

Co-creating a course ahead from the intersection of service-dominant logic and effectuation

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Introduction

Emanating from independent streams of research, effectuation (Sarasvathy, 2001) and service-dominant (S-D) logic (Vargo and Lusch, 2004) share meaningful common theoretical ground and provide an enticing basis for the development of novel understanding around the science of creation in business. One of the clearest intersections of these literatures is in interactions surrounding the activity of co-creation. Effectuation identifies co-creation as a heuristic that expert entrepreneurs learn for controlling the uncertainties of making new firms, products and markets. Co-creation is similarly integral to S-D logic, which explicitly articulates its sixth foundational principle as ‘The customer is always a co-creator of value’ (Vargo and Lusch, 2008). We have designed this essay to build on the co-creative perspective, taking an initial bearing suggested by fellow voyagers from the Austrian school, to chart compelling research directions for both effectuation and S-D logic.

Waypoints from Austrian capital theory

In an insightful essay, Foss et al. (2007) use Austrian capital theory to link entrepreneurship and develop theory around the firm. The result offers three specific dilemmas faced by Austrian capital theory, each of which also points to possibilities for future research associated with effectuation and S-D logic.

1. *Heterogeneous capital.* Against the straw man of economic rationality, Foss et al. (2007) offer an alternative view, that not all capital is equal. They argue that not only does the value of capital differ depending on the source of the capital, but also that it is impossible to value ex

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ante, as the potential of co-creating unanticipated value between funder and fundee cannot reasonably be assessed in advance. Extended to co-creational heuristics of effectuation and S-D logic, this may illuminate theory around the capital inputs and outputs of co-creation, since capital, both financial and human, applied in co-creation may differ in important ways from capital employed in existing markets.

2. ***Incomplete markets for judgment.*** Foss et al. (2007) offer three formulae for converting human capital into rents, consisting of selling or contracting labor in the open market, or starting a firm. In so doing, they highlight two pertinent directions for research at the effectuation and S-D logic junction. The problem of judgment is clear: while there are existing structures upon which to sell or contract labor, it is difficult or impossible for any external entity to judge or value the risk inherent in starting a new firm, an insight which readily extends to uncertain activities of co-creation. And while Foss et al. (2007) – drawing on Schumpeter (1911), Kirzner (1979) and Casson (1982 [2003]) – argue that one reason entrepreneurs choose to start a firm instead of contracting or selling is that s/he has ‘a different perception of the situation’ (Casson, 1997), there is also the possibility that even the entrepreneur cannot provide judgment around the risk or returns to co-created artifacts which may emerge from his or her interactions with committed stakeholders.
3. ***Contractual incompleteness.*** The previous two insights conspire to suggest at least one pressing dilemma: the need to co-create and the simultaneous difficulty of constructing a complete agreement around inputs, relationship or outcome (Demsetz, 1988). The issue is partially addressed through ownership (of assets, equity or human capital) in the case of the entrepreneur, but this is a special case, since co-creation takes place in environments well beyond the confines of new firm creation. And even in a new venture setting, contracting is incompletely handled, offering another area where new theoretical maps might be drawn.

We use these three difficulties as opportunities to pose new questions and suggest new areas where theory and empirical research might join together to develop a stronger understanding of how novelty is co-created, what circumstances might encourage it, and why specific actions might be more effectual in a situation that involves co-creation. We by no means propose an exhaustive listing, only initial sketches on the largely blank map. For each question, we try to present ideas on theory and research design.

Heterogeneous capital

What variables partially determine capital value in co-creation? Knowing the difficulty of anticipating which capital will emerge as a valuable resource until it is put to use, we can pursue the question with a partial inventory of the variables which might inform empirical and theoretical enquiry. Financial investment may likely be moderated with the means of whom one knows, what one knows and who one is (Sarasvathy, 2001), and additionally by the differential inventory of the means of the co-creator. Because those means influence how capital is used (and thus valued), as well as the environment in which co-creators choose to act and the actions they co-choose to take, it may be possible to construct a dependent logic chain that offers insight into the valuation of capital inputs to co-creation.

How does environmental munificence affect co-creation? Capital and means are not, however, the only inputs to co-creation. Environmental munificence (Staw and Szawajkowski, 1975) has long been identified an important input, particularly in uncertain situations. Specific to co-creation, the

application and use of unanticipated and un(or under)valued resources such as slack (George, 2005) are more likely than in mature situations, thus elevating the potential for variables that describe these less tangible inputs to offer explanatory power to the process of co-creation.

Under what circumstances can co-creation shape competitive advantage? Much effort in strategy has been devoted to the search for sustained competitive advantage (Barney, 1991). Hard resources have not offered a satisfying answer, and so the search extended to softer concepts including dynamic capabilities (Eisenhardt and Martin, 2000). Whether the ability to co-create constitutes a dynamic capability is beyond our scope, but considering the capacity to co-create as a basis for competitive advantage (or disadvantage) at the level of the firm – or the basis for change and innovation at the level of the industry – might offer a novel perspective on a persistent question.

Incomplete markets for judgment

At the co-creative core of effectuation and S-D logic lies an issue of which information matters. While much scientific and social enquiry has focused on tangible (the objective) and perceived (the subjective) information, Davidson (2001) offers a third alternative of direct relevance. His work argues for a third possibility, the intersubjective, which positions human sense-making not as scientifically clinical, nor as individually perceived, but interactively co-created. This is useful in our context as it suggests an informational approach to co-creation. Implications stemming from the intersubjective connect with the problem of isotropy (Sarasvathy and Dew, 2005), an information problem whereby there is infinite information and no way to assess which is pertinent. Starting from an intersubjective foundation offers a means to prioritize information inputs and a means to make judgment, leading to three more research questions:

Does co-creation cascade uncertainty? While it is intuitive that committing decision making to an intersubjective foundation offers individuals a lever to gain some control over environmental uncertainty (Knight, 1921), it is also possible that in so doing, those actors generate uncertainty in the environment at the same time – uncertainty that will subsequently impact other actors. Considering how the need for control initiates co-creation and propagates co-creation in the environment could offer insights into individual decision making as well as explaining changes at the environmental level.

How do large organizations co-create? Projecting the intersubjective onto large institutions may accelerate the understanding of designs and structures that enable or hinder the process of co-creation. In a situation where the most salient information is derived intersubjectively, it is impossible to have all the inputs ex-ante. Yet traditional planning is predicated on historical data. There exists a possibility to reconsider what planning means, and the role of planning is in co-creative situations – not only whether planning encourages or discourages co-creation but also whether it may be more appropriate to re-conceptualize a plan at a different level of goal-specificity.

Might committed stakeholders also remake themselves in the co-creation process? As complicated as theorizing around this idea may become, it is important to acknowledge that just as opportunities are co-created, the same might apply to individual perceptions, biases and heuristics.

Contractual incompleteness

How do you know who is (not) a customer? In stark contrast to structured prescriptions of marketing teaching, where the process generally starts with the customer, it is nearly impossible to know who is and is not a customer in co-creation. Like the problem of valuing capital ex ante, it is equally challenging to determine how customers will co-contribute to the interaction until they become customers. Both practically and theoretically, this pushes the problem into the ignorance of isotropy, thus opening up possibilities that customers might include suppliers, distribution partners or simply people on the street. It also opens up the possibility that one of the critical elements of co-creation is the conscious blurring of these distinctions to enable a broader scope of variety and more possibilities for agreement to co-create.

What does negotiation under co-creation look like? The first question in this section raises the question of contracting in co-creation and its antecedent, negotiation. We suppose the characteristics of co-creative negotiation and contracting that distinguish them from more established forms of negotiation around a more specific goal might include the following:

- Docility
- (Over)-Trust
- Confidence
- Pre-commitment
- Isotropy
- Control over process
- Control over outcome

While each is a topic on its own, we focus on how we might position co-creation within the negotiations literature, having sketched out the following possible framework for key dimensions upon which negotiation styles and outcomes may differ.

Interdependence of Relationship	High	Integrative Negotiation	Iterative (or Intersubjective) Negotiation for Co-creation
	Low	Distributive (Transactional) Negotiation	Networking
		Low	High

Ambiguity of Goal

Figure 1. Negotiation style by relationship interdependence and goal ambiguity.

What is the role of failure in the preference for co-creative logic? With the uncertainties associated with co-creation, the prospect of failure cannot be ignored. It is important to consider not only whether failure is more or less likely in co-creation, or what antecedents might moderate failure, but also how co-creators articulate and anticipate failure as they work through the process of co-creation.

Conclusion: Effectuation as a procedural rationality for service science

We conclude this inventory of reasonably specific research questions on a more general note. While effectuation and S-D logic share common logic, effectuation may meaningfully inform service science by offering a procedural rationality (Simon, 1976). To date a great deal of work has been devoted to understanding service science and what outputs it may generate. But less is available on how it operates – the underlying process. The theoretical potential and empirical artifacts that could result from constructing a procedural rationality for service science might advance it to an even more useful level and offer yet another stream of exciting research. We leave that as our tenth open question of the essay, hoping at least some questions will be attractive to scholars interested in continuing to co-create knowledge and draw the map of the area.

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