

Service-Dominant Logic: A Model of Service Satisfaction and Its Antecedents

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ABSTRACT

Along with the advancement of information technology and service innovation, service-dominated logic has become one of the most important concepts for firms to acquire a competitive advantage. According to service-dominated logic, all service innovation should be conceptualized based on the application of competencies (e.g., knowledge and skills), and firms should leverage these competencies to promote values and benefits for each exchange or transaction. This study integrates relevant theories and constructs to develop a comprehensive model of service innovation focusing on a service-dominated logic perspective. Data from 135 Vietnamese business owners or management executives were collected and analyzed, and research hypotheses were assessed by employing partial linear square structural equation modeling (PLS-SEM). The findings indicated the interrelationship between service-dominated orientation, dynamic service innovation capability, service knowledge creation, service innovation, and service satisfaction. The results could be beneficial for academicians to further validate the research model and could also be very useful for professionals to design and implement their service innovation strategies.

Keywords: dynamic service innovation capability, service-dominant orientation, service knowledge creation, service innovation, service satisfaction.

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I. INTRODUCTION

Along with the advancement of information technology, service innovation has become a necessary choice for firms to keep current customers and recruit new customers. With the application of the internet, innovation cannot be developed from a firm anymore, it must be evolved from the joint action of a network of actors (Nambisan & Sawhney, 2007). The focus of service innovation has shifted from service and technology to the value co-created with other actors in the use of innovation. Janssen *et al.* (2016) argued that service innovation could be defined as a "new service experience of service solution that consists of a new concept, new customer orientation, new value system, new revenue model, or new organizational or technological service delivery system" (p.97). Among different philosophies of service innovation, the service-dominant logic (S-D Logic), first introduced by Vargo and Lusch (2004), emphasized that we need to use S-D concepts to design services to understand economic exchange and value creation.

Different from Good-dominant (G-D Logic) which emphasizes the production of goods and regards service as the "value-added" activities, S-D logic views service as a process, and a primary focus of exchange (Lusch *et al.*, 2007), while people exchange to acquire the benefits of specialized competencies or services. Customers are co-producer of service, value is perceived and determined by the consumer. Service innovation should be conceptualized based on the application of competencies (Ordanini & Parasuraman, 2011).

This study identifies three of the most important competencies, including service-dominant orientation, dynamics service innovation capability, and service knowledge creation. Service is a value co-creating process (Vargo & Lusch, 2008); therefore, interaction is an important aspect of resource integration efforts and value-driving experiences (Prahalad & Ramaswamy, 2004). This study proposes that S-D orientation enhances service innovation. Having interaction capabilities with customers during service delivery is essential for the company to foster innovation, competitiveness, and performance (Ordanini & Parasuraman, 2011; Vargo & Lusch, 2004). Furthermore, achieving the above three antecedents is crucial for firms to achieve higher service satisfaction in competitive markets (Karpen *et al.*, 2012, Prahalad & Ramaswamy, 2004). Therefore, in this study, service-dominant orientation, dynamic service innovation capability, and service knowledge creation can serve as direct influential variables on service satisfaction, they can also serve as indirect variables that influence service satisfaction through service innovation.

This study intends to fill this research gap and contribute to the service innovation literature. The main objectives are (1) to verify the interrelationships between service-dominant orientation, dynamic service innovation capability, and service knowledge creation; (2) to examine the influence of service-dominant orientation, dynamic service innovation capability, and service knowledge creation on service innovation; and (3) to identify the effect of service innovation on service satisfaction.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

A. Service-Dominant Logic

Vargo and Lusch first introduced the service-dominant logic (S-D logic) in 2004 through their paper entitled "Evolving to a New Dominant Logic for Marketing," which was published in the Journal of Marketing. S-D logic is a thinking framework at a pre-theoretic stage and is an alternative paradigm to the traditional goods-centered paradigm, which is called good-dominant (G-D) logic (Lusch & Vargo, 2011; Vargo & Akaka, 2009). S-D logic conceptualizes business exchanges from a service-based perspective for understanding economic exchange and value creation (Karpen *et al.*, 2012; Navarro *et al.*, 2014). S-D logic views service as a process, a stand-alone variable, and a primary focus of exchange (Lusch *et al.*, 2007). S-D logic views that people exchange to acquire the benefits of specialized competencies or services, goods are transmitters of operant resources, the customer is a co-producer of service, value is perceived and determined by the customer, the customer is primarily an operant resource, and wealth is obtained through the application and exchange of specialized knowledge and skills. Based on S-D logic, all customers, employees, and organizations are operant resources and endogenous to the exchange and value-creation processes (Verma & Jayashima, 2012). All parties are seen as value creators and value beneficiaries to reduce the distinction between producer and consumer. S-D logic focuses on the interaction between producer and consumer as they co-create value through collaborative processes (Navarro *et al.*, 2014; Verma & Jayashima, 2012). This study intends to develop a research framework of service using S-D Logic as a premise.

B. Service-Dominant Orientation

S-D orientation was first developed by Karpen *et al.* (2012). It represents a set of strategic capabilities from a service-dominant logic perspective. Based on S-D logic, strategy is about choosing the best way to facilitate and enhance value co-creation with network partners (e.g., customers, suppliers, etc.) for mutual and long-term benefit (Karpen *et al.*, 2012; Karpen *et al.*, 2015). Specifically, S-D orientation refers to "a co-creation capability, resulting from a firm's individuated, relational, ethical, empowered, developmental, and concerted interaction capabilities" (Karpen *et al.*, 2012, p. 21). S-D orientation enables a company to co-create value in service exchanges with its network partners. Value co-creation can be defined as assisting customers to co-construct and engage in superior experiences (Vargo & Lusch, 2008). S-D orientation reflects an understanding of meaningful interaction and reciprocal resource integration with value network partners (Karpen *et al.*, 2015).

C. Dynamic Service Innovation Capability

Dynamic capability was first introduced by Teece *et al.* (1997) and referred to "the firm's ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments" (p. 516). Dynamic capability offers a more dynamic version from a resource-based view (RBV) (Wernerfelt, 1984). Dynamic capabilities have an important role in innovation literature (Crossan & Apaydin, 2010). In an attempt to conceptualize dynamic capabilities in

service innovation, Janssen *et al.* (2016) developed the dynamic service innovation capabilities concept based on den Hertog *et al.* (2010) 's extended set of capabilities. Dynamic service innovation capabilities can be defined as "those hard to transfer and imitate service innovation capabilities which organizations possess to develop, (re-)shape, (dis-)integrate and (re-)configure existing and new resources and operational capabilities" (den Hertog *et al.*, 2010, p. 498). These capabilities include sensing customer needs, technological options, conceptualizing, coproducing, and orchestrating, and scaling and stretching.

D. Service Knowledge Creation

Knowledge is a critical competitive resource for an organization that increasingly exploits resources and capabilities combined with those of channel partners to create an environment that facilitates knowledge work to improve knowledge creation and organizational performance. Knowledge creation is a frequently cited means of achieving competitive advantage for individual companies and B2B partners (De Luca & Atuahene-Gima, 2007). Service knowledge creation as exploitive innovations that enable greater awareness of market conditions and/or more effective and/or efficient processes through the synthesis of extant knowledge from various sources. Nonka (1994) argued that service knowledge creation occurs when explicit knowledge grounded in tacit knowledge dynamic interacts in the organization in various ways. Service knowledge creation is viewed by some as involving the application of knowledge and intensive creation (Little & Deokar, 2016).

E. Service Innovation

Droege *et al.* (2009) suggested that service innovation can focus on studying together innovation in services and manufacturing (Droege *et al.* 2009). The emergence of this perspective is due to the acceptance that studies on service innovation lighten the important elements, such as the importance of customer involvement which have been neglected in the study of product innovation in the manufacturing sector (Drejer, 2004; Sanden *et al.*, 2006). In the past few years, scholars have gradually acknowledged the multi-dimensional and varied nature of service innovation (Agarwal & Selen, 2011). This study follows a multi-dimensional approach to service innovation as developed by Janssen *et al.* (2016), first introduced by den Hertog *et al.* (2010). They defined service innovation as "a new service experience of service solution that consists of a new (or considerably changed) service concept, new customer interaction, new value system, new revenue model, or new organizational or technological service delivery system" (Janssen *et al.*, 2016, p.97).

F. Service Satisfaction

In this study, service satisfaction includes employee satisfaction and customer satisfaction. Employee satisfaction is an essential factor influencing external integration with trading partners. McAfee *et al.* (2002) argue that developing relationship-based human resource management strategies enables employees to make long-term investments in a firm's supply chain partners and that supply chain partners' perceptions are influenced by the employees that manage the relationships. Customer satisfaction talks about the customer

relationship with the organization and how the services are delivered to the customers (Pradnyadewi & Giantari, 2022). Customer satisfaction is one of the ultimate goals that service organizations seek due to the long-term benefits of having satisfied customers, such as positive word of mouth comments, customer loyalty, and sustainable profitability (Greenwell *et al.*, 2002; Liu & Jang, 2009).

G. Hypothesis Development

According to S-D logic, service is customer-oriented and relational, and the customer is always a co-creator of value (Vargo & Lusch, 2004; 2008). S-D orientation is a portfolio of co-creation capabilities including individuated, relational, ethical, empowered, developmental, and concerted interaction capabilities which enables a company to co-create value with its customers (Karpen *et al.*, 2012). S-D orientation companies emphasize value co-creation processes through interactions and resources integrations (Karpen *et al.*, 2015). These interactions and resources integrations are continuous and interdependent processes for the mutual benefit of all involved actors.

This study proposes that S-D orientation enhances service innovation practices. During interactions, new service values and knowledge may emerge (Arnould & Thompson, 2005). S-D orientation companies conduct value co-creation activities through understanding, responding to, and empowering individual customers and underline the quality of the interaction process and intent to facilitate enjoyable human relationships, morally acceptable behavior, and pleasurable touchpoints (Karpen *et al.*, 2015). Frequent interactions may help companies get feedback from customers and develop innovative service values (Pralhad & Ramaswamy, 2004; Yiu *et al.*, 2020). This continuous feedback will also improve the capability of dynamic service innovation and service satisfaction. Therefore, this study hypothesizes:

H1: S-D Orientation has a positive effect on dynamic service innovation capability.

H2: S-D Orientation has a positive effect on service innovation.

H3: S-D Orientation has a positive effect on service satisfaction.

Dynamic capabilities play an important role in innovation (Crossan & Apaydin, 2010). It facilitates companies to explore and answer the unmet needs of current and potential customers (Adam *et al.*, 2018). Having dynamic service innovation capabilities allows companies to gain a competitive advantage by adapting, innovating, and reconfiguring their resources (den Hertog *et al.*, 2010). Sustainable competitive advantages of a firm will result in higher service satisfaction. This study proposes that dynamic service innovation capabilities enhance service innovation practices. Kindström *et al.* (2013), through their qualitative study, identified key micro-foundations forming the basis of successful realignment of a company's dynamic capabilities (e.g., sensing, seizing, and reconfiguring) that enhance service innovation activities. According to S-D logic, successful service innovation depends on the continuous renewal, creation, integration, and transformation of resources (Ballantyne & Varey, 2006). A company needs to

have capabilities of sensing customer needs, sensing technological options, conceptualizing, coproducing, and orchestrating, and scaling and stretching to effectively and efficiently create new service knowledge and deliver innovative service values (Janssen *et al.*, 2016). Therefore, this study hypothesizes:

H4: Dynamic service innovation capabilities positively affect service knowledge creation.

H5: Dynamic service innovation capabilities positively affect service innovation.

H6: Dynamic service innovation capabilities positively affect service satisfaction.

According to S-D logic, knowledge is an operant resource that helps companies gain a competitive advantage (Vargo & Lusch, 2004). Knowledge is a complex resource important for innovation and success (Paswan *et al.*, 2014; Serenko & Bontis, 2004). Knowledge is a source for new service value creation (Lusch *et al.*, 2007), and new service values may emerge during knowledge sharing or exchange with customers (Kwok & Gao, 2005). This study proposes that service knowledge creation enhances service innovation. Melancon *et al.* (2010) found that knowledge of customers and knowledge of the industry enhance the company's ability to meet customer needs. Furthermore, Paswan *et al.* (2014) proposed that knowledge is a key to value co-creation practices. Based on S-D logic foundational premises, the customer is always a co-creator of value (Vargo & Lusch, 2004; 2008). Having greater knowledge of current and potential customers provides strategic resources for the company to create and propose new service values (Kohli & Jaworski, 1990). Thus, this study hypothesizes:

H7: Service knowledge resources have positive effects on service innovation.

According to Janssen *et al.* (2016), multi-dimensional service innovation consists of new service concepts, new customer interaction, new value system/business partners, new revenue model, new organizational delivery system, and new technological delivery system. The link between innovation and service satisfaction is widely studied in the innovation literature, especially innovation on tangible products (Ordanini & Parasuraman, 2011). Previous studies support the positive link between service innovation and service satisfaction (Avlonitis *et al.*, 2001; Chen *et al.*, 2009; Ordanini & Parasuraman, 2011). Avlonitis *et al.* (2001) found that new delivery processes positively influence service satisfaction. Furthermore, Ordanini & Parasuraman (2011) found that both innovation radicalness and innovation volume positively affect service satisfaction. Having a new service concept, new customer interaction, new value system/business partners, new revenue model, new organizational delivery system, and new technological delivery system leads to greater service satisfaction (Ofosu-Boateng & Acquaye, 2020; Wantara & Irawati, 2021). Thus, this study hypothesizes:

H8: Service innovation has a positive effect on service satisfaction.

Based on the literature review results, this study developed a research framework, as shown in Fig. 1.

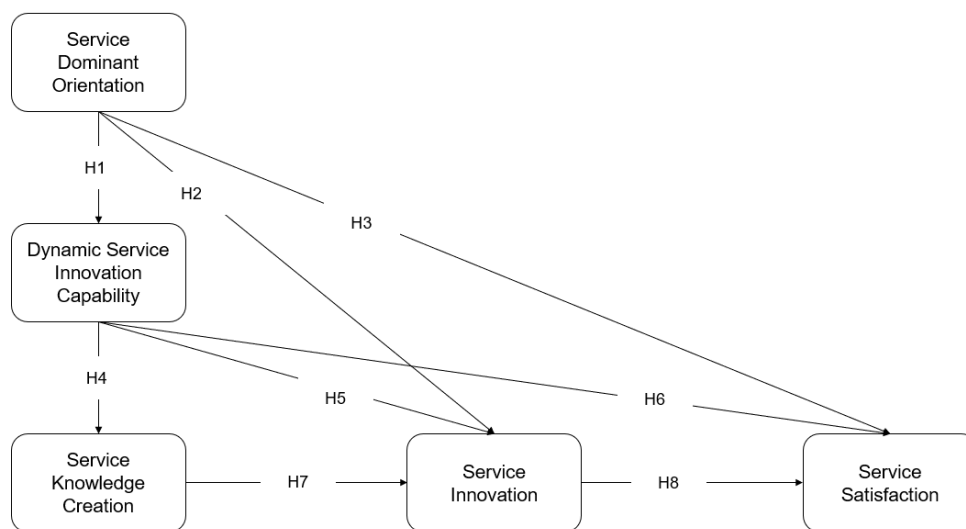


Fig. 1. The research framework.

III. METHODOLOGY

Online and offline questionnaire surveys were distributed to business owners and managers in Vietnam. This sample is deemed appropriate to the goals of this research since the unit analysis of this study will be at the organizational level. Business owners or management executives have a better understanding of the company's practices. The survey material included a cover letter from the researcher. Respondents were asked to express their opinions about the research constructs of this study. In the end, this study received 135 usable questionnaire responses. The descriptive analysis of the respondents is shown in Table I.

TABLE I: THE DEMOGRAPHICS OF THE RESPONDENTS

Demographic Variables		Frequency (n=135)	%
Gender	Male	78	57.78%
	Female	57	42.22%
Age	Less than 25 years old	11	8.15%
	26 to 35 years old	59	43.70%
	36 to 45 years old	38	28.15%
	46 to 55 years old	18	13.33%
	More than 55 years old	9	6.67%
Educational background	High school or lower	9	6.67%
	Bachelor degree	74	54.81
	Postgraduate degree	52	38.52
Annual Income (USD)	Less than 20,000	47	34.81%
	20,00 – 25,000	41	30.37%
	25,001 – 30,000	21	15.56%
	30,001 – 35,000	17	12.59%
Position in the organization	More than 35,000	9	6.67%
	Owner	59	43.70%
	General manager	41	20.37%
	Marketing manager	23	17.04%
	Other	12	8.89%

To ensure the dimension and reliability of the research constructs, this study conducted factor analysis, item-to-total correlation, and Cronbach's alpha tests. Table II shows that the factor loading of all the questionnaire items is higher than 0.6 (0.647-0.926), all item-to-total correlation coefficients are higher than 0.5, and all Cronbach's alpha of all factors are

higher than 0.7 (0.711-0.906), which all exceed the generally accepted guideline from Hair *et al.* (2012). So that we can conclude that all of the questionnaire items show a high degree of internal consistency, and their factors are appropriate for further analysis.

TABLE II: FACTOR LOADING AND RELIABILITY

Construct	Factor Loading	Eigen-value	Cumulative Explained	Item-to-total correlation	Cronbach's Alpha
SDO	0.647-0.831	2.325	64.67%	0.589-0.815	0.729
DSIC	0.628-0.912	3.11	72.08%	0.606-0.857	0.762
SKC	0.731-0.889	4.484	80.01%	0.640-0.839	0.906
SI	0.625-0.899	3.782	74.26%	0.599-0.814	0.811
SS	0.614-0.927	3.109	71.99%	0.632-0.891	0.872

IV. RESULTS AND FINDINGS

A. Evaluation of the Structural Model

Hair *et al.* (2012) argued that the primary criterion for the PLS model assessment is the coefficient of determination (R²), which represents the amount of explained variance of each endogenous latent variable. According to Chin (1998), an R² value of more than 0.672 is considered substantial; 0.771-0.330 is described as moderate, while 0.3290-0.190 is described as weak. Henseler *et al.* (2009) further stated that average variance explained (AVE) > 0.5 means significant (Henseler *et al.*, 2009), and composite reliability (CR) should be higher than 0.6. Finally, Cronbach's alpha coefficient should be higher than 0.7 (Hair *et al.*, 2011) to verify the measurement model's reliability and validity. As shown in Table III, AVEs ranged from 0.606 to 0.815, which are greater than 0.5 and mean significant. Second, the range of CR coefficients is from 0.795 to 0.922, which is much greater than the threshold of 0.6. Third, Cronbach's alpha coefficients range from 0.799 to 0.939, which is greater than the criteria of 0.7 and considered significant. Last, R² for the four latent variables are as follows: 0.415 for dynamic service innovation capabilities, 0.367 for service knowledge creation, 0.602 for service innovation considered moderate, and 0.710 for service satisfaction which is considered substantial. Hence, it demonstrates that the reliability and validity of the

research model are suitable, so the following evaluation of the structural model can be moved on.

TABLE III: EVALUATION OF THE MEASUREMENT MODEL

Construct	AVE	CR	Cronbach's Alpha(α)	R ²
SDO	0.698	0.795	0.852	*
DSIC	0.762	0.854	0.799	0.415
SKC	0.682	0.891	0.939	0.367
SI	0.815	0.922	0.921	0.602
SS	0.606	0.911	0.885	0.710

B. Hypothesis Testing

The structural model with its research hypotheses was tested using the parameter estimates of the path between research constructs. Using a sample of 135, a non-parametric bootstrapping procedure was performed with 5000 sub-samples to obtain the statistical significance of each path coefficient for hypotheses testing.

The empirical results show that service dynamic orientation has a positive influence on dynamic service innovation capabilities ($\beta=0.613$, $t=28.543$), service innovation ($\beta=0.519$, $t=17.875$), and service satisfaction ($\beta=0.481$, $t=14.321$). Thus, hypotheses H1, H2, and H3 are significant. For the influence of dynamic service innovation capabilities, the empirical results show that dynamic service innovation capability has a positive influence on service knowledge creation ($\beta=0.533$, $t=16.017$), service innovation ($\beta=0.690$, $t=8.991$), service satisfaction ($\beta=0.294$, $t=3.453$). Thus, hypotheses H4, H5, and H6 are supported. Furthermore, service knowledge resource has a positive influence on service innovation ($\beta=0.311$, $t=9.108$), and service innovation positively influences service satisfaction ($\beta=0.499$, $t=11.654$). Therefore, H7 and H8 are supported.

TABLE IV: EVALUATION OF STRUCTURAL MODEL AND HYPOTHESIS TESTING

Hy.	Path	Standardize	t-value
1	SDO \rightarrow DSIC	0.613	28.543***
2	SDO \rightarrow SI	0.519	17.875***
3	SDO \rightarrow SS	0.481	14.321***
4	DSIC \rightarrow SKC	0.533	16.017***
5	DSIC \rightarrow SI	0.690	8.991***
6	DSIC \rightarrow SS	0.294	3.453***
7	SKC \rightarrow SI	0.311	9.108***
8	SI \rightarrow SS	0.499	11.654***

V. DISCUSSION AND CONCLUSION

A. Conclusion

The primary purpose of this study is to examine the interrelationship between service-dominant orientation, dynamic service innovation capabilities, service knowledge creation, service innovation, and service satisfaction.

First of all, service-dominant orientation is confirmed to positively affect service innovation, dynamic service innovation capability, and service satisfaction. Other studies support this statement. Polat and Atalik (2021) agreed that the value co-creation process between the customers, the providers, and other parties would become a dominant point of view contributing to the innovative and beneficial process, thus leading to service innovation and service satisfaction.

Åkesson *et al.* (2016) further indicated that organizations could receive creative ideas and suggestions from the consumers and customers during the interaction and adjust their service production and delivery process, enhancing the service innovation process. Furthermore, customers will be able to perceive a higher service innovation from those organizations. Finally, Chen *et al.* (2011) also confirmed that through the potential collaboration between customers and service providers, customers would elevate the co-production process, and organizations can develop new products and services. As a consequence, service innovation and satisfaction will be enhanced. Managers now must realize the critical roles of customers in business and focus more on the customer experience to constantly renew and refresh their service production process.

Secondly, this study confirms the influence of dynamic service innovation capabilities on service knowledge creation, service innovations, and service satisfaction. Previous studies also support this result. Ndubisi *et al.* (2020) argued that service production requires the information and knowledge from their partners to accelerate the value co-production process. Thus, dynamic service innovation capabilities can enhance the service innovation process and satisfaction. Furthermore, dynamic capabilities facilitate the ability to integrate the external information and align the internal resources to enhance the potential to adapt to changes through service innovation (Lütjen *et al.*, 2019). Organizations can recognize and anticipate the market needs to maintain sustainable competitive advantages (Kiani *et al.*, 2019).

Finally, this study confirms the inter-relationship between service knowledge creation, service innovation, and service satisfaction. Mostafa (2016) proposed that when organizations acquire knowledge about their customers, their markets, and their industries, they will be able to establish new strategies to create new service values, thus, it will enhance the ability to maintain their service satisfaction. Paswan *et al.* (2014) further agreed that this knowledge would help organizations enhance the service production and delivery process, increasing the service values to their customers. These new strategies, new service delivery processes, and new service values will obviously lead to higher service satisfaction (Jannsen *et al.*, 2015).

B. Limitations and Future Research Direction

This study has some limitations, which are also opportunities for future research. First, an empirical study was conducted by cross-sectional data in one period of time. First, data were collected only from various companies in Vietnam. Future research can collect data from a particular industry and in many different countries to test generalizability. Convenient sampling with the questionnaire survey might be another problem. To enhance a better understanding of service innovation, future studies also can consider using other data collection methods, such as in-depth interviews, to have a more comprehensive view of this topic.

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