Knowledge Capsule

Entrepreneurship As A New Discipline

Inversions of service-dominant logic
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Key Idea

The Service Dominant logic (hereinafter S-D Logic) is becoming a well-structured corpus: in this coherent system, effectiveness and innovation become the crucial point for a radically new approach for entrepreneurship.

Introduction to the S-D Logic

According to our previous post, "Who Creates Value?", the S-D logic is centred around consumers, who create value through their actions, by combining purchases with other purchases, or by making a purchase fit into their own context in a unique way. Firms are thus considered merely facilitators, regardless of whether they produce services or goods: both are seen in the service perspective as resources spent to benefit consumers or other firms. Goods are in consequence treated simply as a means of facilitating services.

Additionally, services are read to be exchanged for other services, and firms and individuals are both producers and consumers simultaneously: in such a "service ecosystem," institutions (such as norms, rules...; see also Lachmann's Element # 3) bind the distinct patches and nests together in further and broader ecosystems.

The S-D innovation

As opposed to the old "Goods Dominant Logic" (hereinafter G-D Logic), which emphasized enterprise efficiency, S-D focuses on customer satisfaction. "Efficiency" might tend to promote a bureaucratic, normative organization based on control, while innovation was generally regarded as a mere improvement in output. As a result of this **top-down approach** (see also "Valorising The Dispersed Knowledge: A Bottom-Up Strategy For The Firm") a "managerial" approach was favoured over an "entrepreneurial" one. Then, business courses were designed with such an approach, where "managerial" tended to become bureaucratic and centralistic, and the 4 Ps became levers to be pulled within a known and predictable framework. "Entrepreneurship" has been often equated with small and family-owned businesses when, instead, it should have been viewed as an independent field of study in its own right (see also "The World-Making Scope Of The Entrepreneurial Method").

The S-D features

(1) From a **bottom-up perspective**, value creation is seen as an emergent process occurring within ever-changing contexts. As entrepreneurs are fundamental to creating value in ecosystems, they must battle for control and market power by creating new demand, changing the logic of the market, and riding the uncertainty and unpredictability of the environment - continuously and in new and unpredictable ways.

(2) It is true that "predictive" (read "managerial") methods may have some value for very few and limited contests of predictability, though in other cases they may be dangerous for making very efficiently (but!) the wrong things.

PRACTICAL EXAMPLE

The classic example is Kodak before its bankruptcy in the early '10s. Kodak was founded in 1888 by George Eastman and held a dominant position in the photographic film industry during most of the 20th century. Its inability to properly and promptly surf the new digital wave, resulted in it going bankrupt in 2012. In this case, was not important the efficiency in manufacturing the traditional

product, but it was rather crucial that the business would have been prepared to shift to another type of product.

(3) The old G-D logic saw marketing as having a supportive role for the firm while the S-D logic has put production in a supporting role (eventually to be outsourced); in the last case, marketing plays the primary role in creating and re-creating markets by addressing consumer needs to be satisfied in new ways. As a result, the ecosystem becomes central to orchestrating services.

PRACTICAL EXAMPLE

"we habitually celebrate Ford for all the wrong reasons . . . his real genius was marketing. Actually, he perfected the assembly line because he concluded that at $500 he could sell millions of cars. Mass production was the result, not the cause of low prices" (T. Levitt, as quoted in the complete paper)

(4) When we speak about innovation, we are not talking about mere engineering inventions since they do not have any value unless they are applied to the service ecosystem as a whole: in fact, it is necessary to institutionalize innovations and to link them to human problems.
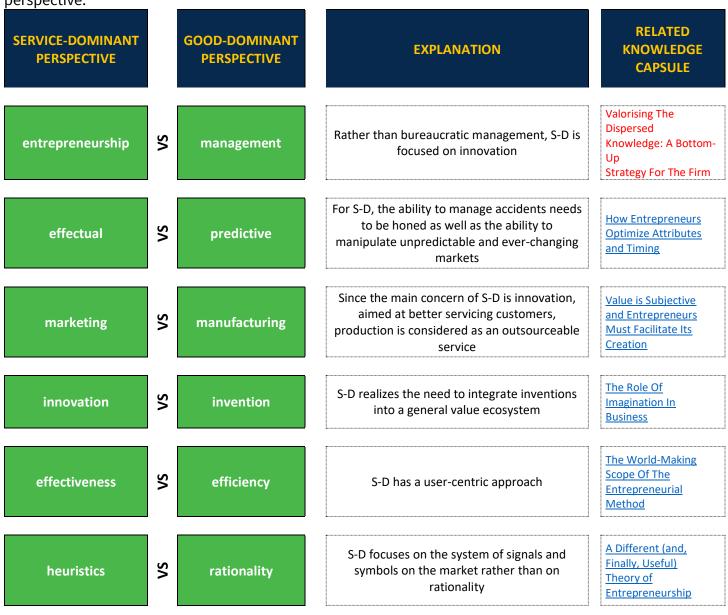
PRACTICAL EXAMPLE

Alfred Joseph Krupa (1915 - 1989) was a Polish/Croatian painter. An eclectic individual, he was a sportsman, an art teacher and... an inventor. He invented skis for walking on water, a glass-bottom boat for observing underwater and, in 1954, the first suitcase with wheels. In the time of Marshal Tito, he tried patenting the idea, but eventually gave up. In U.S. this invention could be better linked to customer needs; after 18 years, Bernard D. Sadow patented his invention as the "Rolling Luggage", and in 1987 Robert Plath updated the design by placing the suitcase vertically, attaching two wheels and building a retractable handle that could then be rolled upright. The Rollaboard® was patented by Plath in 1989, changing the way people travel nowadays (the full story on InterestingEngineering.com).

(5) In the same way that "efficiency" can be considered the characteristic outcome of G-D logic, "effectiveness" is the characteristic outcome of S-D logic due to its concept-centric approach.

(6) Finally, heuristic can benefit the S-D perspective. The heuristic can be defined as the approach to problem solving or self-discovery employing practical methods such as trial and error, a rule of thumb or an educated guess. Though not guaranteed to be rational, it is nevertheless sufficient for achieving an immediate, short-term goal. It can be argued that the utopian "perfectly rational approach" is typical of neoclassical approach, whereas heuristic is characteristic of the S-D, as it emphasizes valorising the symbols and meanings that help to regulate markets.

Summary and Key Takeaway

In essence, the following attributes distinguish the Service-Dominant perspective from the Good-Dominant perspective:

SERVICE-DOMINANT PERSPECTIVE		GOOD-DOMINANT PERSPECTIVE	EXPLANATION	RELATED KNOWLEDGE CAPSULE
entrepreneurship	VS	management	Rather than bureaucratic management, S-D is focused on innovation	Valorising The Dispersed Knowledge: A Bottom-Up Strategy For The Firm
effectual	VS	predictive	For S-D, the ability to manage accidents needs to be honed as well as the ability to manipulate unpredictable and ever-changing markets	How Entrepreneurs Optimize Attributes and Timing
marketing	VS	manufacturing	Since the main concern of S-D is innovation, aimed at better servicing customers, production is considered as an outsourceable service	Value is Subjective and Entrepreneurs Must Facilitate Its Creation
innovation	VS	invention	S-D realizes the need to integrate inventions into a general value ecosystem	The Role Of Imagination In Business
effectiveness	VS	efficiency	S-D has a user-centric approach	The World-Making Scope Of The Entrepreneurial Method
heuristics	VS	rationality	S-D focuses on the system of signals and symbols on the market rather than on rationality	A Different (and, Finally, Useful) Theory of Entrepreneurship

A good-dominant attribute is not incorrect per se, but rather suitable for a smaller sample of cases: S-D and G-D are not dichotomous, but we can framework a complex ecosystem where the G-D is nested in S-D logic.