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**A framework for sustainable service system configuration:
Exploring value paradoxes with examples from the
hospitality industry**

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Introduction

Service industries are dynamic and complex because of the involvement of customers and multiple other stakeholders (e.g., Hillebrand *et al.*, 2015). Customer needs evolve constantly, and become increasingly complex and individualized. Service industries also face rapid developments caused by the fourth industrial revolution, which includes the emergence of new technologies, the increased use of information and communication technology (ICT), social media, robotics, artificial intelligence (AI) in general, and intelligent assistants in particular (Schwab, 2017). Among other things, these advances have led to the advent of new business models that induce entirely new forms and levels of competition and the emergence of new key players that create value for specific groups of stakeholders.

One specific group of stakeholders, i.e., the customers, hold a central place in marketing and service research and practice. Extensive research, from market orientation research (Kohli and Jaworski, 1990; Jaworski and Kohli, 1993; Narver and Slater, 1990) to more recent service research (Tax *et al.*, 2013; Beirão *et al.*, 2017; Yu and Sangiorgi, 2018), has consistently suggested that for companies to compete effectively, creating value for customers must take center stage.

As a consequence, service firms have actively developed new business models and strategies to satisfy and exceed these evolving customer expectations, needs and wants. Service providers have been in the frontline of innovating business models and adopting technologies to enrich their value propositions to specific stakeholders (i.e., customers, partners, the industry, and their shareholders). Two-sided market platforms such as Airbnb, Uber, and HomeAway have created highly innovative business models that apply the latest technologies to utilize unused service capacity available among individuals. These companies rely on bringing together various (often unrelated) resources and configuring them to create unprecedented value for some of their

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3 stakeholders (De Reuver *et al.*, 2018; Heo *et al.*, 2019; So *et al.*, 2018; Srinivasan and Ramani,
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5 2018), as illustrated by the valuation of Airbnb, founded as recently as 2008: \$31 billion USD in
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7 2017, larger than the market capitalization of many major hotel groups (Thomas, 2017).
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10 The value implications from these platforms, however, were found to be uneven across
11
12 stakeholders (Wachsmuth and Weisler, 2018). Some stakeholders, such as cab drivers (Uber) and
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14 residents in need of affordable housing (Airbnb), have seen much of their value being destroyed.
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16 Any business focusing disproportionately on any individual actor or stakeholder group (e.g.,
17
18 customers or shareholders) runs the risk of violating the “Principle of Externalities” (Freeman,
19
20 1994, p. 416). This principle applies to any situation where a contract exists among stakeholders
21
22 that negatively affects a third stakeholder, and it grants the third stakeholder the right to enter
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24 negotiations to ensure that an agreement is reached that does not harm them. Without adherence
25
26 to this principle unsustainable business models may - and probably will - result. Companies must
27
28 therefore be careful to develop their business models sustainably and choose configurations
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30 allowing them to balance their act for the full range of their stakeholders.
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35 This article uses the concept of a service system, a “configuration of resources (including
36
37 people, information, and technology) connected to other systems by value propositions” (Vargo *et*
38
39 *al.*, 2008, p. 145), to enable thinking about and comparing the ways different service business
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41 models create and destroy value.
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45 The main objective of this article is to develop theoretical foundations for better
46
47 understanding this paradox of value creation/destruction and to introduce a model to uncover and
48
49 examine the implications of design decisions. The topic is explored by investigating various
50
51 service system configurations - the strategic or conscious ways in which resources and the
52
53 relationships among them in the service system are organized and emphasized or de-emphasized.
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3 Service system configurations ultimately determine “the design or architecture of the value
4 creation, delivery, and capture mechanisms (a business) employs” (Teece, 2010, p. 172) or
5
6 ‘business model’ used in the system. Service systems are embedded in a wider ecosystem where
7
8 “resource-integrating actors connected by shared institutional logics and mutual value creation
9
10 through service exchange” (Vargo and Akaka, 2012, p. 207). The configuration of a service system
11
12 thus defines how resources are integrated internally and through which interfaces the engagement
13
14 and exchanges with other stakeholders in the ecosystem occur (Jonas *et al.*, 2018). The service
15
16 ecosystem provides the social context within which the various stakeholders engage and interact
17
18 to create, transfer or destroy value for others.
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24 This framework aims to assist service system designers to better understand the
25
26 implications of their decisions and adapt their designs dynamically to the requirements and
27
28 expectations of the business and its multiple stakeholders. The work identifies organizational
29
30 configurations (Ketchen *et al.*, 1993) and draws on SD-logic, the two-sided market theory
31
32 (Eisenmann *et al.*, 2006), and configuration theory (Miller, 1986). As a point of departure, service
33
34 systems are assumed to include a resource utilization strategy (control vs. orchestration), an
35
36 operational focus (internal vs. external) and the impact of value creation (customer vs. ecosystem)
37
38 as configuration dimensions. The article illustrates the framework based on empirical evidence
39
40 from the hospitality industry.
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44 **Theory development**

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46 This section discusses the conceptual foundations for the proposed framework. First, insights from
47
48 service-dominant (SD) logic are used to understand how service providers have become more
49
50 specialized in certain areas because of advances in technology. In addition, configuration theory
51
52 is used to analyze the evolution of service systems. Finally, transaction cost economics, two-sided
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3 markets, and the business model canvas help identify the primary dimensions of service
4 configurations and potential value paradoxes.
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7 *SD-logic and service systems*

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10 Although not specifically focusing on value destruction, service logic (Grönroos, 2012) and service-
11 dominant (SD) logic (Vargo and Lusch, 2004, 2008) provide a theoretical framework that allows
12 service researchers and managers to analyze service systems regarding their impact on value
13 creation for the parties involved. SD logic conceptualizes service as the application of *operant*
14 *resources (knowledge and skills)* by an actor for the benefit of another to create value-in-use. A
15 direct implication of the value-in-use construct is that value is idiosyncratic, experiential,
16 contextual, and meaning-laden (Vargo and Lusch, 2008).
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26 With growing demand for *personalized service*, the scale and scope of the knowledge and
27 skills needed for developing and operating successful business models have expanded rapidly. As
28 a result, actors who develop *technology-enabled service systems*, or platform enterprises (Evans
29 and Gawer, 2016), that match potential consumers with virtually unlimited numbers of highly
30 specialized service providers while ensuring that unique consumer preferences are being met, are
31 flourishing. In their global survey, Evans and Gawer (2016) identified platform enterprises thriving
32 in a broad spectrum of industries, including eCommerce, fintech, Internet software, manufacturing,
33 media, transportation and travel. Technology, here, does not only enable service providers to better
34 understand and serve target customers at the individual level, but it also plays the role of an operant
35 resource that gives rise to computerized interfaces and routines and shapes the new social structure
36 of service exchanges (Giddens 1984; Orlikowski 1992; Vargo and Akaka 2012).
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51 This increasing *specialization* can be understood through an SD logic lens, which views
52 fundamental economic ‘exchange’ as a *process* in which *resources* provided by a service provider
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3 are integrated with *resources* provided by a customer. As a consequence of specialization, the
4
5 specificity of the resources directly impacting customer experiences with the service has increased,
6
7 to meet the demand for personalized service (Stankov *et al.*, 2018). However, the specificity of the
8
9 resources that act on the operant resources (e.g., a hotel property) has decreased, thus allowing
10
11 greater economies of scale. As a consequence, the value propositions that connect two or more
12
13 service systems place increasing emphasis on integrating complementary resources to co-create
14
15 value collaboratively, or in a value constellation (e.g., Van Riel *et al.*, 2013). This exchange
16
17 process can be facilitated by various actors or sets of actors and technologies focusing on
18
19 integration and coordination, and in various ways, leading to new business models where these
20
21 service systems interact.
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26 Technology plays a highly nuanced role in the connections between service systems. Smart
27
28 technologies, as an operant resource, may enhance competitiveness by increasing connectivity and
29
30 interoperability with direct and indirect stakeholders in an ecosystem (Buhalis and Leung, 2018).
31
32 As an operant resource, however, inadequate technology design could potentially destroy value
33
34 for users when the implementation is overwhelming or intrusive (Stankov *et al.*, 2018). The
35
36 creation of *value-in-use* in today's technology-driven society therefore requires the consideration
37
38 and coordination of various actors in the service system.
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42 *Configuration theories and service system configuration*

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44 In this section, major service system actors are identified. A configuration is “*any*
45
46 *multidimensional constellation of conceptually distinct characteristics that commonly occur*
47
48 *together*” (Meyer *et al.*, 1993, p. 1175). Through organizational configuration firms seek to
49
50 accomplish synergy across different elements of strategy, structure, and context that would lead to
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52 the organization outperforming the sum of its components. Thus, organizational configuration can
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3 be a powerful source of competitive advantage (Miller 1986). Several key features of
4 organizational configurations highlighted by configuration theorists are useful for identifying the
5 primary dimensions of the configuration of service systems.
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10 Configuration theory suggests that for every company ‘ideal’ configurations exist that -
11 sustainably - maximize the business outcomes resulting from implementing the firm’s business
12 strategy by creating synergy among different interrelated parts that together make up the
13 organization (Miller, 1997; Ketchen *et al.*, 1993). Configurations of most organizations, however,
14 diverge from these ideal configurations, or sweet spots. The current study expands this line of
15 research by decomposing alternative configurations in modern services and exploring resource
16 utilization, operations focus, and value orientation among these alternative configurations.
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26 Both configurational theorists and SD logic theorists agree that *interactions* among system
27 components give rise to commonly observed resource configurations (e.g., Lusch *et al.*, 2008;
28 Maglio and Spohrer, 2008; Spohrer *et al.*, 2008; Meyer *et al.*, 1993; Bozarth and McDermott,
29 1998). These interactions allow value co-creation propositions being made, negotiated and
30 ultimately implemented through exchanging and integrating resources contributed by participating
31 actors. Such interactions increasingly focus on the orchestration of activities and resources
32 (Breidbach *et al.*, 2018). As a result, scouting the service ecosystem and developing collaborative
33 relationships with external entities have gained importance relative to internal optimization and
34 resource control.
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46 The organizational configuration perspective is based on a “punctuated equilibrium”
47 assumption, according to which the typology of service systems constantly evolves. Furthermore,
48 a position in the service system configuration space could choose any value orientation (see Figure
49 1). Both the “equifinality” feature (i.e., radically different configurations can lead to similar levels
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3 of performance) of organizational configurations and the process view of economic exchange by
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5 SD logic point to the importance of operational execution in determining the performance
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8 outcome.

9 10 *Configurational dimensions and value paradoxes*

11
12 The concept of a service system configuration obtains a deeper meaning when seen in the light of
13
14 a recently developed approach called Qualitative Comparative Analysis, or QCA (e.g., Fiss, 2007).
15
16 In QCA, change in a 'dependent variable' such as performance (e.g., value creation for Stakeholder
17
18 A) is investigated for combinations of values of a range of configuration variables. These variables
19
20 pertain to the dimensions along which a service business or service system can be strategically
21
22 designed or configured. A possible dimension could be, for example, the extent to which the
23
24 customer is allowed to participate in the value-creation process, or the degree of customization
25
26 that is allowed. The choice of positions on these dimensions influences how the service system
27
28 adapts to external risks (competition, customer dissatisfaction, financial loss) and makes use of
29
30 (technological, or market) opportunities. The combined strategic set of (partially interdependent)
31
32 choices will determine the extent to which the system can create or co-create value for various
33
34 stakeholders. This article discusses three approaches to thinking about the dimensions of service
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36 system configurations:
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42 • Transaction cost economics and two-sided markets (Williamson, 1973, 1989; Parker and
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44 Van Alstyne 2005, Rochet and Tirole 2003)
- 45
46 • Business model canvas (Osterwalder and Pigneur, 2010)
- 47
48 • Business attribute and value paradoxes
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52 These approaches complement each other. Transaction cost theory focuses on the financial aspects,
53
54 and the financial cost for the involved parties, whereas the Business Model Canvas focuses on the
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3 development of a competitive value proposition, which includes more than just the financial
4 aspects.
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8 *Transaction cost economics and two-sided markets*
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10 Previous literature on transaction cost economics (Williamson, 1973, 1989) and two-sided markets
11 (Parker and Van Alstyne 2005, Rochet and Tirole 2003) has identified three primary dimensions:
12 resource utilization, operations focus, and value orientation as depicted in Figure 1.
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17 [>> Please insert Figure 1 about here. <<]
18

19 Resource utilization (own vs. orchestration). Service providers' resources are made available and
20 accessible to customers and then used or integrated with customer resources to create benefits for
21 the customer. How resources from all involved stakeholders are used thus plays a fundamental role
22 in the configuration. (Parties of) actors may make specific (potentially valuable) resources
23 available to other (parties of) stakeholders, while other (parties of) actors may facilitate access to
24 these (potentially valuable) resources or integration with end-users' resources. A diagnosis of a
25 service system could, therefore, start with the identification of the fundamental resources involved
26 in the creation or destruction of value in the system and their location. Diagnostic questions that
27 need to be answered are, for example, which resources are exchanged, or otherwise involved in
28 the system, how are they deployed or integrated, and who owns them?
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42 Operations focus (internal vs. external). Regardless of the stage of their competitive
43 evolution or the type of industry they are in, companies develop both internal and external
44 strategies. Most traditional manufacturing businesses focus on internal optimization (Hayes and
45 Wheelwright, 1984, Hayes *et al.*, 1988). However, service business usually put a stronger emphasis
46 on external interactions (Chase and Hayes, 1991). Hayes and Wheelwright's (1984) 4-stage model
47 is commonly used to explain the dynamics between internal and external focus. Companies in
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3 stage one aim to minimize negative impacts of internal operations. In the second stage, companies
4 focus on internal optimization that can support their core business strategy. The third stage is
5 characterized by a move toward an external focus with a strategy of matching competitors. In the
6 final stage, companies fully embrace an external focus while trying to obtain a competitive
7 advantage.
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14 Value orientation (customer-centered vs. ecosystem). Strategic decisions along the
15 dimensions of resource utilization and operational focus together address how value is created in
16 a business model (Cachon, 2018). The value orientation dimension is concerned with the
17 beneficiary of such value creation and the distribution of the associated impact. In this respect, the
18 rapid growth of two-sided markets (Parker and Van Alstyne 2005, Rochet and Tirole 2003) has
19 two implications. Value creation is becoming increasingly customer-centered, as apparent from
20 the value-in-use perspective (Vargo and Lusch, 2008). At the same time, value is increasingly co-
21 produced by a network of collaborating suppliers providing outsourced processes, financing,
22 technology, and complementary products, as well as competitors, regulatory agencies, and media
23 outlets (Iansiti and Levien 2004). In other words, value is created in and shared by an ecosystem,
24 which “*is a spontaneously sensing and responding spatial and temporal structure of largely*
25 *loosely coupled value proposing social and economic actors interacting through institutions and*
26 *technology, to: (1) coproduce service offerings, (2) exchange service offerings and (3) co-create*
27 *value*” (Lusch 2011, p. 15). In this value network (Lusch *et al.*, 2010), stakeholders in diverse
28 market domains (Frow and Payne, 2011) bear the impact of value creation; yet, not all of them are
29 positively influenced. The following sections discuss several salient value paradoxes.
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51 *Business model canvas*
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3 Recently, the concepts of a business model and business model canvas were introduced
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5 (Osterwalder and Pigneur, 2010). Both the academic and the business world have adopted these
6
7 concepts as tools or lenses to investigate and diagnose service systems, to enhance understanding
8
9 of the value propositions of, and potential innovations to, service systems. The academic and
10
11 practical relevance of consciously designing ‘business models’ is growing (Baden-Füller and
12
13 Mangematin, 2015; Palo and Tähtinen, 2013). One objective is to identify ways to increase
14
15 business performance (Aversa *et al.*, 2015; Zott and Amit, 2007) through a better adaptation of the
16
17 business to a rapidly changing environment. New models can (and do) emerge (Mutka and
18
19 Aaltonen, 2013), but they can also be deliberately and purposefully designed or redesigned. The
20
21 original Business Model Canvas (Osterwalder and Pigneur, 2010), which works well for
22
23 traditional, linear value chains consisting of dyads of providers and customers, does not explicitly
24
25 consider sustainability risks and value destruction. A more recent model developed for, generically
26
27 speaking, platform or triadic businesses consisting of providers, customers and platforms
28
29 (Andreassen *et al.*, 2018) helps service system designers explicitly consider value destruction
30
31 through risks for society and directly involved stakeholders.
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38 The distinguishing characteristics of different business models were identified as nine
39
40 building blocks: 1) key partners, 2) key activities, 3) key resources, 4) value propositions, 5)
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42 customer relationships, 6) channels, 7) customer segments, 8) cost structure, and 9) revenue
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44 streams.
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46 *Business attributes and value paradoxes*

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49 Several attributes can be used to distinguish service configurations. While some attributes can be
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51 used to distinguish companies with different types of internal procedures (e.g., risk vs. authenticity,
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3 technological integration vs. low-tech), others can have a major impact on external strategic
4 objectives of the company (e.g., exploitation vs. sustainability).
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8 Each attribute has its own unique value creation/destruction signature. The observation that
9 each attribute can create value for one set of stakeholders while destroying it for others forces
10 companies to find an adequate balance. Similar to the other two theoretical approaches, the
11 business attribute model may result in different service configurations that each have their
12 strengths and weaknesses. Similar to the other two theoretical approaches, the
13 business attribute model may result in different service configurations that each have their
14 strengths and weaknesses.
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19 The following investigation discusses four configuration dimensions that have a major
20 impact on the customer orientation of the company: 1) exploitation vs. sustainability, 2)
21 connectedness vs. isolation, 3) safety vs. authenticity, 4) personalization vs. standardization.
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26 *Exploitation vs. sustainability*

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28 This configuration dimension represents the balance between a short-term focus on improvement
29 of operational efficiency through optimal exploitation of resources on the one hand, and a strategy
30 of resource conservation and long-term sustainability on the other hand (Ludwig *et al.*, 1993),
31 which may appear sub-optimal in the short run. An exploitation strategy may create above average
32 value for customers and shareholders in the short run. In the long run, however, a sustainability-
33 based strategy can create value for society despite potential short-term sacrifice in value-
34 maximization for customers and shareholders. For instance, consequences from exploitation such
35 as agricultural runoff, over-harvesting and uncontrolled tourism are partially responsible for the
36 decline of coral reef ecosystem (Moberg and Folke, 1999). Preserving such ecosystems for current
37 and future generations, however, requires concerted and long-term oriented efforts to curb human-
38 induced climate change (Hoegh-Guldberg *et al.*, 2007).
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53 *Connectedness vs. isolation*

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3 Each company must have some level of openness to be able to operate in a market economy.
4
5 However, the degree of connectedness with different categories of stakeholders can be a
6
7 distinguishing feature of their strategic orientation. Some companies focus heavily on vertical
8
9 integration and control over all resources, while others prefer to outsource some of their operations
10
11 and become more connected with their customers and suppliers (Grossman and Helpman, 2002).
12
13 Focus on connectedness or isolation can have an impact on the value creation and destruction for
14
15 different stakeholders. For example, a company that moves toward vertical integration could create
16
17 value for their employees and customers, as well as shareholders, while destroying value for their
18
19 suppliers. Moreover, a company that moves toward a more connected model that relies on
20
21 outsourcing of some their services or even co-creation with their customers can create value for
22
23 customers and suppliers while destroying value for shareholders.
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28 *Safety vs. authenticity*

29
30 Authenticity is an extensively researched phenomenon (e.g., MacCannell, 1973; Urry, 1991;
31
32 Wang, 1999) that is often used to explain customers' motivation to purchase a certain product or
33
34 service. For example, the need for authenticity is one of the main drivers of demand in tourism
35
36 (Cohen, 1988). However, authentic experiences often do not come without some level of risk.
37
38 Previous studies (e.g., Cavlek, 2002; Sirakaya *et al.*, 1997) have shown that safety is often valued
39
40 more than any other aspect of service. While focusing on the creation of an authentic experience
41
42 can create value for customers and potentially other shareholders, it can also lead to the destruction
43
44 of value for all if safety standards are compromised. Different service configurations can
45
46 emphasize safety while completely ignoring the authenticity of the experience (e.g., theme parks),
47
48 while others can produce an extremely authentic experience with less regards to customer safety
49
50 (e.g., war tourism).
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Personalization vs. standardization

Personalization is often defined as the extent of social content in interactions between service employees and their customers (Mittal and Lassar, 1996). Thus, “personalization” concerns the way service employees relate to customers as people - from cold and impersonal at one extreme of the scale to warm and personal at the other. Personalization is distinct from customization, which can be offered with a total lack of personal interaction. Thus, the concept of ‘personalization’ is purported to capture this social component of interpersonal interaction, which is more suited to services. On the opposite end of the spectrum from personalization is standardization. While standardization has many operational advantages and can contribute to cost reduction, it can often lead to mediocre service that fails to excite customers. Each of the three models, personalization, customization, and standardization, can lead to value creation and destruction for different stakeholders under different circumstances (Sandoff, 2005).

Archetypical service configurations

Based on the three theoretical frameworks (Transaction cost economics and two-sided markets; Business Model Canvas; Business attributes and their value paradoxes) a versatile model of service configurations is proposed. Whereas most existing service systems are hybrids, three radically distinct ‘archetypes’ on a multidimensional continuum of service system designs can be distinguished. Figure 2 summarizes these strategic configurations which are then described and analyzed.

[>> Please insert Figure 2 about here <<]

Service provider

The most basic and classical archetype of a service system is the combination of an individual ‘service provider’ with a market or a one-to-many configuration. An often independently operating

1
2
3 provider provides a (relatively) scarce and potentially valuable resource to several clients. In this
4
5 model, the customer exchanges directly with the service provider and pays for the provision of the
6
7 simple, discrete, service. Examples of simple service providers are independent restaurants, hotels,
8
9 theme parks, movie theatres, plumbers, painters, house teachers, physical therapists, dentists, or
10
11 lawyers. The owner or operator of the resources is in control of all internal operations decisions
12
13 such as type and level of the services and will face the outcomes.
14
15

16
17 A service provider may compete for market share in a local market, but their marketing
18
19 activities often go beyond their local market. Global and national competitors who also operate in
20
21 the local service provider's market increase the competitive pressure on the local service providers.
22
23 When the market demands it, this basic business model can extend its capacity and range of
24
25 services by combining many similar service providers under one roof. The service employees are
26
27 independent and each serves a part or segment of the market. In this context, destination marketing
28
29 organizations have taken on important roles in attracting visitors to the destination (e.g., city,
30
31 region, or nation) and contributing to the competitiveness of independent service providers (Pike
32
33 and Page, 2014). A next step would consist of having sets of service employees in multiple
34
35 locations, each independently serving parts and segments of the local market.
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39 *Service network*

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42 A more complex archetype of a service system, the service network, consists of multiple
43
44 interdependent operators, connected by a brand or other shared asset. Examples are service chains,
45
46 such as McDonalds, Six Flags, Marriott, etc. Network companies compete simultaneously in more
47
48 than one local or international market. They often compete based on a successful 'formula',
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50 prescribing the ways in which their satellites should deliver value to customers. They use a
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52 common brand, that is strongly connected to the standardized and 'optimized' way in which they
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3 compete. The brand is a differentiating factor as consumers attach certain attributes to it and expect
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5 the same service quality at any location that bears that brand anywhere in the world.
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8 A service network provider benefits from consumer brand recognition and confidence, both
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10 for the loyal customers and when a consumer faces uncertainty in choices and seeks a trusted
11
12 option. However, service providers are susceptible to negative news and word-of-mouth and,
13
14 hence, losses resulting from service failures or inappropriate employee behaviors. For example,
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16 Starbucks received significant negative publicity and drop in the stock value when their employees
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18 in one store mistreated a customer and the CEO of the company had to get engaged and the
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20 company closed all stores for a few hours on a day for training.
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23
24 A service network may follow a franchise model in which a service provider owns the
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26 location but must comply with the service network standards and pay a franchise fee (e.g.,
27
28 Subway). Alternatively, the locations may be owned by the service network (e.g., Starbucks).
29
30 Hence, the service network and the service provider are often bound for the long term. Implications
31
32 for value creation and destruction are that actors are highly interdependent for their performance.
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35 *Service platform*

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37 The service platform is a recent development, and is based on and facilitated by ICT. A platform
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39 organization connects (independent, and staying independent) service providers or networks and
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41 end customers. Service platforms compete in a global market, but on a local scale, by offering a
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43 customized offering adapted to the individual needs of the customer.
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47 Platforms such as Booking.com, Expedia, Kayak, simply connect service providers or
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49 service networks and service users. Other types of service platforms, such as Airbnb or Uber, do
50
51 not only connect users with service providers or networks but also operate the supporting
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53 infrastructure to provide the service and take responsibility for the offered service. This latter group
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3 of service platforms follows a collaborative consumption/shared economy model. This group of
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5 service platforms originated from the idea of mobilizing unused capacities such that the service
6
7 provider benefits from monetizing the unused resources such as renting an extra room or taking
8
9 passengers on the way to work and the service users benefit from paying lower prices.
10
11

12 *Hybrid configurations*

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14 With the increasing competition between individual or independent service providers and service
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16 platforms and networks, hybrids of the three forms mentioned previously have emerged. Service
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18 operations then have combined characteristics from these three archetypical designs and thus
19
20 formed hybrids.
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23 **Service configurations in hospitality: an illustration**

24
25 The hospitality landscape has seen a proliferation of various forms of service systems. While
26
27 independent properties and branded franchises (e.g., Marriott) continue to dominate the hospitality
28
29 industry, the last decade has seen the emergence and fast growth of the platform and hybrid models.
30
31 Platform and hybrid service models can be broadly classified into four categories: 1) individual
32
33 hosts that operate on the platform, such as a homeowner renting out a spare bedroom by listing on
34
35 Airbnb (Zervas *et al.*, 2017); 2) branded home portfolios, such as a homeowner joins the Tribute
36
37 Home Portfolio through Marriott's Hostmaker service; 3) real estate developers operate on the
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39 platform, such as a short-term rental building purposefully built to be listed on Airbnb; and 4) soft-
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41 brand collections, such as an independent hotel joining a hotel chain's curated collection of
42
43 independent hotels.
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49 Table 1 compares these six types of hospitality service systems along dimensions as
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51 described by the nine building blocks from the business model canvas (Osterwalder and Pigneur,
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53 2010).
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[>> Please insert Table 1 about here <<]

Additionally, six hospitality service systems have somewhat different critical business attributes. Table 2 compares these six types of hospitality service systems along 1) exploitation vs. sustainability, 2) connectedness vs. isolation, 3) safety vs. authenticity, 4) personalization vs. standardization.

[>> Please insert Table 2 about here <<]

It is clear from Tables 1 and 2 that both technology firms and hotel corporations are innovating regarding the way they configure their resources, including real estate assets, the user platform and apps, and contracted hospitality service providers, to meet changing customer needs in lodging and travel experiences overall. It is interesting to note that a corporate Airbnb hosts likely offer a highly standardized lodging experience while a property in the branded home portfolio can feel much more authentic to the guests.

This example from the hospitality industry also highlights the tension between stabilizing an existing business model versus reconfiguration due to constant technological changes, global integration, economic conditions and other external forces. The opposing objectives of creating a unique and authentic experience for the customers versus economies of scale through standardization also present tensions, as do potential conflicts resulting from technology-mediated resource sharing versus value capture by a diverse set of stakeholders.

Balancing the needs of stakeholders

Before addressing the key factors in balancing the interests of stakeholders, key stakeholders must be identified. As the goods-dominant (GD) logic gave way to SD logic, value became the domain of customer-supplier interactions, rather than just the supplier (Frow and Payne, 2011). Frow and Payne (2011) assert that while SD logic thinking has helped enterprises consider value propositions

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2
3 differently little attention has been paid to the network of stakeholder relationships. It can be added
4
5 that most of the focus in the literature went to value creation, rather than value destruction.
6

7
8 Although various classifications have evolved over the years, Frow and Payne (2011),
9
10 using research from Christopher *et al.* (1991), suggest a stakeholder model consisting of six
11
12 categories, which can be divided into subdomains. These categories include 1) customer markets,
13
14 2) referral markets, 3) supplier and alliance markets, 4) influence markets, 5) recruitment markets,
15
16 and 6) internal markets.
17

18
19 *Customer markets* - buyers, intermediaries and final consumers
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21
22 Based on Christopher *et al.*'s (1991) model, the customer gives rise to the existence of the other
23
24 stakeholders and in many ways connects them. Access to the final customer does vary however,
25
26 with independent providers and networks having more direct access to the final customer, while
27
28 platforms are more remote. Access to customers in the platform models often involves
29
30 intermediaries (e.g., homeowners) and relationships with end customers are often outsourced to
31
32 downstream channel intermediaries. Control of these relationships can be tenuous but remains vital
33
34 in achieving long-term profitability and sustainability. If one considers the evolution from
35
36 providers to network to platform, the shift in power is apparent. However, there is still a role for
37
38 the service provider with a differential business model.
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42 *Referral markets* - customers and non-customer sources of recommendation
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45 Referral markets can be divided into two broad categories: customer and non-customer sources
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47 (Payne *et al.*, 2005; Peck *et al.*, 1999). Referral markets can also be divided into advocacy-initiated
48
49 customer referrals and company-initiated customer referrals, while non-customer referrals include
50
51 general referrals, reciprocal referrals, incentive-based referrals, and staff referrals. In services,
52
53 reputation management has emerged as a critical aspect of customer-facing businesses. To build
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3 and preserve a positive reputation, service companies are seeking to regain control of their
4 reputation management by using various third-party firms to boost numbers of reviews and
5 improve user-generated content.
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10 *Supplier and alliance markets* - providers of physical and knowledge-based resources

11
12 The rise of service platforms has drastically expanded the recruitment and supplier and alliance
13 market by reducing the entry barriers for individual and corporate users to participate in the
14 technology-mediated transactions when perceived benefits are high. This has led to dramatic
15 expansion of just-in-time supply, e.g., of rooms and workforce in the hospitality industry, resulting
16 in opportunities for value creation. There is empirical evidence suggesting that the gig-economy
17 platforms appear to offer viable employment for the unemployed and underemployed (Burtch *et*
18 *al.*, 2018).
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29 However, although researchers estimate that there is only a moderate impact on hotel
30 revenue due to the fast growth of Airbnb, the lower-tier hotels that do not cater to business travelers
31 bore the most impact (Zervas *et al.*, 2017). Because the move of hotel chains adding portfolios of
32 individual homes, the value paradox is likely to take on another layer of complexity. A
33 consequence of this is that traditional relationships are blurring, and the ecosystem concept
34 encourages much more complex relationships between suppliers and competitors.
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42 *Influence markets* - stakeholder bodies that influence the firm, including financial, political and
43 environmental stakeholders, media and competitors
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46 Payne *et al.* (2005) indicate that the influence market has the most diverse range of constituent
47 groups, which include financial groups and investors, regulatory bodies, the media, environmental
48 groups, unions, governmental agencies, as well as competitors. Value can be easily assessed for
49 many of these constituent groups in terms of financial figures, such as revenues, profitability, and
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3 shareholder value, while for others value may need to be assessed in terms of what is called the
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5 “triple bottom line” (TBL) (Rubinstein, 2003), which refers to the organizational practice of
6
7 managing the needs for social, environmental, and economic sustainability (Elkington, 1998).
8
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10 The latest trends in the service industry introduce customers as influencers through co-
11
12 design and co-production practices. The experience is now more important than the hospitality
13
14 product. Consumers increasingly strive to select brands that embrace positive social and
15
16 environmental values. Therefore, companies need to be aware of societal as well as economic
17
18 drivers of the business. It has now moved beyond solely “green issues”.
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21 *Recruitment markets* - potential employees together with third parties who act as access channels
22
23 for potential recruits
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26 As discussed by Frow and Payne (2011), “The recruitment market domain is a sub-system
27
28 comprising all potential employees together with a network of recruitment entities, sources and
29
30 access channels” (p. 228). Finding and retaining talent remains a top concern in the industry where
31
32 nearly a third of employees leave after six months (Orbitalshift.com, 2017). Employees are the
33
34 frontline in many cases when handling service, and because of intangibility of the product,
35
36 employees are especially necessary in shaping and reinforcing value. Many service companies are
37
38 a “people business” and never has it become more important to leverage human capital and ensure
39
40 people-related decisions are data based. Competing on talent analytics require effective
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42 management of data and technology at the firm level.
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47 Given the three archetypical service configurations presented, it can be expected that
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49 recruitment in the service provider/independent entities is important. Independent entities (e.g.,
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51 boutique hotels) would be most pressured to recruit quality employees to challenge the bigger
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53 competitors. Research on underdogs in the marketplace reinforces this perspective (Paharia *et al.*,
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2010). Smaller, independently owned businesses generally must provide better service, because they lack economies of scale that allow for lower prices. In a service network, which involves chains and franchises, recruitment markets and the importance of aligning the right employees with service will also bear importance. However, given their larger sizes, multiple locations, promotional capability, and other resources associated with chains and franchises, a buffer between employees and the service they provide exists that independent entities lack in terms of privilege.

Internal markets - employees, with segments based on attributes including level, function, and type of contact with customers

Independent contractors or employees? Networked service providers also face the legal challenges that argue that franchisors are joint employers, which threatens independent franchisee status. Joint employer doctrine increases the importance of clearly defined decision rights. Frow and Payne (2011) describe the internal markets in terms of those employed by the company and do not necessarily allude to independent contractors. In reference to the employees, they point toward the challenges and the necessity in retaining the most talented and motivated employees and those who help co-create the value proposition of the firm. In service industries, the internal organization structure can affect success and valuation of companies by investment analysts and stock markets.

Conclusion

In summary, service companies need to make explicit decisions regarding their stakeholders markets, and embed effective processes for stakeholder management with technology being and continuing to be a major disruptor and enabler. What our analysis reveals is that stakeholders are plentiful, and they too evolve. If both observations are ignored this can be perilous for businesses.

The paradox is in fact that every player needs to find a balance between too much and too little

1
2
3 focus on customers while keeping an eye on each of the other stakeholders with emphasis on their
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5 dynamic nature.
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7 *Future research directions*

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10 The value creation and destruction implications for various stakeholders resulting from different
11
12 service system configurations are promising for some stakeholders but value-destructing for
13
14 others. For example, the movement toward a gig economy has disintermediated several channel
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16 partners (e.g., traditional taxi companies and travel agencies) and, in many cases, placed added
17
18 economic costs on workers who are now task-oriented independent contractors (Friedman, 2014).
19
20 Employers have been able to save costs due to reduced responsibilities but, in many cases, the
21
22 workers have suffered the consequences (e.g., loss of benefits, loss of paid time for idle work). At
23
24 the same time, the economy has created new on-demand industries (see Taylor, 2018 for examples)
25
26 oiled for success in an ever-changing technological and economic environment. The challenge will
27
28 be to provide consistent and controllable services while creating a sense of well-being,
29
30 compensation, and belongingness for workers to the larger organization. Some suggest that a third
31
32 category of worker be employed and defined, such as dependent contractors (Cherry and Aloisi,
33
34 2016), as this category might mitigate the need for managerial power and stability against the need
35
36 for flexibility. However, Cherry and Aloisi (2016) caution that such a categorization needs to be
37
38 fully vetted and examined in countries where similar categories have already been established.
39
40 Technologically infused configurations have several advantages for the customer and some other
41
42 stakeholders, but the suppliers' needs (e.g., employment security, benefits, well-being) should be
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44 addressed as well. Future research should examine the value-destructing consequences of the gig
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46 economy for all stakeholders, especially those whose livelihoods and quality of life hang in the
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48 balance.
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3 Although the gig economy may have its pitfalls, the societal and market value implications
4 resulting from different service configurations are numerous and should be investigated, especially
5 those in the on-demand service platforms. From a customer stakeholder perspective, service
6 platforms have provided more value in terms of better choices and better prices, in nearly all
7 service industries, from taxi service to food delivery to financial services (Taylor, 2018). Because
8 of independent contracting, on-demand services have eliminated many operating inefficiencies
9 found in the previously discussed controlled, internal operationally-optimizing businesses (e.g.,
10 employee idle time associated more with independent entities, chains, and franchises). Service
11 platforms benefit from economies of scale where efficiencies can be pooled relative to those from
12 traditional brick and mortar businesses. From a customer standpoint, idleness of on-demand
13 services means more available service and less waiting (Taylor, 2018). Future research should
14 examine optimal price points, idle time, ideal levels of customer service, and other factors that
15 impact all stakeholders so that sustainability is possible. And while disintermediation and demand
16 has hurt chains, franchises and independent entities, research should investigate the positive
17 services these entities uniquely provide to establish value and sustainability.
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37 A key question in balancing the needs of various stakeholders using dynamic service
38 configurations is how to make service systems sustainable by preventing or minimizing value
39 destruction for some stakeholders, while optimizing value creation for others. Perhaps the primary
40 issue going forward, as addressed a decade ago by Zhang *et al.* (2012), is how to reduce
41 environmental (and social) impact while maintaining competitiveness. Being competitive means
42 offering value to consumers in a way that competitors cannot. Sustainability in services is a
43 growing concern considering its impact on climate change (Weaver, 2011), and social impact. Due
44 to increased business from less downtime and higher occupation rates with hotels and apartment
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3 spaces, it might be expected that the environmental impact from externally-focused,
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5 technologically-advanced service platforms is more damaging to the environment than in the past.
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7 While competitive pricing and greater advertising penetration are making demand more
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9 democratic and widespread, the impact on already congested airports, tourism destinations, and
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11 fuel supplies is self-evident. Research should focus on ways and means to lessen environmental
12
13 impact across service configurations while maintaining competitiveness and value for all customer
14
15 segments.
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19 Although the paradoxes of value creation and destruction explored in this paper are perhaps
20
21 the most imminent in the service industry, the list is non-exhaustive. Future research could explore
22
23 privacy versus personalization and being too small to fail versus too big to sustain. Privacy
24
25 concerns have been a hot-button issue lately, as service providers such as Facebook (Natanson,
26
27 2019) and others have sold data to firms searching for competitive advantages gained from
28
29 consumer tracking. While the upside to consumers, it could be argued, is to provide better products,
30
31 the distrust that is created subterfuges these attempts. The consumer advantages gained from these
32
33 insights can be beneficial (e.g., cross-selling, selling up, future product suggestions). Future
34
35 research should explore best practices for companies in gaining insights in a way that is self-
36
37 governed, transparent, and consumer oriented. However, research should also investigate ways to
38
39 better frame what consumers gain from so-called privacy invasions, such as more tailored offerings
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41 and suggestive selling. Additionally, as service ecosystems continue to grow and become
42
43 increasingly intertwined, research might also investigate ways to maximize privacy or minimize
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45 intrusion without compromising service and trust.
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51 Being too small to fail versus too big to sustain is an intriguing paradox because it is
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53 counterintuitive yet realistic. To create consumer choice, firms of all sizes across platforms are a
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3 necessity. Independent entities provide uniqueness and often garner support because of their
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5 underdog status (McGinnis *et al.*, 2017). Maintaining these options becomes imperative to sustain
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7 entrepreneurship and innovation. Being too big to sustain applies to the sharing economy and the
8
9 abolishment of smaller competitors and the overtaking of local populations. Local populations in
10
11 cities such as Barcelona and Amsterdam have already revolted because short-term leases, which
12
13 are favored by landlords due to higher revenues, are causing gridlock and overcrowding (Hinsliff,
14
15 2018). This phenomenon also causes, among other issues, unaffordable rents to the local
16
17 populations, especially the younger segments. Creating more balance, more affordable rates, and
18
19 less impact on local communities is an area of future research.
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24 Ultimately, researchers, e.g., using QCA, could develop methods that allow to identify the
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26 ‘sweet spots’ in service system configurations, given the various amounts and types of value
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28 organizations wish to create for different stakeholders, while minimizing value destruction.
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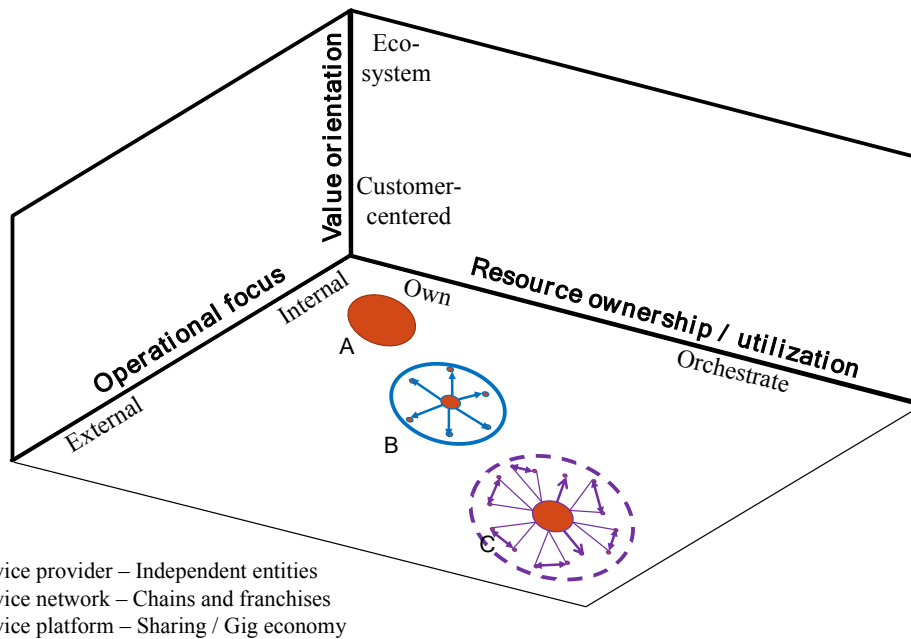
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Figure I. Different service system configurations emerge from positioning along three primary dimensions - resource ownership/utilization; operational focus and value orientation.



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Figure II: The alternative strategic configurations for a service provider



Of Service Management

<i>Configuration dimension</i>	<i>Provider</i>	<i>Platform</i>	<i>Hybrid</i>	<i>Hybrid</i>	<i>Network</i>	<i>Network</i>
<i>Business model</i>	Independent property	Individual Airbnb host	Branded home portfolio	Corporate Airbnb host	Soft-brand collection	Branded franchise
<i>Key partners</i>	owner and operator	owner and operator, Airbnb	owner, operator, brand	owner, Airbnb, contract service providers	owner & operator, brand	owner, operator, brand
<i>Key activities</i>	professional hospitality services	limited hospitality services, platform development	professional hospitality services, brand management, platform development	limited hospitality services, platform development	professional hospitality services,	professional hospitality services, brand management
<i>Key resources</i>	real estate, local appeal	real estate, local appeal, platform	real estate, local appeal, platform	real estate, platform	real estate, local appeal, platform	real estate, brand recognition
<i>Value propositions</i>	unique intimate experience	intimate local experience, wide selection	upscale local experience, wide selection	local experience, wide selection	upscale local experience	standardized experience, wide selection
<i>Customer relationships</i>	dyadic, in-person	triadic, transactional contractor	triadic, transactional contractor	triadic, transactional contractor	triadic, in-person	triadic, long-term contract
<i>Channels</i>	omni	social media	omni	social media	omni	omni
<i>Customer segments</i>	all	lower to mid-scale	upscale	mid-scale	upscale	lower to mid-scale
<i>Cost structure</i>	high, centralized	distributed	distributed	distributed	distributed	distributed
<i>Revenue streams</i>	fee for service	pay per stay, fee for service	pay per stay, fee for service	pay per stay, fee for service	royalty, fee for service	royalty, fee for service

Table 1. Comparison of six types of hospitality service systems using business model canvas

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<i>Configuration dimension</i>	<i>Provider</i>	<i>Platform</i>	<i>Hybrid</i>	<i>Hybrid</i>	<i>Network</i>	<i>Network</i>
<i>Business model</i>	Independent property	Individual Airbnb host	Branded home portfolio	Corporate Airbnb host	Soft-brand collection	Branded franchise
<i>Exploitation vs. sustainability</i>	Balanced	Balanced	Balanced	Exploitation focused but some brands focus on sustainability	Balanced	Exploitation focused but some brands focus on sustainability
<i>Connectedness vs. isolation</i>	Connectedness	Connectedness	Balanced	Isolation	Balanced	Isolation
<i>Safety vs. authenticity</i>	Authenticity	Authenticity	Balanced	Safety	Balanced	Safety
<i>Personalization vs. standardization</i>	Personalization	Personalization	Customization	Standardization	Customization	Standardization

Table 2. Comparison of six types of hospitality service systems using four critical business attributes