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A Service-Ecosystem Perspective on Value Creation: Implications for International Business

Valtteri Kaartemo, Melissa Archpru Akaka,
and Stephen L. Vargo

Introduction

In international business (IB), value is generally considered as something that is created in a global value chain (Gereffi et al. 2005). Conventional views suggest that companies engage in exchange with other companies across different countries in a somewhat sequential manner (e.g. from raw materials, to production, to wholesalers, to retailers), and value is added along the way (Funk et al. 2010; Kumaraswamy et al. 2012). Nevertheless, there is not much discussion on how value is created or

V. Kaartemo (✉)
University of Turku, Turku, Finland

M.A. Akaka
Department of Marketing, Daniels College of Business,
University of Denver, Denver, CO, USA

S.L. Vargo
Shidler College of Business, University of Hawai'i at Mānoa,
Honolulu, HI, USA

derived throughout these interactions. Instead, in line with neoclassical economics, it is generally assumed that value is created through firms' participation in value chains and, ultimately, 'consumed,' or destroyed, by individual customers.

Johanson and Vahlne (Eden and Winners 2009) criticized that by inheriting the ontological and epistemological premises from economics, IB scholars became 'prisoners' of neoclassical economics. They argue that this approach is notorious for treating business processes as separate from the surrounding society. In response to this narrow view, Johanson and Vahlne (2009) revised their original Uppsala model to discuss firms in a network type of environment. They explicitly note that a firm's success depends on its role in one or more networks. In addition, they have recognized that knowledge is created in the relationships embedded in these networks, and that knowledge is 'context-specific' by nature. However, there is still a lack of consideration of the underlying complexities of the social and cultural context (Akaka et al. 2013) through which value is created in international markets.

From time to time, IB scholars encourage studies regarding context. Most notably this happened in the stream of comparative marketing in the 1960s and 1970s. However, since then, attention toward comparative marketing has faded. Consequently, IB research has not developed an understanding of social complexity and the co-evolution of marketing systems and their environments (Cantwell et al. 2010) that could have emerged from comparative marketing studies. It seems that this lack of understanding dynamic contexts may be a central reason for why the IB discipline has been 'running out of steam' (Buckley 2002).

We argue that a shift toward understanding context is needed if IB scholars want to advance the discipline in such a way as to explain the social and cultural complexities of exchange (Calhoun 2010; Sullivan et al. 2011). This is because following the philosophical premises of neo-classical economics limits the potential of IB research in understanding and analysing the social and cultural context within which exchange and value creation occur. Thus, developing a deeper understanding of context can potentially revive momentum in IB research, distinguish this body of knowledge from mainstream economics, and provide important

insights into other disciplines (Calhoun 2010; Michailova 2011; Toyne and Nigh 1998).

In this chapter, we propose a service-ecosystem perspective (Vargo and Lusch 2011) to understand how context influences and is influenced by value creation in IB. Earlier, Akaka et al. (2013) indicated that a service-ecosystem perspective can potentially aid researchers in understanding international markets in a more comprehensive manner. Thus, we draw on their work to discuss the complexity of context in international markets, and how this can help us to refocus our attention on the relationship between international businesses and the environment within which they are embedded. More specifically, as a contribution to the discussion on value creation in IB, we argue that a service-ecosystem perspective can help develop an understanding of value creation beyond the conceptualization of a value chain. Rather than focusing on differences between systems (e.g. firms and public actors) or markets (e.g. foreign and domestic), we contribute to understanding how value creation can be interpreted as a part of a complex context.

Comparative Marketing Scholars as Pioneers of Contextual IB Research

Comparative marketing is a topic of IB that centres on the study of marketing flows, marketing-environment relationships, constraints of the environment on systems, actor characteristics, structures, and institutions in exchange systems (Boddewyn 1981; Iyer 1997). Scholars of comparative marketing (for a review, see Boddewyn 1981) have studied differences among broad national systems (macro-level), such as institutional development, or their specific components of national systems, such as consumer behaviour and segments (micro-level). Whereas macro-level studies mostly concentrated on the differences between countries, the micro-level studies focused on discovering the similarities in customer behaviour so that marketing managers could minimize costs and effort with the use of standardized strategies in several countries.

While some scholars of comparative marketing compared the key concepts separately from one country to another, Bartels (1968a, b) focused on the relationships between a marketing system (interactions among individuals acting in various relationships, sets, or channels involved in the distribution of goods and services') and the broader social environment in which marketing is performed. For Bartels (1968a) the comparison of marketing systems and marketing environments did not make sense, as these resulted only in descriptive studies. Instead, he considered that a focus on comparing relationships between a marketing system and its environment in two or more countries had the potential to reveal the orientation of each marketing system to its complex environment. This kind of comparative analysis is required to study the actions and interactions of participants in the marketing process operating under the constraints of their respective societies. Here, Bartels (1968a) was interested in both non-human aspects of the marketing process, such as products, prices, channels, markets, and institutions as well as human aspects, namely social systems, roles, behaviour, interaction, and management. Being based on social interaction, marketing was considered as 'subordinate to social objective', and as a result being guided by social ethics and society's primary institutions, and 'even to the alteration of conditions of the market and of behavior patterns within it' (Bartels 1968b).

Thus, comparative marketing was an IB topic that had the potential to study the influence of context (e.g. different cultures and markets) on exchange and value creation. Unfortunately, if comparative marketing was considered as being 'green' after the first 25 years (Boddewyn 1981, p. 61), now it can be declared grey. It never reached mainstream status in the IB literature, as the conceptualizations of comparative marketing scholars have not perpetuated or spread throughout the IB research stream.

One of the rare IB scholars who has built directly on the insight of comparative marketing scholars since early the 1980s is Gobalkrishnan Iyer (1997). Iyer was influenced by new institutional economists (North 1990) who enabled him to realize that a systems view requires more than a simplistic analysis of the structures and functions of a market. Iyer (1997, p. 533) argued that 'variations in national marketing systems can be established on the basis of their institutional environments as much as from strategic responses of organizations comprising the

system'. However, IB studies remain characterized by system-level divides between individuals and groups and organizations. Furthermore, studies of organizations, individuals, and groups are separated from scholarship on economic and social systems (Molloy et al. 2011). These shortcomings reveal the need for multi-level studies in IB, as called for in the interaction paradigm for IB (Toyne and Nigh 1998).

Toyne and Nigh (1998, p. 866) apply an interaction paradigm and perceive IB as 'a multi-level, hierarchical process that evolves (or emerges) over time as a consequence of the interaction of two or more socially embedded, multi-level business processes'. In line with Bartels, they suggest that neither companies nor IB phenomena are identical within or across national contexts. Therefore, they argued for focusing on *interaction* as a means for explaining the emergence, continuance, and individuality of business processes and IB phenomena. These views were later echoed by Calhoun (2010), who considered that IB would benefit from new theoretical insights from emerging market characteristics, and societal and market path dependence, which can be identified in complex international contexts. In brief, she argued for a revolution to a context-focused paradigm that shifts attention away from firm actions to contextual variance. Nevertheless, neither interaction nor context-focused paradigms have captured the attention of the majority of IB researchers. As a result, similar to comparative marketing they are far from paradigm status in the field.

It is important to note that the heritage of comparative marketing can be seen more clearly in other fields of study. For instance, macro-marketing was also heavily influenced by Wroe Alderson (Shaw and Jones 2005) and has revived attention in marketing systems (Layton 2007, 2015). Interestingly, Iyer (1997) considers that researchers associated with the Industrial Marketing and Purchasing (IMP) group are also important contributors to comparative marketing thought, with their focus on understanding business network relationships.

We expect the further development of IB to occur in a Kuhnian way, by extending the knowledge of existing models or through a scientific revolution, which revises existing beliefs or practices. In other words, IB researchers and practitioners can continue to adapt and apply models using a "manufacturing mentality" (Ryans et al. 2003, p. 589) or develop

new theories and models using an alternative. We argue that adapting an old mentality is insufficient for understanding the context of IB and propose a more encompassing approach that takes into account the dynamics of the relationship between a marketing system and its environment, which has the potential to advance our thinking in value creation. In particular, we draw on a service-ecosystem perspective that reconciles ideas from the IMP school, new institutional economics, and macro-marketing into one broad and cohesive framework (Vargo and Lusch 2016; Vargo 2009; Wieland et al. 2015). In doing this, we highlight an evolving approach to exchange and value creation that is in line with the comparative marketing perspective (Boddewyn 1981), the interaction paradigm of international business (Toyne and Nigh 1998), and the context-focused paradigm of IB (Calhoun 2010). Below, we introduce how a service-ecosystem perspective integrates systems and environments by drawing attention toward the complexity of the context of value creation in IB.

A Service-Ecosystem Perspective

Service-dominant (S-D) logic was introduced by Vargo and Lusch (2004, 2008) to reframe 'service' as a concept that transcends and unifies 'goods' and 'services'. This alternative approach to thinking about exchange advanced our thinking about value creation. The evolution of S-D logic has led to the discussion of service ecosystems, which are defined as "a relatively self-contained, self-adjusting system of resource-integrating actors connected by shared institutional arrangements and mutual value creation through service exchange" (Vargo and Lusch 2016, pp. 10–11). This service-ecosystem view emphasizes the role of context in value creation, both international and domestic, as a complex phenomenon emanating from a few central constructs: service exchange, integration of resources, value co-creation, and value-in-context (Akaka et al. 2013). In addition, attention towards the importance of institutions in value creation has grown (Vargo and Lusch 2016). To summarize, an S-D logic, or service-ecosystem perspective, is grounded on five axioms (Vargo and Lusch 2016, p. 18):

Axiom 1 Service is the fundamental basis of exchange.

Axiom 2 Value is co-created by multiple actors, always including the beneficiary.

Axiom 3 All social and economic actors are resource integrators.

Axiom 4 Value is always uniquely and phenomenologically determined by the beneficiary.

Axiom 5 Value co-creation is co-ordinated through actor-generated institutions and institutional arrangements.

With its five axioms, a service-ecosystem perspective shifts a singular focus on firm-specific resources toward the integration and generation of adaptive resources, which can reduce resource depletion, or increase availability, and create alternative service solutions. In this view, it is the perspective and knowledge of people, such as employees, customers, and other actors, that differentiates resources from resistances and drives value creation in both global and local markets (Akaka et al. 2013). Thus, value creation within 'global value chains' is driven by the integration and application of resources within complex networks (e.g. organizations, industries) that interact across national and cultural borders.

Interestingly, a service-ecosystem perspective draws on a dynamic systems approach to study the interaction and exchange of service among various stakeholders. It emphasizes the role of institutions (Williamson 2000) in governing interactions of several actors that participate in value creation. However, these same institutions are also composed of human actions and interactions at the micro-level, i.e. duality of structure (Giddens 1984). Therefore, meso- and macro-level systems and structures are formed and reformed through individual actions and the reproduction of relationships and shared meanings (e.g. social norms and cultures).

This service-ecosystem approach has the potential to broaden the scope of IB beyond a firm-centric view that has been criticized by Calhoun (2010) and Toyne and Nigh (1998). It provides an insight into understanding the dynamics of exchange relationships in multi-level markets (e.g. local,

national, global). Importantly, this dynamic, multi-faceted approach provides important insights into what underpins the complexity of the context that frames value creation in international markets (Akaka et al. 2013).

Service-Ecosystem Perspective to Value Creation

Regardless of calls for more interactive and contextual approaches for advancing IB, the mainstream literature about IB implicitly maintains the view that firms create value, which is eventually destroyed by customers. Even the internationalization of services literature has focused on firm-level resources, as well as management and firm characteristics (Javalgi and Martin 2007) with limited attention being paid to the social and cultural context of value creation.

Alternatively, a service-ecosystem perspective reconceptualizes what value is and how it is co-created by joint efforts among firms, customers, and other actors (e.g. suppliers, government agencies, nonprofit organizations) (Vargo and Lusch 2008). According to a service-ecosystem view, value-in-exchange is only a nominal representation of value; the “real value” or value-in-use (Smith 1776) is derived and determined through the integration and application of resources. This distinction between value-in-exchange and value-in-use sheds light on how customer perceptions of particular market offerings vary across countries (Akaka and Alden 2010). In particular, a service-ecosystem perspective provides insight into the dynamic nature of IB by suggesting that value is always derived and evaluated by the customer (Merz et al. 2009; Vargo and Lusch 2008).

In a service-ecosystem perspective, exchange is embedded in social interactions and the resource integration practices of multiple actors (Korkman et al. 2010). This points toward resource integration as a central practice in value co-creation (Akaka and Chandler 2011; Vargo and Akaka 2012). Importantly, as exchange and resource integration are embedded within a variety of contexts, value creation is influenced by interactions that take place outside of dyadic transactions, including international markets (Akaka et al. 2013).

Thus, a service-ecosystem perspective and its conceptualization of value co-creation emphasizes the embedded nature of exchange in social context (Edvardsson et al. 2011) by focusing on value derived through use of market offerings in complex social and cultural contexts (Vargo and Lusch 2011). ‘Value-in-context’ (Vargo et al. 2008) articulates the value that is derived and determined through the integration of a market offering with other resources, in a particular context. In this view, value co-creation is not only influenced by the use of firm-specific resources, management, or firm characteristics, but also by contextual factors, such as networks of relationships, social structure, and cultures (Akaka et al. 2013; Chandler and Vargo 2011; Edvardsson et al. 2011). Together these different layers offer a view of markets that includes multiple levels of interaction, namely micro-, meso-, and macro-. These levels are relative to each other (i.e. not fixed) and an analytical meta-layer reveals the relationship among the nested levels that enables researchers to understand the connections among different levels of interaction and how the ecosystem evolves over time (Akaka et al. 2013; Chandler and Vargo 2011).

In short, this approach emphasizes how micro-level interactions constitute meso- and macro-level contexts, and vice versa. For example, at a micro level, a dyad (e.g. firm and customer) might frame the integration of resources by each actor as well as the value derived and evaluated from that particular encounter (Chandler and Vargo 2011). Each actor that engages in exchange is guided by sets of institutions (Williamson 2000), or institutional arrangements (Vargo and Lusch 2016) at meso- and macro-levels. When similar institutional arrangements (e.g. common cultures and/or social norms) guide the actors entering an exchange encounter, the value co-creation is more likely to occur. However, if the institutional arrangements vary widely between the actors (which is often the case in IB), the likelihood for value co-destruction (Plé and Cáceres 2010) increases.

In order to illustrate this, we consider the context of global shipping. In the shipping industry, a shipyard typically aims at building container ships that are heavily standardized in order to reach economies of scale. They justify the need for lower costs by the ability to decrease capital expenditure by shipowners. Yet, shipowners encounter various actors in their

daily operations, depending on whether they operate the ships or lease them out. As a result, they may find out that a standardized vessel is not suitable for them and, with higher operational costs, value creation is limited. For instance, if the operator is a member of a carrier alliance (where vessel-sharing agreement is a common practice), other shipping companies may believe that the standardized vessel is not efficient enough and is not accepted by other members of the alliance for vessel-sharing. Similarly, the vessel can be too wide to dock at some of the ports in the route it was planned to serve. Likewise, inefficient engines may consume a lot of fuel and as a result raise concerns in environmental organizations, which makes the ship less appealing for environmentally-oriented third-party logistics companies or cargo owners. This is important because in the aftermath of the COP21 climate conference, several large logistics companies are under pressure to meet their clients' requests to meet particle emissions standards before they agree to do business with them. Naturally, the general shifts in international trade at a macro-level also have a great impact on the demand in global shipping. For instance, 3D printing is becoming a common practice that can significantly reduce the need to ship ready-made items globally, which makes container ships more obsolete. Thus, a value proposition (standardized container ship with lower capital expenditure) that initially seems to be value creating for both parties (lower cost for both shipyard and shipowner) may in the end result in challenges in value creation as both parties are nested in a complex global context.

These contextual limitations can be particularly devastating for small- and medium-sized enterprises (SMEs), but can also provide interesting business opportunities. For instance, counteracting institutional arrangements in global shipping have encouraged start-ups like FreightOS and Xeneta to serve the needs of shippers. Zvi Schreiber, Founder of FreightOS, became frustrated with the industry practice of waiting 'a day or two to get a quote for door-to-door freight'. In 2013, FreightOS created an online solution for freight forwarders to make instant quotes and a platform for shippers to compare prices. In doing so, this company brings together big data on various fees: trucking, ocean liner, fuel, handling and port fees. As a result, they contribute to the co-creation of value derived by shippers and freight forwarders. This solution can also be seen as proposing value to the wider ecosystem, as automation of instant freight quotes eliminates invoicing errors that, according to

the company, cost the industry millions of dollars annually. In addition to the monetary benefits, they recently added a way for importers to cut their carbon footprint, thus addressing rising environmental concerns at the COP21 climate conference.

Xeneta was established in 2012 to provide the world's largest database of contracted freight rates. The founders became frustrated with the high volatility and lack of transparency in the ocean freight market. As a solution, they crowdsource data of contracted shipping prices from thousands of shippers. The integration of these resources and analysis of the data provide intelligence that was not available earlier. As a result, shippers are able to make sense of the quoted rates they get from their carrier and compare it to the real contracted rates of the market. Although, according to the company, some shippers have stated that they pay 40–50 % more than the market average, it takes time for shippers to understand that there is a tool that can help them negotiate a better deal, and give them the information they need to make better decisions during the tendering process. It has also been difficult for some people to accept that the previous way of doing business is not the most efficient way and that requires a change in mindset. Therefore, Xeneta needs to educate the shippers that technology and big data can make them more efficient as well as change their supply chain strategy by simply being better informed with facts. At the same time, the shipping companies are losing their potential to make more money, and they are not happy to see a change in the pricing system that has existed for decades.

Value creation of shippers and carriers can thus be seen as being influenced by SMEs. These SMEs may create new markets within the institutional arrangements of highly institutionalized international markets like global shipping. Yet, these companies are simultaneously influenced by other institutional arrangements, which enable and constrain exchange and value creation, such as changes in international trade patterns, trends in environmental awareness and advances in digitalization.

For IB, this broad view of context incorporates multiple levels of interaction and intersecting and overlapping institutions, but suggests that driving the formation and reformation of these meso- and macro-levels of structure is the enactment of practices and the co-creation of value. In other words, this lens helps refocus the initiative of IB on understanding the fundamentals of value creation and exchange.

By focusing on institutions and institutional arrangements as the foundational social aspects of value creation in service ecosystems, IB scholars can better understand the origins of broader meso- and macro-level changes. Value co-creation drives market (re)formation by changing the landscape of local, national, regional, and global contexts. This is because, as actors enact practices and integrate resources across countries and cultures, they are guided by diverse institutional arrangements, both complementary and competing. The integration of different perspectives of value and enactment of different practices within a particular local, regional, or global context can potentially lead to the development of new institutional arrangements that shape new markets.

This emphasis on institutions highlights the social and cultural context that exists beyond direct interactions between firms and customers and the physical and social environments that surround them. Most importantly, it broadens the scope of the IB context to include all global market interactions and their associated institutions. In other words, because experiences are influenced by direct and indirect interactions among multiple actors, the context of value creation is not limited to particular ‘types’ of products or encounters. Furthermore, by focusing on how institutions influence value creation, it becomes clear that unique experiences often emerge from differences in institutions and socio-historic perspectives rather than heterogeneity of products. This view of context provides insights into the dynamics of IB that can help to guide future research in exploring how value is co-created (Akaka et al. 2013; Akaka and Vargo 2015). This approach suggests that value creation is not based on discrete moments in time through direct interactions between firms and customers; rather, value is created through complex social and cultural contexts. These contexts are formed and reformed through iterative and recursive social and cultural processes, and value is created and recreated over time and space (Akaka and Vargo 2015).

Conclusion

International business has been criticized for running out of steam (Buckley 2002) and being a ‘storer’ of knowledge rather than a source for other disciplines (Sullivan et al. 2011). In line with Calhoun (2010) and

Michailova (2011), we consider that the lack of energy in the discipline is due to a lack of focus on context. Interestingly, this view has been shared by some of the leading names of the field. For instance, Dunning (2009) suggested that the eclectic paradigm needs to be revisited as functional approaches cannot explain complex IB phenomena. Moreover, the revision of the Uppsala model (Johanson and Vahlne 2009) can be seen as a part of a wider paradigm shift focusing on the market complexity and context instead of searching for generalizability (Calhoun 2010).

Prior proposals for moderate changes in incorporating context in IB literature have drawn attention to the environment within which value creation occurs, but the ongoing focus on firm actions and characteristics continues to limit the advancement of the field. In other words, the positivist assumptions of reality result in the dominance of de-contextualized research (Welch et al. 2011). Therefore, any attempt towards contextualization of IB research requires a shift in one's philosophical orientation. Welch et al. (2011) conclude that contextualization requires a paradigmatic change in IB thought. We believe that advances in IB theory are going to be made when IB shifts the focus away from firm-centric studies to multi-level processes, which evolve over time as a consequence of the interaction of two or more socially embedded, multi-level business processes (Toyne and Nigh 1998). Somewhat ironically, shifting away from a firm-centric lens and focusing on understanding the complexities of context can potentially improve understanding of firm behaviour within IB (Calhoun 2010).

We argue that a service-ecosystem approach provides an alternative, and arguably unifying, lens for studying IB, which can help bridge the gap between efforts to understand a multitude of diverse, international contexts and efforts geared toward developing underlying theories for dynamic systems of exchange. In particular, S-D logic's emphasis on service reconsiders the resources and processes which are involved in value creation and stresses the complexity of all contexts through which value is derived and evaluated. Thus, we argue that this service-ecosystem perspective is a viable alternative for facilitating paradigmatic change in IB.

Importantly, a service-ecosystem approach enables the consideration of exchange and value-creation in a specific environment (local or global) within the context of different levels of systems in a dynamic manner. By

oscillating foci across different levels of a service ecosystem we can have a rich understanding of the environmental forces that influence, and are influenced by, service exchange and value creation. Associated reframing of exchange and value creation provides a broader, but realistic scope, for traditional research topics in IB. For example, the market entry decision or the entry mode choice becomes a study of institutions and networks of actors that weave in and out of national borders as well as micro-, meso-, and macro-levels of interaction and analysis. Similarly, innovation is no longer what occurs within the firm but something that emerges through in an ever-evolving service ecosystem, in which it is continually co-created. Global supply chains morph into global human resource systems of service-exchanging actors, in which liquefied information makes distinctions between offshoring and domestic business increasingly irrelevant. Furthermore, the conceptualization of value-in-cultural-context (Akaka et al. 2013) offers a more dynamic view of culture than conventional frameworks in IB, which traditionally centre on how collective values influence individual behaviours (e.g. Hofstede 1980).

The concepts of value co-creation and value-in-context imply that, rather than segmenting customer characteristics and targeting customers through standardization or adaptation techniques, managers can consider the social and cultural contexts that frame particular market interactions and focus on contributing to the creation of value and shaping of markets. In general, a service-ecosystem approach shifts the focus from marketing management to questions about how actors enact routine practices to create value (i.e. benefit) for themselves and for others by drawing on and contributing to a multitude of institutional arrangements that comprise various levels (micro, meso, and macro) of social and cultural contexts.

Extending the context of value creation in IB using a service-ecosystem perspective not only provides insight to phenomenological conceptualizations of customer experiences (i.e. diverse interactions and institutions influence experience), but also how contexts are formed. This is important because adopting a service-ecosystem approach to context requires the consideration of how social processes (e.g. institutionalization) shape value creation, and vice versa. This view aligns with Griffith's (2010)

multi-level approach for institutional analysis, which varies among global, regional, and national levels of institutions. This multi-level view emphasizes the way conflicts can arise in multi-level contexts as firms enter foreign institutional environments.

Although the prevailing paradigms have been challenged by several authors (Calhoun 2010; Michailova 2011; Sullivan et al. 2011; Toyne and Nigh 1998), and a move towards context-emphasizing pluralistic research has been encouraged, little is known about what kind of changes are required to shift the paradigmatic thinking of IB in order to successfully explain complex IB phenomena. Thus, much research remains to be done in order to better understand the central practices and resources of particular markets and how they contribute to the uniqueness of those markets and the value co-created within them. In other words, a value co-creation approach to identifying and distinguishing markets, based on differences in practices and resources, is needed to better understand cultural and national contexts and how they contribute to the derivation of value in particular local contexts as well. In addition, the social norms that guide interaction among firms, customers, and other actors should be more closely investigated.

Perhaps most importantly, at this stage, empirical work is needed to apply this dynamic framework toward understanding how conflicting viewpoints on evaluations influence what value is and how it can be created. The congruence of evaluation and viability in value co-creation is an especially important topic for future research because oftentimes what is considered as valuable at a micro (e.g. local) context may not be considered as such at meso- (e.g. national) or macro-levels (e.g. global), and vice versa. Advancing the understanding of multiple levels of social and cultural context and contextual change will provide a more comprehensive understanding of what market cultures are and how value is co-created in IB systems.

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