
Towards a Value-Dominant Logic for Marketing

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Abstract: Inspired by Vargo & Lusch's Service-Dominant Logic (SDL) and relying on the Austrian School's individualism and subjectivism, we use knowledge from economics to better support the discussion of the primary topic of Marketing: that of value creation. Specifically, we draft a Value-Dominant Logic. We provide ten foundational premises stemming from the recognition that value is subjective and, consequently, cannot be created by entrepreneurs or firms. Entrepreneurs and firms propose value, but subjective value can only be perceived, created and thus *experienced* in the individual consumer's mind. By adopting the perspective that logically follows from this understanding, the disciplines of management and marketing will be better able to narrow the uncertainties of the market process, and entrepreneurs can make better decisions about how to help consumers overcome felt uneasiness by adopting their proposed solutions.

Keywords: Value-Dominant Logic, Value, Subjectivism, Marketing, Austrian Economics, Strategic Marketing, Service-Dominant Logic.

DOI: <https://doi.org/10.30800/mises.2019.v7.1240T67>

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Em busca de uma Lógica de Valor Dominante para o Marketing

Resumo: Inspirados na Lógica Dominante do Serviço (LDS) de Vargo & Lusch e acreditando no individualismo e subjetivismo da Escola Austríaca, usamos o conhecimento da economia para melhor sustentar a discussão do tópico principal do Marketing: o de criação de valor. Especificamente, nós esboçamos uma Lógica de Valor Dominante. Fornecemos dez premissas fundamentais, provenientes do reconhecimento de que o valor é subjetivo e, conseqüentemente, não pode ser criado por empreendedores ou empresas. Empresários e empresas propõem valor, mas o valor subjetivo só pode ser considerado, criado e, então, experimentado na mente do consumidor individual. Ao adotar a perspectiva que, logicamente, se origina desse entendimento, as disciplinas de gerenciamento e marketing serão mais capazes de reduzir as incertezas do processo de mercado, e os empreendedores poderão tomar melhores decisões sobre como ajudar os consumidores a superar o desconforto, adotando soluções propostas por eles.

Palavras-chave: Lógica de Valor Dominante, Valor, Subjetivismo, Marketing, Economia Austríaca, Marketing Estratégico, Lógica Dominante do Serviço.

En busca de una Lógica de Valor Dominante para el Marketing

Resumen: Inspirados en la lógica de servicio dominante (LDS) de Vargo & Lusch y creyendo en el individualismo y el subjetivismo de la escuela austriaca, utilizamos el conocimiento de la economía para respaldar mejor la discusión del tema principal: de la creación de valor del marketing. Específicamente, hemos delineado una lógica de valor dominante. Hemos proporcionado diez supuestos fundamentales, provenientes del reconocimiento de que el valor es subjetivo y, por lo tanto, no puede ser creado por empresarios o empresas. Los empresarios y las empresas proponen valor, pero el valor subjetivo solo puede considerarse, crearse y luego experimentarse en la mente del consumidor individual. Al adoptar la perspectiva que se deriva lógicamente de esta comprensión, las disciplinas de gestión y marketing podrán reducir mejor las incertidumbres del proceso de mercado, y los empresarios podrán tomar mejores decisiones sobre cómo ayudar a los consumidores a superar las molestias mediante la adopción de soluciones. propuesto por ellos.

Palabras-clave: Lógica de valor dominante, valor, subjetivismo, marketing, economía austriaca, marketing estratégico, lógica de servicio dominante.

Introduction

In the January, 2004 issue of *The Journal Of Marketing*, Stephen L. Vargo and Robert F. Lusch published *Evolving To A New Dominant Logic For Marketing* ([VARGO; LUSCH, 2004](#)) which was subsequently developed in many different works, including two complementary papers by the same authors ([VARGO; LUSCH, 2008; 2016](#)). The theory outlined in those papers makes the case that marketing was grounded in goods-dominant logic, and the concept of exchange of goods for money. The seminal paper, and the works that followed, argued for the replacement of this logic with Service-Dominant Logic (SDL), and a substitution: instead of a goods-for-money exchange, a service-for-service exchange.

In the present paper, we argue that the SDL can and should evolve further, to a Value-Dominant Logic. In this thinking, the theory of subjective value from the Austrian School ([MENGER, 2007; MISES, 1998; TAYLOR, 1980](#)) supports an economy based on *value facilitation* rather than on exchange, which requires significant changes to, and advancements beyond, the Service-Dominant Logic.

In what follows, we compare the key elements of Service-Dominant Logic (SDL) and Value-Dominant Logic (VDL), develop the ideas of VDL's foundational premises, identify the differences between the two approaches, indicate the implications and actionable insights of VDL for entrepreneurs and business - especially the marketing function -, and conclude by suggesting areas for further research.

1. Service-Dominant Logic

Vargo and Lusch's ([2004](#)) paper proposed eight foundational premises for Service-Dominant Logic. They have been slightly modified in the subsequent works and three other premises were added ([VARGO; LUSCH, 2008; 2016](#)). The core ideas, however, remain the same: by focusing on the reciprocal nature of service-for-service, the S-DL approach is capable of solving most of the issues related to why people consume 'A' instead of 'B' or 'X' instead of 'Y'. We list here the 11 premises in headline form, as they appear in the last paper of the series. We do so in preparation to contrasting them with the core concepts of Value-Dominant Logic:

- **FP1:** Service is the fundamental basis of exchange;
- **FP2:** Indirect exchange masks the fundamental basis of exchange;
- **FP3:** Goods are distribution mechanisms for service provision;
- **FP4:** Operant resources are the fundamental source of strategic benefit;
- **FP5:** All economies are service economies;
- **FP6:** Value is cocreated by multiple actors, always including the beneficiary;
- **FP7:** Actors cannot deliver value but can participate in the creation and offering of value propositions;
- **FP8:** A service-centered view is inherently beneficiary oriented and relational;
- **FP9:** All social and economic actors are resource integrators;

- **FP10:** Value is always uniquely and phenomenologically determined by the beneficiary;
- **FP11:** Value cocreation is coordinated through actor-generated institutions and institutional arrangements.

We surmise that the aim of Vargo and Lusch's efforts was to create a new focus on the service economy rather than the marketing of physical goods. Services were claiming a dominant role in the production of customer value, and yet much economic analysis, as well as business and especially marketing strategy, appeared to apply more to a goods-dominant economy (or at least use the language and metaphors appropriate to goods-dominant processes). There has been some movement towards a more subjectivist direction in marketing¹, but the vast majority of discussions are still centered on a mathematizable, objective, approach.

Vargo and Lusch's emphasis that goods are desired not for their own sake, but for the services they are able to deliver, was not original – economists have articulated this since at least Carl Menger's (2007) *Principles Of Economics*, published for the first time in the late 1800's. Vargo and Lusch's contribution was more centered on:

- the design method (i.e. that services are designed with customer feedback, a process that the authors called co-creation);
- that, as a consequence, services marketing has a special intensified focus on the consumer, or consumer centrality;
- and that customer relationship management therefore assumes greater importance for services marketing relationship management than for traditionally product-based businesses/brands.

S-DL proved relevant also because it was able to convey the information in an easy, straightforward and, especially, entrepreneur/business-oriented fashion. The authors minimized jargon and tried to communicate not only with fellow academicians, but also, and probably most importantly, with practitioners, as, unfortunately, much of the research in business administration has mostly failed to do in the recent decades. This has allowed the S-DL to be adopted much more generally and by practitioners, rather than being confined to academic research. Christensen et al. (2016) and Hastings and Saperstein (2014) provide illustrative examples of such broad, non-academic, adoption: the first proposes the theory of 'jobs to be done', which is nothing more than a SDL translation to the everyday business jargon, the latter suggests that using a service oriented mentality facilitates the discovering of innovative opportunities.

This essay aims to take this logic one step further by providing a framework for a Value-Dominant Logic with similar properties. Not only will it be formulated in such a way that it can easily be adopted and applied by business practitioners and academics alike, but it also presents a logically consistent and theoretically grounded argument that thereby brings the

¹See, for instance, the various works by Hunt and colleagues on the Resource-Advantage Theory, more specifically Premise #3 (HUNT, 2000; HUNT; MORGAN, 1997) and, more recently a paper by D'Andrea (2019b).

power of theory to the hands of practitioners. We proceed by presenting the ten foundational premises (FP's) of V-DL, and then outline its key implications for organizations and businesses in particular. Finally, we offer conclusions and suggestions for further developments.

2. The Foundational Premises of Value-Dominant Logic

In homage to Vargo and Lusch's original contributions, which were a seismic shift in the world of marketing and in business more broadly, we propose to outline the evolution of the Value-Dominant Logic (V-DL) utilizing a similar presentation format. The tectonic plates of strategic marketing still have quite a lot of movement in them and the subjective value foundations given by the Austrian School of Economics are the starting point of a second large shift in (1) the understanding of how value is created and (2) the role of entrepreneurs and organizations in that process. We thus take a vanguard position in this development, seeking to bring clarity to the field while indicating what types of powerful tools this new framework – and the coming shift – will make available.

To do so, we propose the following 10 foundational premises of VDL:

- **FP1:** Value is a subjective experience of the consumer. This is the singular foundation of V-DL (in the parlance of Vargo and Lusch, it is axiomatic for our theory), from which all other premises follow ([MENGER, 2007](#), Chapter III).
- **FP2:** Only consumers can subjectively recognize their own wants, needs, and desires². They express this recognition through the notion of uneasiness with respect to specific aspects of their own situation ([MISES, 1998](#), pt. I).
- **FP3:** Only those individuals who ultimately consume create value ([MENGER, 2007](#)).
- **FP4:** To realize value, consumers exchange services for experiences with perceived value.
- **FP5:** Entrepreneurs profit³ (make money) by facilitating value to consumers.
- **FP6:** The purpose of entrepreneurship is the facilitation of value, from which it captures revenue ([SMITH, 1776](#), p. 1). (This is a corollary of FP1 as seen from the point of view of the value proposer, the entrepreneur).
- **FP7:** Empathy is the key to unlocking understanding of a consumer's felt uneasiness.
- **FP8:** Value facilitation is a combination of understanding consumers' uneasiness and technical knowledge joined in a value proposition.
- **FP9:** There will always be producer uncertainty because there is value uncertainty in the consumer's mind.
- **FP10:** Consumers rank their value experiences, but value itself is not quantifiable.

²We here use the word consumer, but that is not to say that the ideas are only applicable to B2C organizations. Quite the contrary. B2B arrangements, products and services will be judged by the clients based on the value that clients experience. In some cases, this value is easier to quantify in B2B than in B2C, but this is not to say that the logic is somehow different for B2B.

³Entrepreneurs might accept other kind of compensation in (partial) substitution to money profit, for example, fame, building an empire, helping the poor, etc.

2.1 Foundational Premises In Detail

FP1: Value is a subjective experience of the consumer.

Since 1871, the year of the publication of Carl Menger's Principles of Economics ([MENGER, 2007](#)), economists have known that consumers value goods only for the service that those goods embody (this includes all goods that we usually use as money, such as fiat currency or gold). Vargo and Lusch ([2004; 2008; 2016](#)) captured this principle in their series of papers; Chistensen et al. ([2016](#)) and Hastings and Saperstein ([2014](#)) did the same for practitioners.

However, Menger's insight runs deeper, and provides the reader with an understanding that goes beyond service, and discusses the value itself that the service provides. Menger's (and consequently, Austrian Economics') approach sees value from a pure subjective logic, i.e., value is an experience that only the individual interacting with the particular product, service or bundle can have. It is a feeling, an emotional state that cannot be fully and perfectly replicated/ repeated. It occurs when the consumer, coming from a baseline of a feeling of uneasiness with current circumstances, attempts a change in circumstances by consuming a (possibly, but not necessarily, different) product or service that he or she evaluates as potentially delivering the value and consequent improvement in their state of satisfaction that they desire and are looking for. Value is experienced when the consumer's expectation is met or exceeded; consequently, as Menger ([MENGER, 2007; STIGLER, 1937](#)) recognized, value is subjective. It happens when the consumer feels more satisfied than in the previous state.

This concept must be installed as the singular foundation for marketing, which can be defined as the commercial science of consumer value⁴. Value is an individual (and consequently subjective) notion, as opposed to socially constructed demand or the motivation of large segments of the population with supposedly shared or common wants, needs or desires. Value is personal, tacit, and dependent upon the individual's state of mind and the environment in which s/he is inserted in that particular time.

Thus, while it is common terminology to say that entrepreneurs or firms / organizations create value, such a use of language is misleading. The logic of value means that it cannot be created by an external force, and so-called value creation is a misnomer and a chimera. The producer can only propose value based on his/her understanding of what is causing consumer's unease and his/her skill to technically develop possible solutions; on the other hand, value will only be actually perceived/created by the consumer himself.

FP2: Only consumers can subjectively recognize their own wants, needs, and desires.

⁴Here we refer to marketing in the understanding of Varadarajan ([2010](#), p. 126): "Strategic Marketing encompasses the study of organizational, inter-organizational and environmental phenomena concerned with (1) the behavior of organizations in the marketplace in their interactions with consumers, customers, competitors and other external constituencies, in the context of the creation, communication and delivery of products that offer value to customers in exchanges with organizations". And very important: marketing should not be misunderstood as marketing management nor with any of its tactics that belong to marketing, but are not marketing *per se*. See also Hunt ([2015; 2018](#)).

It is common in marketing training and the marketing process literature to talk of “identifying consumer needs / wants / desires” (see Kotler and Keller (2012, Chapter 1)). However, when taking the Value-Dominant Logic standpoint, one can recognize that the attempt to objectively identify those is futile. Needs – or perhaps the more appropriate word is *wants*, a broader, but more action-directed term: we are in the economy considering consumers’ desires over and above what they need for survival – cannot be objectively identified by an external observer.

Wants are subjectively felt by consumers as a corollary of felt uneasiness: that there is something in the current situation that is lacking for them. Or, put differently, that the person does not feel fully content as-is – there is always some way a person can make their situation more satisfactory. Consumers’ personal circumstances could be improved, they feel, and their feeling tacitly translates into a need/want/desire. This may initially be quite inarticulate – as in a vague feeling that “things could be better” – and may later result in the individual forming a hypothesis regarding what kind of new consumption experience might address their felt unease⁵. Sometimes consumers are unable to diagnose their own problems and rely on the entrepreneur to exercise the role of diagnostic entrepreneur (GODLEY; CASSON, 2015) instead, rely on the entrepreneur to diagnose them. Although it is widely recognized that consumers face information asymmetries over price comparison and quality assessment, little attention has been given to Customer’s information asymmetries regarding individual customers’ needs. This has led to the economic contribution of the diagnostic entrepreneur being overlooked. Entrepreneurial diagnosis is a cognitive skill possessed by the entrepreneur. It is a subset of entrepreneurial judgment and can be modeled. The model shows that in order to exploit opportunities it is often necessary for entrepreneurs to invest in market-making activities, such as customer-focused diagnostic services, backed up by credible reputations for competence and integrity. While diagnostic entrepreneurship is particularly important in knowledge-intensive service industries (such as medicine).

Individuals will feel unease in many (probably all) circumstances of their life (an exception would be the Nirvana state that Packard (2019) suggests in this same volume). It is this continuous, wide-ranging desire for improvement in one’s own life condition that pushes entrepreneurs to go beyond what is immediately doable under present market conditions – what Bylund (2016) calls the ‘specialization deadlock’ – thereby driving innovation, economic growth and the overall advance of civilization. Consequently, consumers organize a plethora of wants in a subjective ordinal ranking that they change and rearrange subconsciously at all times and according to their individual circumstances (see Stigler (1937), for an explanation).

All of this subjective complexity means that objective observers, including entrepreneurs and marketers, cannot expect to perfectly identify individuals’ needs or wants, nor measure the rankings that those individuals are allocating to their wants at any point in time or in any particular context.

FP3: Only those individuals who ultimately consume create value.

⁵The consumer buying process (KOTLER; ARMSTRONG, 2014) follows a very similar logic.

It follows, then, that consumers, the individuals that will end up using the proposed solution, are the creators of value. They do so in a multi-stage process that combines emotion, search for possible solutions, judgment and action. Having identified an uneasiness to address, they evaluate available options for consumption on the basis of their perceived relative potential to solve the felt problem⁶. Evaluation is a subjective process of answering the question “is it worth it?” – is the expenditure of scarce resources (including, but not limited to time, money, and more generally, effort) likely to yield a benefit that is greater than the cost? In other words, is the action to relieve uneasiness worth the opportunity cost: is the action worth more than the next best benefit to which the consumer could direct their time, money and effort in their search for an improvement in satisfaction and well-being?

It is an important insight – usually not given the necessary attention – that the “next best” could be either a direct substitute for addressing the current want, or the use of one’s own resources to address the uneasiness with a non-direct substitute⁷. The consumer also has the alternative of deferring the expenditure to a later date and accepting the uneasiness for the current time period. The evaluation process is, therefore, quite a complex – and inherently individual and subjective – economic calculation, even though it might be conducted unconsciously or sub-consciously.

Note also that the individual’s definition of benefit will probably include emotional as well as more functional (and consequently more ‘measurable’) benefits. Their search for a psychic profit ([ROTHBARD, 1957](#)) will most probably be multi-faceted.

Once the evaluation is completed, the consumer’s next step in the value creation process is to make the exchange with the party offering the solution. Such exchanges can take many forms – a financial transaction, a service agreement, or a tacit acceptance of another party’s conditions or preferences – and many durations – one-time / immediate, multiple times/ long term, and so on.

The value experience per se occurs only through an act of consumption, by which is meant the *direct use* of some means – a good or service – to satisfy the lacking want ([MENGER, 2007](#)), sometimes immediately after purchase (as in, for example, buying an ice cream from a street vendor or in buying a very high piece of apparel that will be forever in the wardrobe) or after a delay (as in buying packaged ice cream at the store for later consumption, or in buying vacation time at some resort to be enjoyed somewhere in the future). The individual creates a subjective value expectation before the acquisition, and then, to judge the value of the solution, compares the actual experience with the expected experience. Satisfaction occurs when the experience is equal to or better than the expectation. Learning occurs, which is

⁶ Again, here it is important to stress that this is valid for both B2C and B2B, since individuals will be making choices in the name of the companies in B2B settings, for an explanation of that see D’Andrea et al. ([2019](#)). Menger ([2007](#)) suggests that the value of non-consumable products (higher order goods) is derived from the value that the final product will have for the consumer (see also Stigler ([1937](#)) for an explanation).

⁷ This becomes trivial if uses the VDL, for example, one could decide to go to the movies or to a bar for the same reason: diminishing the sensation of uneasiness by looking for entertainment, notice that, in a more mainstream approach, movies and bars would not be ‘substitutes’ as they are in VDL. The same could be said for many other situations.

factored in to future evaluations and future purchase decisions⁸. In that way, all experiences will have impact in future transactions, because they will, in some way, shift the consumer's expectations.

FP4: To realize value, consumers exchange services for experiences with perceived value.

In order to be the recipient of experiential satisfaction, consumers must first make an exchange with the product/service provider who has the resources and capability that the consumers believe are able to deliver the solution that the consumer aims at transforming into an experience. The currency for the exchange is usually money, but it also necessarily involves a time dimension and, in some cases, other forms of non-money consideration (for example, emotional considerations might trigger some kinds of behaviors). In any case, the consumer must first possess the exchange currency; that currency is, in the case of money, usually earned by rendering services to others in the same market. In this process of offering a service and having the value of this service judged by his customer, the consumer (the former producer) learns the importance of customer experience and delivering on experience expectations. If their own customers do not experience satisfaction from services rendered, the provider will be unable to continue to earn money for exchange from that specific consumer. This market process is also important because it conveys to the provider the importance of managing expectations, e.g. of trying to capture the attention of the potential buyer and convincing him or her to fulfil a commercial agreement without setting the expectations bar too high.

Individuals (including entrepreneurs who will provide solutions in their role as producers) become aware of the value of experience to themselves and, by consequence, to others through their own commercial experience in the market, through observing others' experiences and the derived satisfaction, and based on the communications efforts that the organization aiming at closing a deal puts in place. The capability to deliver valuable experience is learned, which also informs consumers about the appropriate level of their own expectations when receiving services. Exchanging services that are evaluated based on experiences becomes a societal practice that can be continuously improved and elevated.

FP5: Entrepreneurs profit (make money) by facilitating value to consumers.

Entrepreneurs are facilitators of the value that consumers create. Without the solutions that entrepreneurs offer – the intermediating product/service – consumers will not be able to create the value that they foresee. Therefore, entrepreneurs do not actually create value – they create a value proposition for their potential consumers; they present these consumers with possible solutions to overcome their uneasiness. The consumer is the one who will create the value and who will feel (or not) the experience of satisfaction. The entrepreneur is the one who makes available to the consumer the choice of a good or service that, when consumed, will ideally deliver that experience and relieve the uneasiness.

⁸This process is very similar to the one identified by Parasuraman, Zeithaml and Berry (1985) that developed a way to measure quality in services. Actually, Quality and Marketing – in spite of rarely being discussed together – have many similarities, since they both try to understand how to fulfil client's expectations as best as possible.

Entrepreneurs receive payment in return for the value that consumers expect to create – a payment that the consumer has decided to forego and thus represents his willingness to pay for the satisfaction anticipated in that particular transaction. If the entrepreneur has assumed costs that are properly chosen, if production is properly managed, and the market being supplied is sufficiently large, the entrepreneur is likely to earn a (money) profit because he is providing the consumer with a viable solution to overcome uneasiness.

Consumers are consequently central to the entrepreneurial process. If they do not adopt the solutions proposed by the entrepreneur, e.g. if they do not find value in them and express that in not buying/adopting the proposed solution, i.e., action that is positive for the entrepreneur, then there is no innovation whatsoever, and no value is created out of that particular solution. Therefore, consumers are the ones capable of making entrepreneurs successful.

To deliver goods and services to facilitate consumers' value experience, the entrepreneur needs information from the market. It is the accuracy and comprehensiveness in gathering this information, and the expertise in processing it in the action of producing desired goods and services, that constitute the special capability of the entrepreneur. This capability can be called 'entrepreneurial judgment' ([FOSS; KLEIN, 2012; 2015; FOSS; KLEIN; BJØRBSKOV, 2018; KLEIN, 2017](#)) and will be the main tool that the entrepreneurs will use to face the underlying Knightian uncertainty.

FP6: The purpose of entrepreneurship is the facilitation of value, from which it captures revenue

Entrepreneurship as a function in the market economy derives its value from the degree to which it, through the actions of individual entrepreneurs, economizingly provides proper means for consumers to create value. While individual entrepreneurs undertake enterprising to satisfy some wants of their own, what makes entrepreneurship *successful* is the provision of appropriate tools for the consumer to create value.

At the same time, entrepreneurs are central to the development of society as a whole ([HOLCOMBE, 2007; POWELL, 2007](#)); their social contribution, achieved in concert through the means of competitive discovery, is indisputable. Entrepreneurship, when not misdirected through inappropriate institutions ([BAUMOL, 1990](#)), is genuinely productive and therefore makes the world a better place.

Under the wrong circumstances, entrepreneurship can arguably destroy wealth by seeking short-term gain at the expense of long-term benefits or redistributing valuable resources to lesser, but perhaps politically preferred, uses. Also, without a profit motive (or without knowing whether the organization is profitable), one could be wasting society's scarce resources (that could be used in more productive uses) and, consequently, diminishing the total amount of welfare available to the individuals.

The entrepreneur seeks to make available goods and services that are valued by the consumer. This is facilitated by the offering of value propositions / solutions / products / services that consumers find valuable in their own subjective value scale, and therefore consumers are willing to pay a price. In that way, FP6 is a corollary of FP1 as seen from the point of view of value proposer, the entrepreneur, who also seeks to create value, and consequent subjective well-being, with his actions.

A satisfactory experience produces a feeling of well-being and thus greater satisfaction. When it is sufficiently valued, the consumer will seek to repeat and reproduce, and sometimes exceed, this level of satisfactory experience - leading him to a repurchase of the facilitating solution or a search for an even better alternative.

Entrepreneurs are mediators of this experience. They seek to earn profitable revenue flows from delivering services that generate satisfactory experiences and feelings of well-being in consumers. Therefore, the true consequence of successful entrepreneurship is increased well-being for the entrepreneur *and* the individual customers, adding to the overall wealth of society. The true role played by entrepreneurs in the economy is augmenting productivity and providing solutions that can help consumers create more value with less, consequently, successful entrepreneurs facilitate the well-being of society overall.

In a free-market system, all exchanges are necessarily mutually beneficial in the eyes of the participants of the transactions⁹. The value-facilitation capacity of entrepreneurship drives societal well-being and civilizational advance, and could be potentially measured as economic growth (not to be confounded with GDP growth). Consumers are the well-spring of that growth, not because they spend, but because they exchange something that they consider less valuable (usually money) for something that they expect will help them create more value, the product/service/solution, they do so in their search for overcoming uneasiness¹⁰.

FP7: Empathy is the key to unlocking understanding of a consumer's felt uneasiness.

The talent displayed by the entrepreneur to arrive at some level of understanding of a consumer's felt uneasiness, and to frame and initiate the design of a solution to (continue to) address it, is empathy. Empathy is the capacity of the entrepreneur to feel or understand the emotions felt by another person from the perspective of that person. It is best regarded as a talent rather than a skill. Clifton and Badal (2018, Chapter 24) define talent as a composite of personality traits and cognitive abilities / thinking styles, resulting in a pattern of "thought, feeling and behavior that are enduring and stable over time and across situations".

It is probable, therefore, that empathy cannot be learned or taught, although it can be nurtured and culturally encouraged, similar to an art form. It is a predisposition that is helpful in making entrepreneurs successful, and those entrepreneurs who seek success are likely to emulate models where empathy is demonstrated to be a contributor to success. Certainly, entrepreneurs can practice empathic diagnosis (GODLEY; CASSON, 2015) instead, rely on the entrepreneur to diagnose them. Although it is widely recognized that consumers face information asymmetries over price comparison and quality assessment, little attention has been given to information asymmetries regarding individual customers' needs. This has led to the economic contribution of the diagnostic entrepreneur being overlooked. Entrepreneurial

⁹This is not to say that individuals cannot make wrong choices and regret later on, the point is that, in the case of an unhampered market, all transactions will be mutually beneficial, as has been stated by Menger (2007) when defining the subjective theory of value.

¹⁰By taking this stand one can include all organizations, not only firms, but also NGO and, of course the organizations started by the so called 'social entrepreneurs' in the same analysis, since, by definition, all of them will be based on the subjective valuation and judgment of the entrepreneurs.

diagnosis is a cognitive skill possessed by the entrepreneur. It is a subset of entrepreneurial judgment and can be modeled. The model shows that in order to exploit opportunities it is often necessary for entrepreneurs to invest in market-making activities, such as customer-focused diagnostic services, backed up by credible reputations for competence and integrity. While diagnostic entrepreneurship is particularly important in knowledge-intensive service industries (such as medicine: the act of asking questions about how the consumer feels and interactively translating responses into a description of uneasiness that can become the basis for a designed solution to eliminate it).

The practice of empathic diagnosis is a critical step in the process of entrepreneurs facilitating value and contributing to consumer well-being.

FP8: Value facilitation is a combination of understanding consumer's uneasiness and technical knowledge joined in a value proposition.

Value facilitation is the creation of new knowledge (primarily as new ideas) produced by combining knowledge of wants (knowing what customers might use to overcome uneasiness) and technical knowledge (knowing how to deliver the idealized solution) that will take form and be presented in a value proposition of a product, a service, or some sort of a bundle of the two.

Entrepreneurs act upon their empathic diagnostic understanding of consumers' uneasiness. They advance from this emotional knowledge of an addressable condition through the design process (formal or informal) of conceiving, articulating and specifying a new solution. This activity could conclude with a designed product or service, a consumer research or testing program, a business plan or an actual product / service launch into the market.

In all of these cases, the entrepreneur is creating new, usually tacit, knowledge which did not exist before and many times, does not exist outside the entrepreneur's (and / or his or her team's) own mind¹¹. This is achieved by combining previously existing knowledge, with newly-mined knowledge from empathic diagnosis, with existing (or possibly recently-discovered) technical knowledge of how to create a new structure of production to assemble the new solution. Technical knowledge can refer not only to the use of technology, but also to practical ways to produce a product, deliver a service, build a supply chain and logistics system, process and fulfill orders, manage a payments system, communicate to the target audience the availability of the solution, and all the other technical components required to go to market and fulfill new consumer expectations that are about to be generated.

Attempting to generate insights about what solutions might be needed by the public from simple observation and introspection has also proven successful. Some entrepreneurs develop solutions to fit their own needs and end up commercializing them¹². In many cases, however, entrepreneurs, especially disruptive ones, must imagine a future state and act as if they know that their solution will be needed in the future; to do so, they organize all the

¹¹ This confirms once again the Hayekian statement about the variety and dispersed knowledge in society ([HAYEK, 1945; 2008](#))

¹² See the examples of the iPhone ([JAIN, 2017](#)), AirBnB ([AYDIN, 2016](#)) and Elizabeth Suzann ([ROBERTS; PAPE, 2017](#)) among many others.

production process beforehand, in advance of consumer evaluation, and work to change their future consumers' expectations. This is the typical example of entrepreneurs who launch 'new to the world' solutions such as the first car, first airplane, the iPhone, radio broadcasting or the Sony Walkman.

This knowledge organized by the entrepreneur reaches the consumer as a value proposition. The proposition, if communication is correctly implemented, tells the potential consumer that their felt uneasiness can be resolved by adopting the proposed solution, and that the resultant experience will be subjectively felt as more valuable than opting for no action, since it will take the user from a state of less satisfaction to a state of greater satisfaction.

In essence, the value proposition is a promise of a feeling of improved well-being made by the entrepreneur to the consumer. The entrepreneur undertakes to keep the promise by activating the production, communication, and delivery system.

FP9: There will always be producer uncertainty because there is value uncertainty in the consumer's mind.

Will a new solution meet expectations and confirm expectations when consumed? Will it lead to the value experience that the consumer was expecting? Consumers determine the outcome of entrepreneurship, and this outcome cannot be fully predicted before consumers experience the solution, so entrepreneurs must be carriers of Knightian uncertainty.

The consumer is optimistic (that his/her uneasiness will be solved), but still uncertain during the consideration of a purchase - and even after a purchase decision - as to whether a new solution will confirm expectations when consumed (i.e. will the service generate a value experience correspondent to the anticipation that was generated in the consumers mind by the communications that the entrepreneur controls and other ways in which the consumer has received information about the solution and formed his expectations). Consumers determine the outcome of entrepreneurship when they evaluate an entrepreneurial offering, and when they assess their value experience, usually after the consumption itself¹³.

Therefore, the system of entrepreneurial value facilitation must always be governed by the inherent uncertainty of the market process. Entrepreneurs make the best empathic diagnosis of which they are capable and add to it the best available technical expertise. This is entirely dependent on subjective variables, including the entrepreneur's talent, the level of information (how complete or incomplete) to which they have access, and the consumer's willingness or ability to communicate feelings of dissatisfaction, among others¹⁴. The design process to reach a possible value proposition is also imprecise – a process of experimentation rather than fixed

¹³In some cases, probably pathological, the consumption itself could be considered the joyful act, so the passing from a less satisfied to a more satisfied state might happen by the time the product is bought, not, as it is much more common, by the time it is used and its services are delivered.

¹⁴Perhaps the most famous quote attributed to Henry Ford was: "If I had asked people what they wanted, they would have said faster horses". Meaning that many times, people do not know about the solutions that they might adopt before they actually have the option to chose them. Steve Jobs's history with the creation of the first ever iPhone is similar. Both are examples of Godley and Casson's (2015) diagnostic entrepreneur.

progressions – and usually there are many entrepreneurs working on finding a (sometimes very similar) solution to the same or similar consumers' perceived uneasiness^{15, 16}.

In all instances, the consumer's emotional, idiosyncratic and inconsistent feelings govern the subjective appeal of the solution proposed by the entrepreneur. The consumer develops value expectations as a result of being exposed to the value proposition¹⁷, and these expectations may be favorable or unfavorable to purchase. The entrepreneur is challenged to make the best proposition for the price at which he/she is aiming at selling, and to assess what kinds of expectations have been subjectively created in the consumer's mind, and whether or not these expectations are stable.

The producer-entrepreneur is challenged to create value expectations at four basic levels ([BYLUND, 2018](#)).

- Absolute value: The value proposition must produce a feeling in the consumer's mind that the offering is "worth it" in some absolute sense: the consumer feels that their circumstances would be improved by accepting it, and they would rather have that experience than the money and/or other consideration that they must give in exchange.
- Value relative to direct competitors: The consumer may be presented with alternative value propositions that are direct alternatives for getting the same job done (such as two brands of credit card or dishwashing liquid). In this case, the consumer must decide on one or the other, and the entrepreneur is challenged to make an offer that is subjectively deemed to be better.
- Value relative to indirect competitors: The consumer may have multiple pathways towards the consumption experience they seek. They may feel that a checking account with an overdraft facility can do the same job as a credit card, for example. In this case, the entrepreneur is challenged to generate consumer preference for a value proposition that is not just functionally and emotionally better, but also rewards a change in behavior. Understanding the consumer's feelings about indirect competitors is important part of entrepreneurial diagnosis.
- Value relative to non-usage: The consumer always has the option of not purchasing the solution, and foregoing the proposed experience, either in the absolute or in deferring it to a future time. The entrepreneur is further challenged, therefore, to persuade the consumer

¹⁵ Evidence of that can be seen on patents, usually very similar patents are deposited with days or months of difference by completely different and unrelated producers, two of the most well-know cases are the aviation one that confronted the Wright Brothers and Santos Dummont and, more recently, the home-video one which confronted the VHS against Betamax. Or as Johnson ([2010](#)) says, it is common for people to come up with similar ideas at the same time despite no connections to each other.

¹⁶ In spite of the many efforts to find ways to control and predict the innovation process (there is a very large literature on innovation management), the very core of it remains on entrepreneurial judgment that, per se, cannot be formalized ([FOSS; KLEIN, 2015; 2018](#)).

¹⁷ That exposition is not all under the control of the entrepreneur, he can control some of it via the marketing management and tactics efforts, however, things such as the word-of-mouth and more recently the social networks + ecommerce phenomena lead to the reviews sections in websites and even to some outlets that are fully dedicated to reviewing products by consumers.

to take current action rather than future action – i.e. to increase their time preference in relation to the value proposition.¹⁸

Subsequently, if the consumer acts on the value proposition on the basis of their expectations, their subjective feeling may be that the consumption experience met, exceeded or fell short of their expectation. Again, the entrepreneur is challenged to measure and understand the consumer's experience valuation, and to react accordingly in attempting to nurture it further, maintain it, or fix it if it is negative towards the value proposition¹⁹.

All of these factors in combination render it impossible to be certain about the outcomes of the entrepreneurial value-proposing process. Outcome uncertainty is an unavoidable condition for entrepreneurs.

FP10: Consumers rank their value experiences, but value itself is not quantifiable.

Metrics and quantification are not part of consumer experience. Consumers have no mechanism and no process for computing value quantitatively. Value is a felt experience, embedded in a multitude of felt experiences accumulating in every minute, hour, day, week, year and decade of the consumer's life. Value is inherently qualitative and difficult (maybe impossible) to be flawlessly translated to numbers²⁰. Context and circumstances are continually changing and consumers hardly attempt to quantify experience. Certainly, the consumer is unable to quantitatively compare the satisfaction of owning and using an automobile to the satisfaction of owning and using, say, fashionable clothes or household furniture.

There may be some facility for ordinal ranking – e.g. a preference for a vacation experience over a job experience in a specific time period where the two are mutually exclusive – but this is really just an instance of relative value rather than quantification of felt experience ([MENGER, 2007, Chapter 3](#); [ROTHBARD, 2004, Chapter 1](#)).

One way to assess the value that a consumer expects from a product is to substitute the price paid for it. Prices serve as proxy expressions of value for the marginal good in the mind of consumers: proposed value in the case of the seller and expected value in the case of the buyer. Consequently, rolling back a purchase completely, without either of the parties changing their value ranking, would suggest a loss. This includes the “money back guarantee,” which

¹⁸ Those values emphasize the importance of brands, by having a brand and properly communicating it to the target audience, creating in it a specific sensation of stable delivery of the service provided, a company can drastically reduce its efforts (and costs) of communication every time a modification in a product is done. From the consumer's point of view, the brand itself can convey value in many ways, which is especially true for luxury goods.

¹⁹ There are actually many different ways of trying to measure satisfaction in the marketing literature ([GRUCA; REGO, 2005; MORGAN; REGO, 2006](#)), one that is actually very straightforward, but considered unreliable by many scholars is the Net-Promoter Score (NPS).

²⁰ Hubbard (2014) says that everything is measurable, not matter if it is qualitative. He proposes that words should define what it is that we would like to measure, why is it important, and what are its consequences if it increases or decreases. If something can increase or decrease, it can be measured, possibly by the effects that the increase/decrease have. In that sense, measurement should be viewed as narrowing of uncertainty to facilitate judgment, and does not have to exact.

would under such circumstances undo the transaction, but *not* make the consumer whole because as s/he values the product more highly than the price paid ([BYLUND, 2019](#)).

The entrepreneur is left with the task of measuring the feelings and emotions of consumers with non-quantitative tools, such as sentiment analysis and deductions of motivation from behavior. Empathic diagnosis is a continuous activity of the entrepreneur, and not just a starting point for product or service design.

3. Key Implications And Actionable Insights For Business And Marketing

3.1 Discard the language of value creation and adopt the language of value facilitation

It is common to use the language of value creation when describing the activity of an entrepreneur or a firm. This use of language implies objectivity and a controlled process; it implies that some may be “better” or “poorer” at the task of value creation. But such a perspective is inappropriate and can lead to misguided decision-making.

Value facilitation is a portfolio activity in which entrepreneurial firms allocate resources to a range of initiatives, without certainty as to outcomes – this is why one cannot invest in innovation, buy only in trying to innovate. Each activity is a learning project, both individually and across the range of initiatives. It is possible that a firm may build up a pattern of knowledge from multiple initiatives, but the ever-changing consumer, market and competitive activity ([HUNT, 1997; 2000](#)) set makes today’s knowledge pattern less than fully reliable for completely accurate predictive purposes.

3.2 Analyze the sources of consumers’ felt uneasiness, not their wants, needs or desires

“Wants”, “needs”, and “desires” are common terms in the marketing lexicon, used when referring to the origins of demand from consumers. But this language can tend to induce a mechanistic view of the process of designing solutions to felt needs (why that mechanistic approach exists in marketing is not to be discussed on this paper, but a hint can be on the widespread positivism seen in business schools). Consumers have no language and no feelings corresponding to “wants”, “needs” or “desires”. They have the experience of a felt uneasiness, often quite vague and non-specific. Marketers err when assigning a specific identification to this feeling, such as “a need for self-esteem” or “wanting” or “preferring” a particular model of car or washing machine, or “desiring” a particular brand. Consumers address their own felt uneasiness via a non-specific process of mentally (and imprecisely) evaluating offerings that are available in the marketplace and assessing them for potential value (i.e. for their potential to facilitate a future value experience following consumption), compared to direct and indirect substitutes and to non-consumption. The consumer’s valuation process may be urgent or non-urgent, and may or may not arrive at a conclusion (i.e. purchase).

3.3 The task of the marketer is to create valuable experiences for consumers, and to orchestrate their production

A successful value proposition must enable a consumer experience, i.e. a feeling. It is unlikely that a consumer's experience is isolatable to the specific value proposition made by one marketer. For example, consuming a food brand is integrated into the experience of shopping for it, preparing it, and consuming it along with other items of food and beverage (and, in most cases, enjoying the company of other people as well). The consumer evaluates an experience that includes more components than the single food brand item. Positive or negative implications of other components of the total integrated experience may affect the consumer's evaluation of the individual food item.

Value-facilitating marketers must consider the total experience, map it out to the best of their capabilities considering the cost-benefits, and then seek to do what they can to orchestrate it positively for the consumer, even while supplying only one component of it. The art of orchestration is highly influential in value facilitation.

Facilitation of value is necessarily an inexact, imprecise and uncertain activity for entrepreneurs. The raw material available to them is infinite and renewable – i.e. consumers' felt unease and knowledge, both existing and to be created – but processing it into effective marketplace value propositions is not an easy task. It requires the skill to organize a (potentially very) complex set of steps and coordinate those with everything else that comes from the previously existing production processes. This is, in essence, the task of the entrepreneur ([BYLUND, 2016](#); [D'ANDREA, 2019a](#); [FOSS; KLEIN, 2012](#)).

3.4 Consumer well-being is necessary for the entrepreneurial firm to be successful – find ways to measure and monitor it and create a dashboard

Since it is the consumer who is responsible for creating value, and since they do so in their never-ending search for betterment and greater well-being for themselves, it follows that consumer well-being is, *always*, the successful entrepreneur's productive output. To achieve profit—because without a profit, the entrepreneur cannot continue to reinvest in continuously finding new ways to facilitate value and in new offerings that potentially do so – it is necessary to continuously please the consumer.

The entrepreneur is engaged in a process of identifying consumer unease and devising experiments to relieve it with new offerings that the consumer will evaluate positively, experience feelings of value in consumption, and achieve a state of greater well-being. The entrepreneur's immediate mission is fulfilled when this state is realized. Rolled up across many entrepreneurs, consumers and experiences, the well-being of society is enhanced. Entrepreneurship generates social benefit. Contrary to many claims, (productive) entrepreneurship ([BAUMOL, 1990](#)) is beneficial to the society as a whole and the most just societies are the ones that best offer opportunities for their entrepreneurs to unleash their creativity ([DE SOTO, 1999, p. 154; 2010](#)).

A great challenge to the entrepreneur is to design a dashboard of (ideally qualitative) metrics to capture this experience and the result of well-being. There are no numerical or quantitative measures, but proxies such as Net Promoter Score (where the consumer reports on their willingness to recommend the entrepreneurs service to friends) may prove to have

some predictive value. A fertile field of future research lies in exploring the most applicable metrics for the successful measurement of felt well-being as an output of entrepreneurship.

It is likely that the best measurement solution for the entrepreneur is subjective: how much well-being do they believe that they have facilitated for the customer? How do they bring evidence to bear to support their belief?

3.5 Empathy as a skill

Ever since Adam Smith ([1759](#)), economists have recognized the role of empathy in the facilitation of consumer value. To be successful, the entrepreneur must empathize with the consumer – sense how he or she is feeling, as if in the consumer’s mind – in order to conceive of the nature of the uneasiness and begin the design process of conceiving a solution that the consumer will evaluate positively. It is logical to assume that those entrepreneurs who are better at empathy will have a greater likelihood of success in value facilitation.

Is empathy a skill that can be learned and mastered by entrepreneurs? This also might be a matter where research could deliver some insight. Perhaps empathy is in-born, or a personality trait that is nurtured in early upbringing; but it could also be a business skill acquired through case study and trial and error. Certainly marketing as a business function implies the empathic collection of data from consumers so that it can be used as input in the design of new products and services, communications and improved experiences.

3.6 Entrepreneurs and firms are charged with managing inevitable uncertainty

Designing the facilitation of valuable experiences for consumers is necessarily an inexact and imprecise science, and success or failure is unpredictable. Some firms and entrepreneurs may be able to build superior track records of marketplace success due to effective resource allocation decisions and an *ex post* superiority in portfolio resource allocation decisions. However, this superiority can emerge only in hindsight, and, as a consequence of market dynamism, may not extend into the long-term future ([KNIGHT, 1921](#)). Consumers and competitors are always learning and changing, and making new decisions about new choices under new circumstances; the world will change and entrepreneurs must cope with that in their ventures. We should abandon the pretense of full predictability of a company’s future success – for example in stock market forecasts – when unpredictability is the prevailing condition ([SARASVATHY, 2001](#)). Examples such as the ones provided by Nokia before the launch of the iPhone, by Nintendo, before the tsunami of new consoles and mobile gaming, by small grocery stores before Walmart started to compete on their businesses, and many others could be given to prove that point.

3.7 Sustainability And Social Responsibility Are By-Products Of Individual Entrepreneurial Value Facilitation

There has been a sustained attack on the mission of the entrepreneur to create value for the customer, in the form of pressures towards so-called sustainability and social responsibility. Sustainability refers to the responsible and repeatable uses of resources. In Value-Dominant Logic, the customers send signals to the entrepreneur, through the profit-and-loss mechanism,

as to whether they believe that the entrepreneur is using environmental resources in a way that the customer approves of. With profit, the entrepreneur's activity is, at least for the time being, sustainable, and without it, it is not and will cease. Customers are sovereign ([MISES, 1998](#), p. 270); they decide sustainability and entrepreneurs must be aware that this is yet another part of the value that is proposed by the firms and created by consumers as they try to overcome consumers' felt unease.

Social responsibility is simply the roll-up of individual customer decisions regarding the use of resources. Often, centralized decision-making for corporate social responsibility aims to override the individual consumer's decision in favor of different "social" indicators. In Value-Dominant Logic, entrepreneurial profit - in a broader sense, not only the financial one, after all entrepreneur's well-being is formed be a combination of monetary and non-monetary satisfactions - is the applicable social signal.

Conclusions

Economics and marketing relations are deep ([BARTELS, 1951](#); [CONVERSE, 1945](#); [KUMAR, 2015](#)); marketers have always used economics to better understand how companies should do business ([SHAW; JONES; MCLEAN, 2011](#)), and important marketing authors, such as Philip Kotler and Michael Porter, are economists. This paper follows that tradition and continues the efforts of Hunt and Hunt and Madhavarani ([2006](#)) and D'Andrea ([2019b](#)) to better explain marketing concepts using a sounder economic approach.

The Service-Dominant Logic has proven successful in conveying some very important messages to business practitioners. Its natural evolution, the Value-Dominant Logic which we outlined here, goes even further. It points to the fact that value cannot be created by an external agent, an entrepreneur and an associated organization; value has to be built by the consumer, in his/her mind, during the various steps of the buying process ([KOTLER; KELLER, 2012](#), p. 189). Entrepreneurs are necessary in this process because they are the ones that will provide the means necessary (the products or services) for the value to be created.

Understanding the V-DL will have deep impacts on how entrepreneurs see their own businesses and, as a consequence, will change the way the entrepreneur deals with (potential) consumers. The adoption of an empathic way of thinking, and by seeing his/her own business as the supplier of a tool (a product or service) that aims at facilitating the creation of value by the consumer has the capacity to completely change the way the business is seen by the entrepreneur.

V-DL is a powerful idea. It is founded in solid economic thinking and can be applied to any kind of business. It requires efforts from the business community to understand the kind of value that is to be created and the technical knowledge to transform the idea into a tool suitable to do the consumer's job of creating value.

Because it is a very new application of some strong ideas to marketing, V-DL still needs development and discussion; we urge scholars interested in marketing, strategy, entrepreneurship, innovation and the interface between business and economics to think about issues, developments and other possible applications of the ideas outlined here. Only

by looking at how the principles are (will be) applied in real business situations will we be capable of further understanding the real-life consequences of its adoption.

One of the much-needed practical developments is to try to find ways to assess value, e.g. to measure subjective value experience. Marketing's solutions to that are usually quantitative, but based on the V-DL, a more modern dashboard could be developed; some ideas are starting to circulate, but, to the best of our knowledge, there is nothing documented yet.

Economics and marketing are about people and their subjective valuation of the different solutions entrepreneurs have to offer. By adopting that as the core principle of the Value-Dominant Logic, we correct a mechanistic view of individuals, both consumers and entrepreneurs, and help better understanding of the market process phenomenon as a whole.

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RECEBIDO EM: AUG 4 2019

APROVADO EM: SEP 25 2019