Chapter 21
Service-Dominant Logic and Supply Network Management: An Efficient Business Mix?

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ABSTRACT

This chapter examines the concepts of service-dominant (S-D) logic and supply network management in business processes. The chapter is based on a conceptual analysis of the significance of the two concepts in improving business efficiency and maximizing returns on stakeholders' investments. S-D logic has been tagged by proponents as a credible concept that when applied appropriately to business endeavours could revolutionalize modern business practices. Similar to S-D logic is the concept of supply network management, which seeks an integration of resources by a network of partners and various actors of a business relationship in order to attain cost minimization, whilst maximizing resource deployment. In supply network management, the focus is on shared access to resources among members of a network acknowledging that firms possess varied and sometimes unique resources that others need to tap. In the process of networking, organizations therefore learn from each other and benefit from new knowledge developed by other organizations (Christopher, 2009). The chapter, therefore, assesses the impact of the application of S-D logic and supply network management on business performance.

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INTRODUCTION

Service-dominant (S-D) logic is a business concept that advocates a commitment to collaborative processes with all stakeholders, and also recognizes the significance of firms and its exchange partners who are engaged in the co-creation of value through service provision (Lusch, Vargo and O'Brien, 2007). Thus value creation is a collaborative effort between the firm and the customer, which subsequently results from activities of multiple actors (Prahalad and Ramaswamy, 2004). Ultimately, service achieves value for customers and suppliers who are both involved in a business engagement to co-create value (Gronroos and Ravald, 2009). S-D logic broadens the perspective of exchange and value creation and argues that all social and economic actors engaged in exchange are service-providing, value-creating enterprises (Vargo and Lusch, 2011). In S-D logic, service implies the process or the use of one's resources for the benefit of another entity, or the entity itself (Vargo and Lusch, 2004a). Service thus differs significantly from services which are seen as intangible or non-goods resources. For instance industries such as education, health, and customer care are regarded as services industries because of the intangibility of their final output. This traditional assumption is however different with S-D logic which perceives all economic activities be it agriculture, mining, manufacturing, health, or education as service because in all areas one requires knowledge, skills, competence, technology, and experience to be able to create value.

In S-D logic the focus is mainly on operant resources, which are intangible resources capable of acting on tangible resources or even other operant resources to create effect (Constantin and Lusch, 1994). Thus operant resources are typically human, organisational processes, informational, and relational (Hunt, 2004).More specifically, to achieve value creation requires valuable resources such as knowledge, competences, relationships (Normann and Ramirez, 1993; Vargo and Lusch, 2004a), and information (Evans and Wurster, 1997; Lusch et al., 2007) and because operant resources produce effects, they enable value-creation through the transformation of natural resources. Consequently, goods and services become resources only through the application of operant resources (Vargo and Lusch, 2008). Because operant resources are often core competences, and produce effects, they enhance firms' abilities to multiply the value of natural resources (Lusch, Vargo and Tanniru, 2010). It is nevertheless significant to stress that, all resources including tangible goods are important in S-D logic as their eventual function is to deliver service.

Supply chain management has been closely associated with S-D logic since its inception. Indeed, Lusch (2011) argues that S-D logic has replaced the concept of supply chain with a network concept that he refers to as a service ecosystem. The network concept has evolved as a result of criticisms from some practitioners and researchers about supply chain's simplistic view of the supply system and its inability to incorporate strategically the complexities and inter-organizational relationships that take place among firms (Harland, Lamming, Zheng, and Johnsen, 2001). The reality is that, most firms have acknowledged the significance of supply network partnerships and have transitioned from the hierarchical, vertically integrated format of the supply chain to a network of partnerships with key stakeholders (Christopher and Juttner, 2000). The increasing preference and incorporation of supply networks in business processes represent an attempt to make the concept wider and more strategic by harnessing the resource potential of a network in a more effective manner (Lamming, et al., 2000).

The increasing preference of the network concept is widely stimulated by changes in global business resulting in the internationalization of sourcing and distribution, partly due to the search for cheap manufacturing labor; the breakdown of trade barriers to create larger economic areas