was female (56 percent) and between 20 and 35 years of age (67 percent). In this case, we asked the respondents to assess their bank's S-D orientation. To ensure that subjects had sufficient interaction with their bank, we measured both the number of visits and the length of the relationship. The average length of a relationship was 6.8 years and on average respondents visited branches 9.4 times per year.

Item purification and evaluation of the latent structure

Using confirmatory factor analysis (CFA) with AMOS 20 (Arbuckle 2011), we evaluated our remaining 30 items further with an iterative CFA item-deletion process (Steenkamp and van Trijp 1991). For example, an item was considered for deletion if it had a combination of an

unsatisfactory standardized regression weight, a large standardized residual (>2.58) and/or large modification indices, and a factor loading below .60. Four items per S-D component were retained. Table 2 indicates the final items and factor loadings.

In terms of model fit, the factor structure reported in Table 2 represents the data well. We assessed fit along commonly reported goodness of fit indices, such as the χ^2/df , the comparative fit index (CFI), the root mean square error of approximation (RMSEA), the standardized root mean square residual (SRMR), and the incremental fit index (IFI). As shown in Table 3, we assessed four competing models, selected on the basis of conceptual relatedness and empirical correlations. We merged those components that showed the highest correlations while considering conceptual implications of the merger. In addition to the goodness-of-fit metrics, we included Akaike's Information Criterion (AIC) (Akaike 1987), which assesses both model fit and the number of constraints required and which is particularly suited for such model comparisons. The six-factor model, which is in line

with the conceptualization by Karpen et al. (2012), offered superior model fit on the basis of all commonly reported indices.

A construct possesses discriminant validity if its average variance extracted (AVE) exceeds the shared variance (squared correlation) between any pair of constructs (Fornell and Larcker 1981). As Table 4 shows, in each case, the AVE (diagonal) exceeds the squared correlation (below diagonal) between components. Further, as the composite reliabilities (CR) for each component exceed 0.8, and the AVE scores exceed 0.5, the results support convergent validity (Gerbing and Anderson 1988). In combination with our model fit statistics, these results indicate adequate unidimensionality (Gerbing and Anderson 1988; Steenkamp and van Trijp 1991).

Inter-Construct Validity Tests: Multicollinearity Assessment of S-D Orientation Components

So far, results have established the necessary psychometric properties for the six reflective

first-order components. However, as these components themselves form the hierarchical, second-order S-D orientation construct, our measurement instrument needs to comply with index construction guidelines (Diamantopoulos and Winklhofer 2001; Jarvis et al. 2003; Wetzels et al. 2009).

In line with recommendations from prior research (Diamantopoulos and Winklhofer 2001), we followed a multi-step index construction process. The first two stages, referred to as content specification and indicator specification, we have already addressed. The third step requires an indicator collinearity assessment. Multicollinearity among the six S-D orientation facets does not seem to pose a problem, as the variance inflation factors (VIF) are well below the common cut-off threshold of 10 (Kleinbaum, Kupper, and Muller 1988). The highest identified VIF through SPSS 20 (Arbuckle 2011) is linked to individualized interaction capability (2.14), and the lowest to ethical interaction capability (1.34), as Table 4 shows. Consequently, no component of our S-D orientation construct needs to be eliminated or merged

with another.

External/Nomological Validity Test

Index validation concludes with an external validity assessment (Diamantopoulos and Winklhofer 2001). In this study, we assessed external validity in terms of nomological validity, by linking the newly constructed instrument to theoretically relevant outcome variables (Diamantopoulos and Winklhofer 2001). For this purpose, we chose two theoretical outcome variables: customer satisfaction and positive word-of-mouth. Given that an organization adopting an S-D orientation focuses on

Table 2

facilitating and enhancing customer experiences, this focus should translate into higher levels of customer satisfaction and positive word-of-mouth. development of a valid and reliable S-D orientation measure, we

now turn to application studies to test the role of S-D orientation

We analyzed the relationships with SmartPLS (Ringle, as an important driver of business performance.

Wende, and Will 2005), since PLS enables the construction

of formative hierarchical models

through an indicator replica-
Proposed Framework and
Hypotheses Development for
tion approach (Wetzels et al.
2009; Wilden et al. 2013). Table
4

Measure Application
includes customer satisfaction
and positive word-of-mouth for

purposes of discriminant validity
analysis. Fig. 2 depicts the
structural model. We chose the
outcome

Table 5 shows the standardized
estimates and supports the
variables on the basis of their
strategic relevance for a firm's
argument that S-D orientation is
positively associated with
success (Homburg and
Pfleger 2000; Vorhies, Morgan,
and

both customer satisfaction ($\beta =$
0.761, $p < .01$) and positive
Auh (2009). Given the
expected superior customer
experiences

Table 3

Table 4

Table 5

Hypothesized relationships Non-
hypothesized relationship
(additional analyses) Fig. 2.
Research framework.

when interacting with S-D-
oriented organizations, we
captured customer perceptions of

value, trust, affective commitment, and repurchase intentions. We also captured market and financial performance from the organization's perspective. To test these relationships, we collected matched data in an automotive retail context.

Linking S-D Orientation to Perceived Value, Trust, and Affective Commitment

Our expectations, outlined in Fig. 2, related to perceived value, trust, and affective commitment and are based on social exchange theory. Co-creating valuable experiences with customers is a cornerstone of service-based strategy. Customers make value assessments based on those experiences (including any touch point such as service departments, products, websites, employees) while factoring in benefits and sacrifices along their experience processes and outcomes. Perceived value thus represents an overall assessment of the trade-off or net benefit associated with customers' experiences "based on perceptions of what is received and what is given" (Zeithaml 1988, p. 4). Perceived value, which has been identified as one of the main

reasons a customer engages with an organization, is critical to

organizational success (Homburg and Pflesser 2000).

Trust is understood as “existing when one party has confidence in an exchange partner’s reliability and integrity” (Morgan and Hunt 1994, p. 23), and thus indicates a customer’s willingness to accept vulnerability in a relationship with an organization (Moorman, Deshpande, and Zaltman 1993). The current rise of business ethics as a topic in public debate and the increasing consumer mistrust of organizations (Sheth and Sisodia 2005,2006) put further pressure on organizations to provide reliable and integrative service that customers have confidence in. Trust thus reduces exchange uncertainty, allowing the customer to form reliable expectations of the retailer. Strategically, trust is a powerful organizational asset and is a necessary basis for long-term relationships (Morgan and Hunt 1994).

Affective commitment represents a customer’s emotional attachment to an exchange partner (Fullerton 2003) and engenders “an enduring desire to maintain a valued relationship” (Moorman, Zaltman, and Deshpande 1992, p. 316). While researchers have identified various types of

commitment to the organization related to affective, continuance, and normative aspects (Allen and Meyer 1990), we are particularly interested in affective commitment owing to the concept's notion of a voluntary desire to stay in a relationship. A voluntary emotional response is strategically important, as it has been shown to be a key driver of positive word-of-mouth, repurchase intentions, and customer loyalty among a set of relational constructs (Jones et al. 2007; Palmatier et al. 2006). In combination, perceived value, trust, and affective commitment lead to central customer outcomes for retailers as they positively contribute to repurchase and loyalty intentions (e.g., Jones et al. 2007; Palmatier et al. 2006).

A concern for reciprocal benefits and co-created value is a core characteristic of S-D logic and respective frameworks (Vargo and Lusch 2008). By implication, S-D-oriented firms thus emphasize interactions and integrating resources (e.g., knowledge and capabilities) as a continuous and interdependent process for the mutual benefit of all involved parties (Karpen et al. 2012). From a strategic perspective, the quality of the interactions and the perceptions

of benefits strengthen customer relationships, which are defined in terms of trust and commitment (Palmatier et al. 2006).

Social exchange theory (SET) provides a theoretical underpinning for this assumption. “One of the basic tenets of SET is that relationships evolve over time into trusting, loyal, and mutual commitments” if the involved parties comply with the guidelines and expectations associated with exchange contexts (Cropanzano and Mitchell 2005, p. 875). The notion of reciprocity (or repayment in kind) represents such a guideline in that the exchange parties expect benefits for their contributions and efforts (Cropanzano and Mitchell 2005). Indeed, “when one party provides another with a valued and beneficial resource, an obligation is generated to return a beneficial resource” (Mitchell, Cropanzano, and Quisenberry 2012, p. 99).

Thus, SET holds that if a firm creates resource conditions for fair and advantageous interaction processes and outcomes for its partners such as customers, the partners are likely to return resources in the form of positive attitudes, knowledge-sharing efforts, and future commitments. That is, if customers view the service provider as acting in their

best interest (caring about their wellbeing and desired outcomes) and as being supportive (offering meaningful resources), they are more likely to respond in kind, and in doing so contribute resources and commit to the exchange relationship. To this end, customers, as exchange partners, are expected to be unaccepting of one-sided and opportunistic self-interest on the part of the firm and to seek interaction with another firm that offers mutual benefit. Likewise, any disadvantaged or exploited party in a relationship will withdraw, or at least reduce, relational commitment commensurate with the perceived deficiency in reciprocity.

Social exchange theory further explains that interactions on reciprocally beneficial terms are likely to lead the involved parties to not only perceive what is exchanged as valuable, but also place trust in the exchange partner (Thibaut and Kelly 1959). On the basis of SET, and to the extent that S-D orientation emphasizes mutual benefit, we therefore predict that S-D-oriented organizations are likely to create high levels of perceived value, build trust, and instill affective commitment among their customers.

On the other hand, in line with a

co-creation perspective, consumer culture theory and experiential consumption literature in marketing argue that rather than being embedded in resources, customer value emerges from interaction with resources (e.g., Arnould and Thompson 2005; Prahalad and Ramaswamy 2004; Vargo and Lusch 2008). Accordingly, customers can realize value through goal or resource achievements (utilitarian value) and/or through enjoying the processes of interacting with resources (experiential value) (e.g., Holbrook and Hirschmann 1982). Participation in, and contribution to resource integration processes can thus have a positive impact on customer perceptions.

A firm's S-D orientation emphasizes both participation and integration aspects. First, an S-D orientation fosters the idea of value co-creation through understanding, responding to, and empowering individual customers and their resource integration processes. This activity in turn supports customers in their quest for effective resources and solutions. Second, an S-D orientation underlines the quality of the interaction process itself and aims to facilitate enjoyable human relationships, morally

acceptable behavior, and pleasurable touch points. This emphasis in turn contributes to customers' participatory enjoyment in exchange processes beyond a utilitarian resource perspective. Previous literature highlights the positive impact of such experiences on customer satisfaction and repurchase intentions (e.g., Yim, Chan, and Lam 2012). In combination, effective outcomes and pleasurable processes, in line with mutually beneficial interactions proposed by SET, lay the foundation for the following hypotheses:

H1. An organization's S-D orientation has a positive effect on customers' perceived value.

H2. An organization's S-D orientation has a positive effect on customers' trust.

H3. An organization's S-D orientation has a positive effect on customers' affective commitment.

The outcome of customer perceived value has further strategic relevance for an S-D-oriented organization. Empirical evidence suggests that perceived value functions as an antecedent of trust and affective commitment. For instance, a meta-analysis by Palmatier et al. (2006) shows that perceived value positively affects customers' trust in a service

provider. Johnson, Herrmann, and Huber (2006) show that perceived value has a positive effect on affective commitment that grows over time as a customer's experience accumulates. We hence predict that the impact of S-D orientation on trust and affective commitment is partially mediated by perceived value. Specifically, when perceived value is included as a mediator, we expect the direct impact of S-D orientation on trust and affective commitment to weaken, but to remain significant given its importance for superior customer experiences. Therefore: H4. The effect of an organization's service-dominant orientation on customers' trust and affective commitment is partially mediated by customers' perceived value.

Linking S-D Orientation to Market Performance

Our hypothesized effect of S-D orientation on market performance is based on theoretical discussions in the literature about the internal sources of competitive advantage (e.g., Barney 1991; Day 2006). Resource-based theory (RBT) and resource advantage (RA) theory provide important frameworks in management and marketing research for explaining and predicting

organizational performance (Kozlenkova, Samaha, and Palmatier 2014). In brief, RBT suggests that heterogeneity and superiority in resources and capabilities provide the foundation for more efficient and effective value creation relative to competitors (e.g., Barney 1991). Research in this literature regards capabilities as subsets of resources that enable the deployment of other resources (Kozlenkova et al. 2014). Paralleling S-D logic, RBT argues that firms are resource integrators and that each firm draws on a specific bundle or constellation of resources to accomplish its goals. Similarly, RA theory proposes that firms are “combiners of heterogeneous and imperfectly mobile resources,” whereby the idiosyncratic constellation of resources and a firm’s ability to use it efficiently and effectively set the firm apart from its competitors (Hunt 2002, p. 277). Consequently, RBT and RA theory both suggest that sustained resource heterogeneity and superiority, coupled with the ability to exploit these conditions, are central to outperforming rivals. While differences in resource constellations among competitors are important, not all resources are equally relevant. S-

D logic proposes, for example, that operant resources such as knowledge and dynamic capabilities are particularly important because they enable improvement of action and resource use over time. RBT argues that the importance of organizational resources depends on four criteria, referred to as VRIO conditions: the degree to which resources are valuable, rare, imperfectly mobile, and organizationally exploitable (Barney and Hesterly 2012). Resource-based logic reasons that the more resources with such qualities a firm possesses, has access to, and is able to exploit, the more likely the firm can leverage these resources into outperforming rivals.

On the basis of resource logic (Barney 1991; Hunt 2002), we argue that a firm's S-D orientation—specified as a portfolio of co-creation capabilities (Karpen et al. 2012)—contributes significantly to firm performance. To illustrate this relationship, we draw on the VRIO criteria. Generally, a resource is valuable if it enables an organization to pursue strategies to lower its costs (efficiency outcomes) and/or increase its net revenues (effectiveness outcomes) (Barney 1991). The latter case assumes that resources are

meaningful to the extent that customers value a firm's offerings and touch points such that they develop a preference for a particular resource provider and contribute to the firm's revenue streams. An S-D orientation is valuable in that this capability portfolio enables retailers to engage in service-driving interactions that customers appreciate and desire (Karpen et al. 2012). An S-D orientation is valuable in meaningfully differentiating a firm from competitors, since customers prize superior solution- and relationship-supporting efforts. For example, through its focus on collaborating with and supporting customers directly, an S-D orientation enhances relationship building, resource access and exchange, and knowledge gains, thus contributing to firm revenues by strengthening customer interest and spending. Accordingly, an S-D orientation facilitates value co-creation processes and fosters achievement of value co-creation objectives. RBT and RA theory hold that such increased effectiveness leads to better market positions and revenue streams.

The second VRIO criterion refers to the rarity of a particular resource. That is, the resource "is

controlled by a small number of competing firms” (Kozlenkova et al. 2014, p. 3). The adoption of an S-D orientation remains relatively uncommon, as organizations are only gradually developing S-D capabilities. Even more, only a few companies within an industry are expected to simultaneously excel in S-D orientation and its six constituting capabilities. For example, a recent study of marketing managers’ perceptions of value co-creation priorities and practices across a range of industries showed that while the notion of value cocreation resonates with managers and its relevance is expected to grow among them, most of the represented firms were operating with traditional marketing priorities (e.g., focusing on marketing propaganda and transactional exchange capabilities) (Cassidy et al. 2013). The development of S-D oriented capabilities such as customer integration, relationship building, and knowledge sharing was not a priority. While acknowledging the contextual limitation of the seven countries studied, the researchers noted that a reasonable expectation is that this finding extends to other contexts, as firms “find it difficult to break away from

long-standing habits” (Cassidy et al. 2013, p. 13). S-D oriented priorities and practices are consequently argued to require time to embrace (Vargo and Lusch 2008), particularly given their complex constellation of co-creation capabilities. The result is a potential advantage of rarity for those firms that are able to transform and excel at an S-D orientation and leverage its full potential.

The third VRIO criterion—imperfect imitability—relates to the degree to which resources are substantially costly to obtain and/or difficult to develop, copy, or substitute (Barney and Hesterly 2012). We argue that an S-D orientation is indeed difficult to imitate because of its overall complexity owing to its inclusion of several components, its causal ambiguity, and its contextual conditions (path dependencies). Causal ambiguity points to the intangible nature of the S-D orientation, which is more difficult for external market actors to fully understand and implement compared to, for example, analyzing and imitating a competitor’s physical products. Causal ambiguity relates not only to the S-D orientation itself but also to the expertise of how to best develop and organize these capabilities in the idiosyncratic context of a focal

firm and its network partners. In particular, intangible resources such as capabilities provide the potential for a meaningful resource advantage (Kozlenkova et al. 2014). For instance, an S-D orientation as a capability portfolio requires a commitment to investment and can take significant time (e.g., for employee training, systems implementation, or cultural change) for its constituent elements to function smoothly as an overall aligned organizational competence. Firms are also constrained by their remaining resource constellations and past decisions in their historic contexts, while employees for example may need to unlearn previous practices or routines. Copying an S-D orientation and its interconnected capability set is thus difficult for rivals and might not suit their individual context without further adaptation (Day 2006), lending support for the S-D orientation as an imperfectly imitable resource bundle.

The “O” as the final VRIO criterion stands for “organization” and refers to a firm’s potential to exploit its resources and capabilities (Barney and Hesterly 2012). By itself, the S-D orientation represents a bundle of intangible capabilities that enable the exploitation,

transformation, amplification, and synchronization of other organizational resources. While access to or possession of VRI resources is important (as a necessary but not sufficient condition), acting on and deploying resources is critical (Ketchen, Hult, and Slater 2007), for instance through S-D capabilities. For example, an S-D orientation leverages customer knowledge and competence outside-in as strategic actions, while emphasizing synchronized efforts between the involved parties for mutually beneficial outcomes. This collaboration with and potential integration of external actors add a degree of dynamism, and like dynamic capabilities, an S-D orientation challenges the firm to discern necessary changes and adapt its processes or procedures to seize outside-in opportunities.

Moreover, an S-D orientation's emphasis on consistently valuable experiences and mutual benefit demands that a firm be well organized when deploying its resources to ensure that customers, other stakeholders, and the firm itself are not suffering unnecessarily from value drains owing to inefficient processes or procedures. An S-D orientation thus requires and significantly contributes to an organized internal and external

resource deployment. On the other hand, firms that make the strategic choice to invest in the development of an S-D orientation are expected to carefully design organizational conditions that facilitate the operation and exploitation of co-creation capabilities.

Otherwise, the strategic investment would be rather short-sighted and most likely ineffective.

However, the organizational perspective is not a strictly resource-related condition compared to the other three VRI criteria. Rather, it relates more to the organizational context in terms of enabling or limiting an organization's resource potential (Kozlenkova et al. 2014). As the implementation of an S-D orientation represents a more strategic decision (e.g., owing to financial and time requirements), managers naturally have a vested interest in considering optimal organizational conditions that allow the most efficient and effective leveraging of resources and capabilities, such that the deployment of their heterogeneous and idiosyncratic bundles of resources translates into desired performance outcomes.

Overall, we propose that the S-D orientation is strategically relevant in terms of being a

valuable, rare, and imperfectly imitable capability portfolio that, if exploited, facilitates more effective service-oriented strategic action and collaboration (resource deployments) by the organization. On the basis of RBT and RA theory, we therefore expect S-D orientation to lead to improved market performance, which in turn results in improved financial performance. More formally:

H5a. An organization's service-dominant orientation has a positive effect on its market performance.

H5b. An organization's market performance has a positive effect on its financial performance.

Methodology

Data Collection and Samples

An S-D orientation represents an organization-level co-creation capability. As we have argued, given their involvement in interdependent resource integration processes, customers as value network partners are in a meaningful position to judge an organization's S-D orientation. For example, automotive retail customers are able to perceive dealerships' interaction capabilities since they integrate and mobilize resources of the firm as part of their purchasing activities. Automotive retail represents a particularly suitable environment

for applying and re-testing an S-D orientation measure because of its conventional goods-dominant focus, yet high co-creation potential.

Traditionally, the automotive industry has employed firm-driven mass production with a relatively strong push approach from manufacturers through to the retail network. Given this downward pressure, the image of car salespeople is not surprisingly generally poor, as they are often perceived to use manipulative sales tactics. However, the automotive industry is presently undergoing substantial change. With the benefit of modern technology, European car manufacturers such as BMW can now produce on demand, allowing customers to simulate and configure their preferred car. Similarly, some car dealerships, such as select Subaru dealerships, have begun to emphasize enjoyable retail-experience environments along with open and transparent communication. Thus, given the potential variance in customer experience and the increasing competitive pressure to provide better service, the automotive retail context offers a unique opportunity for studying S-D efforts and outcomes.

In collaboration with an established Australian online

panel, we conducted a web-based survey. Panel members qualified for participation if they had purchased their new or used vehicle at an authorized Australian dealership and had had it serviced at the same dealership at least once within the past 12 months. These screening criteria ensured that consumers had sufficient experience with multiple contact points of the car dealership (e.g., both the sales and service center) within a timeframe that reduced recall bias. To avoid multiple survey completions, we gave panel members a unique ID and asked them to identify the dealership and its location.

Participants could leave the survey at any time and finish it at a later stage. We obtained usable responses from 412 consumers after excluding those who dropped out during the response process (navigating away from the website) or those whose responses did not meet data quality checks such as response time, pattern, confidence, or test-retest congruence, or that reflected a careless response to open-ended questions (e.g., Richey, Tokman, and Dalela 2011).

From the customer sample, we identified 276 unique dealerships. We contacted these dealerships by telephone to

identify the principal or financial officer and set up a telephone interview. This procedure ensured that we interviewed only key informants who were in a position to assess dealership performance. Over a five-week period, we achieved a response rate of 41 percent, resulting in 105 matched cases.

An important aspect of our data is that in some cases a dealership had multiple respondents. Although in such cases computing averages is not uncommon (e.g., Ramani and Kumar 2008), these averages suffer from unreliability that causes bias and inefficiency in parameter estimates (Croon and van Veldhoven

2007). This unreliability is usually corrected for through a combination of precision weighting and empirical Bayes estimation (Lindley and Smith 1972; Smith 1973). Indeed, this procedure is the major benefit of multilevel modeling techniques (Raudenbush and Bryk 2002). As we describe below, we use a partial least squares (PLS) technique to analyze our data, precluding use of a traditional multilevel modeling approach (Preacher, Zyphur, and Zhang 2010). To ensure reliability, we computed the precision-weighted, empirical Bayes estimates directly for each

dealership for use in our PLS analyses.

Measures and Analyses

Measures were taken from or based on published sources and adapted to the car dealership context (see Appendix). We measured customers' perceived value by a six-item instrument based on Keh and Sun (2008) and Ruiz et al. (2008). The four-item measure of affective commitment to the car dealership was adapted from Fullerton (2005) and Jones et al. (2007). Customers' perceived trust in the car dealership was measured using a seven-item scale from Kingshott and Pecotich (2007). To assess customer repurchase intentions, we adapted a measure from Ruiz et al. (2008). The dealership's market performance was measured using subjective, self-reported measures, as car dealerships in our sample are not publicly listed and do not publish their performance results. For this purpose, we used a key informant approach, ensuring that either the principal or finance manager reported on dealership performance. Past research has demonstrated the reliability and validity of such subjective performance data compared to objective performance data (e.g., Wall et al. 2007). We used a four-item

scale based on Homburg and Pflesser (2000) to capture both sales and market share developments. Items within the financial category of business performance asked the key informants to assess their dealership's performance on cash flow, as cash flow is less susceptible to "accrual accounting methods and may be less sensitive to commonly used accounting manipulations" (Vorhies et al. 2009, p. 1316).

Dealership brand of passenger vehicle was used as a control variable as authorized dealerships often have to implement or adhere to specific service standards defined by the brand manufacturer. Controlling for brand provides insights into the proposed S-D orientation relationship with market performance beyond any brand-specific dealership standards, thus ensuring that our results are not confounded by a potential brand effect. As consumer respondents identified 21 unique brands, we grouped and dummy coded these brands into a statistically more manageable set of brands. We used the official brand market share at the time of data collection based on national retail sales (Australian Government 2009) to code the brands into six groups, leading to $G - 1$ dummy variables (where G

= the number of brands above 6.5 percent market share, and including Toyota, Holden, Ford, Mazda, Hyundai, and one remaining other group). All scales were tested for their psychometric properties using CFA with AMOS 20 (Arbuckle 2011) and were purified where necessary.

Having applied covariance-based SEM at the measurement level, we carried out a component-based SEM, or PLS path modeling, with SmartPLS 2 (Ringle et al. 2005) at the structural level. We based this decision on the advantage of PLS to combine formative and reflective elements at both the single- and multi-level model structures, as well as its suitability for small sample sizes with predictive objectives (Chin and Newsted 1999; Hair et al. 2012). The procedure was conducted in line with recently suggested guidelines and applications for specifying hierarchical constructs in PLS by way of an indicator replication approach (Wilden et al. 2013). The higher-order S-D orientation construct is thereby established through the repeated use of all manifest variables of the underlying lower-order indicators. The path coefficients for each of the six formative components toward the higher-

order S-D orientation are as follows: relational interaction: $\hat{\lambda} = 0.18$, $p < .001$; concerted interaction: $\hat{\lambda} = 0.21$, $p < .001$; empowered interaction: $\hat{\lambda} = 0.20$, $p < .001$; ethical interaction: $\hat{\lambda} = 0.19$, $p < .001$; individuated interaction: $\hat{\lambda} = 0.22$, $p < .001$; and developmental interaction: $\hat{\lambda} = 0.22$, $p < .001$.

Since we gathered customer-based measures with one questionnaire, we evaluated the potential threat of common method bias (CMB). We followed a CFA approach to Harman's one-factor test (Kandemir, Attila, and Tamer Cavusgil 2006). The specification of a single latent factor accounting for all relevant manifest variables produced an unacceptable model fit across commonly applied indices (see Table 6). This result suggests that "one general factor did not account for the majority of

Table 6
the covariance among the measures in this study" (Kandemir et al. 2006, p. 334). Additionally, we used a social desirability response scale (Donavan, Brown, and Mowen 2004) as a marker variable. If a study is not contaminated by CMB, the marker variable should not be correlated with a variable in the questionnaire chosen on theoretical grounds

(Podsakoff et al. 2003). Conceptually, the social desirability response scale should not be associated with an S-D orientation component, as no basis exists for biased responses given that customers were asked to assess the dealership's behaviors and not their own behaviors. This was indeed our finding. Nonetheless, various approaches are very limited in their capacity to detect and control for CMB, particularly the unmeasured latent method construct (Chin, Thatcher, and Wright 2012; Richardson, Simmering, and Sturman 2009). Importantly, to avoid the potential impact of CMB with regard to this critical relationship, we collected data on S-D orientation and firm performance from two sources.

Results of Hypotheses Testing

Before examining the structural relationships among the customer-based variables, we assessed the fit and loadings of the S-D orientation measure. Table 6 shows the model fit results and Table 7 shows the CFA item loadings based on 412 customer responses.

Using our 105 matched cases, we then assessed discriminant validity for all constructs in the structural model. On the basis of the squared correlations (below

diagonal) and average variances extracted (diagonal) in PLS, Table 8 demonstrates that all pairs of constructs achieve discriminant validity. As PLS does not offer an overall test for structural model fit, all measurement models were checked in SEM beforehand. The satisfying properties of the individual constructs provide confidence of the combined quality of the measurement models.

The hypotheses testing results are displayed in Table 9, along with standardized parameter estimates and respective t values. The significance of the path coefficients was confirmed with a bootstrapping procedure in SmartPLS (Ringle et al. 2005) using 1,000 replications. The results are organized in terms of three structural models. In Model 1 we examined the direct impact of an S-D orientation on the dependent variables (trust, affective commitment) and mediator variable (perceived value). In Model 2, we added paths between perceived value and trust as well as between perceived value and affective commitment to explore the mediating role of perceived value. This separate model procedure is consistent with the recommended multi-step approach to analyze the

individual direct effects before fully integrating the mediator variable into the structural model (Baron and Kenny 1986).

As Table 9 reports, an organization's S-D orientation is significantly associated with customers' perceived value of ($\beta = 0.65, p < .001$), trust in ($\beta = 0.74, p < .001$), and affective commitment to ($\beta = 0.74, p < .001$) the respective organization (see Model 1). Adding two paths from perceived value to the remaining customer-based outcome variables shows that this construct is also significantly related to trust ($\beta = 0.28, p < .01$) and affective commitment ($\beta = 0.33, p < .001$) (see Model 2), consistent with previous findings (Palmatier et al. 2006). As Table 9 shows, the relationships between S-D orientation and trust ($\beta = 0.55, p < .001$) and affective commitment ($\beta = 0.52, p < .001$) remain significant in Model 2. This result illustrates that S-D orientation is an important driver of key customer-based performance outcomes beyond the influence of perceived value.

The final model, Model 3, tested the influence of an S-D orientation on market performance (controlling for brand effects) and of market

performance on financial performance. The S-D relationship with market performance based on matched data is statistically significant ($\beta = 0.27, p < .01$), even while controlling for vehicle brand. The strength of relationship reflects the fact that market performance is influenced by a range of variables beyond a firm's strategic orientation. Importantly, while S-D orientation significantly influences retailers' market performance, organizations also benefit from better cash flow conditions ($\beta = 0.67, p < .001$), as previous research has found (Vorhies et al. 2009). On the basis of these findings, we conclude that an organization's S-D orientation plays a significant role in driving important customer and firm outcomes. Perceived value, trust, and affective commitment are key customer metrics that help a firm determine the effectiveness of its service-driven strategic behaviors. The positive S-D orientation-organizational performance link further supports this conclusion.

Additional Analysis

Prior research (Jones et al. 2007) has demonstrated strong links between affective commitment and repurchase intentions. These findings piqued our interest in

comparing the relative importance of S-D orientation with affective commitment in driving customer repurchase intentions. S-D orientation was found to have a stronger impact on customer repurchase intentions ($\beta = 0.33, p < .05$) than affective commitment ($\beta = 0.27, p < .05$) and trust ($\beta = -0.01, p > .05$). In combination, these results provide, to the best of our knowledge for the first time, empirical evidence that an S-D orientation drives (1) customer and market performance outcomes and (2) albeit indirectly, financial outcomes of organizations.

Discussion and Future Research Directions

An impressive amount of theoretical dialog has occurred since the initial publication on S-D logic (Vargo and Lusch 2004), and this research contributes further by empirically

Table 7

Table 8

Table 9

demonstrating the relevance of S-D logic's underlying principles in the form of an S-D orientation. This study responds to the call for a stronger contribution of marketing to the strategy field (Varadarajan 2010) and links the response to the identified opportunities surrounding a co-creation

capability (Karpen et al. 2012; Madhavaram and Hunt 2008). Resource- and capability- based perspectives in particular have recently gained substantial traction in the marketing and management literature, to which this research makes an important contribution, as this paper provides empirical evidence for the nature and centrality of the S-D orientation construct. We specifically shed theoretical and managerial light on the conceptual foundations, measurement approach, and potential benefits for retailers when implementing service-driving capabilities.

Research and Managerial Implications

This research facilitates the transition from positive to normative theorizing. S-D logic has been characterized as a relatively abstract framework with the potential to build a foundation for a theory of markets and marketing (Vargo and Lusch 2008). However, the abstract nature of S-D logic presents a challenge to empirical testing and to assessing the explanatory power of the S-D world view (Brodie et al. 2011). Importantly, this paper contributes to resolving this dilemma by developing middle-range theory in the context of S-D logic that supports the

formulation, investigation, and interpretation of theoretical inquiries with normative implications. Such middle-range theory helps verify underlying assumptions associated with S-D logic (Brodie et al. 2011). Indeed, this paper assists in building a body of knowledge that empirically tests and demonstrates the relevance of more specific S-D considerations or phenomena in a particular context, thereby connecting (1) observable reality and normative insights from a managerial point of view, and (2) explanatory and predictive capacities from a theoretical point of view.

To enable middle-range theorizing, we develop and test an instrument measuring the concept of S-D orientation introduced by Karpen et al. (2012). We validate the hierarchical measure through a multi-stage analysis process, including, for instance, retail banking and automotive retailing contexts. The rigorous process and the results show that this study provides a valid measure for researchers and practitioners to assess an organization's S-D orientation. The instrument also enables managers to better understand the underlying capabilities that form an S-D orientation, and to assess which capabilities need further

development within their own firm. Such insights offer the basis for specific capability development programs and investment decisions to improve business efficiency and effectiveness.

Theoretically, S-D logic as a cognitive framework provides managers with a mindset that guides strategic decision making. However, this research takes the position that as customers are not likely to be aware of the organizational thinking behind decision making (Homburg and Bucerius 2005), they form opinions about a firm's efforts to operate in a market primarily from their interactions with the firm. While we drew on customers as respondents in this study to capture their perceptions of the firm's S-D orientation, the proposed measure can be adapted to survey managers, employees, or other external network partners. The S-D measurement instrument thus enables the formulation and investigation of a comprehensive research agenda, as discussed below.

Our findings further show that, in both retail banking and automotive contexts, firms benefit from co-creation capabilities. We thus demonstrate that an S-D orientation is relevant in

traditional service environments such as retail banking that are dominated by intangible offerings, and in goods environments where tangible offerings such as cars play a central exchange role. Specifically, we find that firms with high levels of S-D orientation are those with more effective capabilities in terms of individuated, relational, ethical, empowered, developmental, and concerted interaction. These capabilities in turn positively influence important market and financial performance outcomes. Overall, given the demonstrated pay-offs of an S-D orientation in these contexts—beyond any brand effects associated with dealerships, for example—we conclude that a worthwhile undertaking for managers is to strategically prioritize, and commit to, the cultivation of an S-D orientation with its associated service-driving capabilities.

S-D logic emphasizes the importance of operant resources such as capabilities, which enable the application and exploitation of other (e.g., operand) resources for a firm's and network partner's success. Similarly, resource- and capability- based theories argue that heterogeneity among competitors in terms of their

resource and capability bundles is essential for superior market positions (Leiblein 2011). However, “little marketing research verifies the underlying resource requirements key to RBT’s performance predictions” (Kozlenkova et al. 2014, p. 2). This research lends empirical support to the theoretical relevance of valuable, rare, imperfectly imitable, and organizational conditions of resources and capabilities that permit efficient and effective value creation. Indeed, the S-D orientation as a capability portfolio has the potential to leverage value cocreation through idiosyncratic operant resource configurations (different performance levels among the six S-D orientation components) that provide unique benefits to the focal firm and its interaction partners. We thus make an important theoretical contribution to the RBT-S-D logic interface.

From a strategic marketing perspective, we also advance the “orientation” research stream. Prior literature demonstrates, for example, the importance of orienting an organization toward market- or interaction-driven business imperatives (e.g., Kohli and Jaworski 1990; Ramani and Kumar 2008). An interaction orientation represents the “ability

to interact with its individual customers and to take advantage of information obtained from them through successive interactions to achieve profitable customer relationships” (Ramani and Kumar 2008, p. 27). While this orientation also belongs to the capability stream (vs. the cultural orientation stream, which is dominated by market orientation), it is limited in several ways with respect to its consistency with S-D logic and its comprehensiveness in terms of its service- driving capability portfolio.

Despite the view that “firms cannot think and act unilaterally [and] that the consumer and the firm co-create value at various points of interaction” (Ramani and Kumar 2008, p. 28), and despite its label of “interaction orientation,” the constituting components of this orientation only marginally manifest interaction- and service-centric capabilities from an S-D logic perspective. Indeed, only two components (interaction response capacity and customer empowerment) relate directly to facilitating value co-creation. In contrast, the S-D orientation proposed in this paper comprises six components representing a holistic interaction and value co-creation approach. For example, as value co-creation requires

customers to be able to engage in necessary interaction efforts, the S-D orientation outlines and includes the importance of helping customers become smarter through developmental interaction capability.

Moreover, the interaction orientation is based conceptually on a narrower and less integrative theoretical framework (compared to S-D logic), called the “customer concept” (Hoekstra, Leeflang, and Wittink 1999). The customer concept is also directly represented in the form of a dimension of the interaction orientation and defined as a “belief” that individual customers rather than customer segments are the necessary unit of analysis. While we agree with this assumption, the construct mixes attitudinal and capability-based elements, even though it is defined as an organizational “ability” (Hoekstra et al. 1999, p. 27). Conceptually, we believe such elements are more meaningfully considered as antecedents to developing capabilities. In sum, the S-D orientation enriches the strategic marketing literature by providing a more comprehensive, internally (in terms of its components) and externally (with reference to S-D logic) consistent strategic

approach that focuses on co-creation capabilities through actionable insights and mutually beneficial performance outcomes.

From a managerial perspective, the findings have critical implications for retail managers. S-D logic rests on the assumption that experiences are central to customer value, but customer value is not embedded in resources or capabilities. Rather, value emerges through the interaction experiences with the firm's resources and capabilities (Vargo and Lusch 2008). Our results demonstrate that retail organizations and their customers benefit significantly from interaction experiences enabled by superior co-creation capabilities. Indeed, key customer and firm performance indicators benefit from higher levels of S-D orientation. For example, in today's complex and competitive environment, customer trust and affective commitment are critical variables for retail stores' success. The co-creation capabilities tested in this study significantly contribute to the development of both trust and commitment while also driving market and financial performance outcomes indicative of mutual value creation.

Given that our measure captures

overall, cumulative S-D perceptions, an important implication is that retail managers need to ensure consistent levels of interaction experiences across time and touch points. This need for consistency extends to the design and integration of online and offline experiences, which both benefit from relational, ethical, individuated, empowered, developmental, and concerted interaction considerations.

Meanwhile, as the S-D orientation comprises several components, we urge retail managers to critically reflect on the contextual leverage of each of the six co-creation capabilities. While our results show the overall importance of the capability portfolio, managers might factor in context specificities in terms of which S-D orientation components have significant differentiation potential and which are simply a competitive necessity. Finally, current marketing research demonstrates the importance of implementing a systematic performance measurement system (Mintz and Currim 2013). In this paper we provide an important tool that helps retail managers implement and/or complement a strategic performance management system. The application of the S-

D orientation measure helps managers establish the level of their co-creation capability at a specific time and track its progress in parallel to specific investments in resources and capability development. We thus encourage retail managers to strategically manage and cultivate their co-creation capabilities with an eye to marketing's contribution to the firm's bottom line.

Limitations and Future Research

While this paper provides a rigorous approach to index construction, several limitations warrant further research concerning the S-D orientation construct. First, we have focused on customers as the most important value network partner. Future research might investigate to what extent customers' assessment of the focal firm's S-D orientation is consistent with that of other value network partners, such as suppliers, intermediaries, or particularly employees.

Second, researchers could explore potential antecedents to further expand and comprehensively understand the nomological network of the S-D orientation construct. For example, an organizational design or configuration theory perspective suggests that organizational elements such as

mindset, culture, leadership style, and rewards would support or hinder the implementation of an S-D orientation. In the following, we briefly outline the relevance of these four antecedent categories for the implementation of an S-D orientation.

An organization's mindset, or way of thinking, represents the firm's business logic that determines organizational members' core assumptions (Prahalad and Bettis 1986). An organizational mindset accordingly frames the understanding of an organization's purpose, policies, priorities, and practices with respect to value creation. A mindset therefore governs and aligns a firm's diverse business efforts, and the development of an S-D orientation as a capability portfolio would benefit from an organizational mindset that embraces collaboration, reciprocity, mutual development, and a long-term focus (Prahalad and Ramaswamy 2004). As a cognitive orientation, an organizational mindset acts as a filter for information processing and decision making (Lampel and Shamsie 2000).

The management literature provides insights into a mindset based on the notion of stewardship that seems

particularly relevant and fitting in this context. Stewardship refers to “an ongoing sense of obligation or duty to others based on the intention to uphold the covenantal relationship [and] act in protection of others’ long-term welfare” (Hernandez 2012, p. 174). A stewardship mindset thus reflects an organization-wide concern for the welfare of others that, as business logic, guides both decision making (resource allocation) and actions (resource integration) toward ensuring reciprocal benefit. Accordingly, managers’ (and thus the organization’s) mindset or “cognitive processes are at the head of a chain of causality” (Sanchez and Heene 1997, p. 308) that may reshape the strategic approach and strategic capabilities an organization emphasizes.

This view of mutually beneficial interactions and improvement of the wellbeing of the involved actors is congruent with the co-creation principles underlying S-D logic (Vargo and Lusch 2008), and particularly supports the development of an S-D orientation. We thus propose a stewardship mindset as a complementary organizational element that acts as a significant driver of an S-D orientation. Organizations with a stewardship mindset see their purpose as

being aligned with the wellbeing of service system members and hence prioritize service-driving capabilities and practices that enhance the mutual benefit in the long term.

We also suggest that an organization's culture and leader-ship style play a significant role in the development of an S-D orientation, as summarized in the following statement:

Reinventing the firm as a service organization using S-D logic requires the organization's culture and its leadership style to treat

employees as operant resources

The role of the leader is to be

a servant-leader who is there to serve the employees, rather than the employees serving the manager. Hence, employee-manager interaction comprises conversation and dialog and the development of norms of relational behavior such as trust, open communication, and solidarity (Lusch et al. 2007, p. 15).

Organizational culture refers to the shared beliefs and values in an organization (Deshpande, Farley, and Webster 1993). It provides a binding element that encourages particular rituals, norms, or expectations of behavior. For example, a firm

might emphasize a service-driven culture and in doing so place great importance on notions of collaboration, open communication, and customer care. Such a cultural orientation in turn encourages the development of service-enabling capabilities and facilitates the implementation of an S-D orientation.

Similarly, an organization's leadership style determines, for instance, which organizational behaviors are acceptable or desirable and thereby has the potential to promote capabilities necessary for service behaviors and value co-creation. In this context, a servant leadership style in particular will encourage the development of capabilities that enable better service provision and thus an S-D orientation, as this type of leadership "stresses personal integrity and serving others, including employees, customers, and communities" (Liden et al. 2008, p. 161). While leadership style represents a tendency of individual service members in powerful or superordinate positions, an organizational mindset and the firm's culture operate at the collective organizational level. We argue that the implementation of an S-D orientation benefits from a holistic and complementary

organizational configuration that stretches across both individual (e.g., leadership style) and collective (e.g., organizational culture) elements.

Moreover, from a motivation perspective, researchers could also study the relevance of reward or compensation systems as structural elements that support an organization's implementation of an S-D orientation. Rewarding co-creation or service behaviors should encourage employees to develop relevant service capabilities and engage in related behaviors (Homburg et al. 2003). The literature currently debates whether such antecedents of hierarchical formative constructs should be modeled at the higher-order or component level (Cadogan and Lee 2013; Rigdon 2014). As each interaction capability contributes uniquely to the S-D orientation construct, directly investigating the impact of drivers on the S-D orientation components might yield more fine-grained managerial insights into the development of respective co-creation capabilities.

Third, while self-reported performance data have been shown to be reliable and strongly correlated with objective performance data (e.g., Wall et al. 2007), more research is

needed to investigate objective performance relationships through an S-D logic lens and to consider respective boundary conditions. For instance, understanding under which circumstances the S-D orientation-performance relationship becomes stronger or weaker would provide valuable theoretical and managerial insights.

Fourth, although our S-D orientation measure has been developed and applied in retail contexts, research and practice would benefit from construct validation in additional contexts. For example, to corroborate and extend the current findings, an interesting comparison would be that of the strength of association between an S-D orientation and firm performance metrics across differing industries, business-to-business contexts, and partner perspectives (including those of customers, employees, and intermediaries). The various value network partners of a focal firm will plausibly differ in their perceptions of the status of the S-D orientation. By overcoming internal bias, such multi-perspective investigations could help managers better understand and respond to perceptual capability gaps. Such research would also enable rich theoretical discussions from the

perspectives of RBT and S-D logic with respect to understanding under which conditions resources or capabilities are most valuable and how perception gaps might threaten their value.

Finally, future research might also examine longitudinal data to determine the dynamic effects of an S-D orientation on organizational performance. The introduction of the S-D orientation by Karpen et al. (2012) offers a meaningful research agenda, while in this paper we shed important light on the measurement and relevance of the S-D orientation.

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