

The Service-Dominant Logic of Marketing and the Ethics of Co-Creation

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1. Introduction

The information revolution made information infinitely producible at very low marginal costs, lessening the information asymmetry between producers and consumers and empowering consumers (Pires, Stanton, & Rita, 2006). Consumers were further empowered with the shift toward Web 2.0 platforms, which brought an interactive marketplace with increased access to means of production and distribution. With this, the relationship between producers and consumers in the marketplace has undergone significant transition, and “consumers now desire to play a greater role in the process of value creation” (Hoyer, Chandy, Dorotic, Drafft, & Singh, 2010, p. 283).

In response to such fundamental shifts in the marketplace, marketing theory developed under the mass-production and mass-consumption era evolved and adapted, resulting in what some considered a fragmentation of marketing theory (Day & Montgomery, 1999; Wilkie & Moore, 2003; Vargo & Lusch, 2004). Vargo and Lusch (2004) tried to integrate

these streams of research into a general theory of marketing, resulting in the formulation of service-dominant logic (S-D logic).

An important aspect of S-D logic is its view of consumers as co-creators of value. Co-creation presents a more complex relationship between firms and its customers due to the blurring of lines between producers and consumers (Kotler, 1986; Prahalad and Ramaswamy, 2000). However, there has not been substantial research to aid marketers in ethically interacting with co-creation stakeholders. This paper investigates the ethics of co-creation by reviewing past research and applying Schwartz’s “universal moral standards for corporate codes of ethics” (1998). In doing so, this paper aims to provide a launching ground from which marketers can proactively confront the ethics of co-creation.

1-1. The S-D Logic of Marketing

Since “The Service-Dominant Logic of Marketing” was published in 2004 in the *Journal of Marketing*¹, the idea of service-dominant logic (S-D logic) has garnered much interest. Through this integrative literature review, Vargo and Lusch argued that the formerly goods-dominant logic (G-D logic) of marketing is shifting toward an S-D logic that views marketing as a social and economic process centered on operant resources. It was claimed that, “[t]his paradigm begins to unify disparate literature streams in major areas such as customer and market orientation, services marketing, relationship marketing, quality management, value and supply chain management, resource management, and network analysis.” (p. 3). See Table 1 for a summary.

Table 1: Conceptual Transitions (G-D Logic to S-D Logic)

Goods-dominant logic concepts	Transitional concepts	Service-dominant logic concepts
Goods	Services	Service
Products	Offerings	Experiences
Feature/attribute	Benefit	Solution
Value-added	Co-production	Co-creation of value
Profit maximization	Financial engineering	Financial feedback/learning
Price	Value delivery	Value proposition
Equilibrium systems	Dynamic systems	Complex adaptive systems
Supply chain	Value-chain	Value-creation network/constellation
Promotion	Integrated marketing communications	Dialogue
To market	Market to	Market with
Product orientation	Market orientation	Service orientation

(Lusch & Vargo, 2006a, p. 286)

In response, many journal articles, special issues of academic journals, conference sessions, and conferences on S-D logic were delivered. This enabled Vargo and Lusch to refine their original eight foundational premises (FPs) that summarized the S-D logic framework into the following ten FPs (2008):

1. Service is the fundamental basis of exchange.
2. Indirect exchange masks the fundamental basis of exchange.
3. Goods are distribution mechanisms for service provision.
4. Operant resources are the fundamental source of competitive advantage.
5. All economies are service economies.
6. The customer is always a co-creator of value.
7. The enterprise cannot deliver value, but only offer value propositions.
8. A service-centered view is inherently customer oriented and relational.
9. All social and economic actors are resource integrators.
10. Value is always uniquely and phenomenologically determined by the beneficiary.

Vargo and Lusch hope that S-D logic becomes a foundation for a general theory of marketing, and have called for co-development of models and theories by other marketing scholars. To this end, research on how S-D logic applies to service science (e.g., Maglio & Spohrer, 2008), branding (e.g., Ballantyne & Aitken, 2007), and other areas was undertaken. Yet, there has not been as much focus on the ethics of S-D logic, even though marketing is expressly stated as a social process under this theory.

Vargo and Lusch have acknowledged that research on the ethical dimensions of S-D logic has been limited, but they contend that S-D logic, as set forth in the ten FPs, is inherently more accommodating to ethics as compared to a G-D logic (2008). They argue that S-D logic “points almost directly to normative notions of investment in people (operant resources), long-term relationships, quality service flows, and only somewhat less directly toward notions of symmetric relations, transparency, ethical approaches to exchange, and sustainability” (Lusch & Vargo, 2006a, p. 283). Abela and Murphy (2008) generally agree with this, and suggest that ethical content is implicit in S-D logic: “We believe that many of the FPs of the S-D logic are inherently ethical; they appear to presume or incorporate within them ethical norms” (p. 44). Similarly, Laczniaik (2006) also argues that stakeholder orientation results from the FPs.

However, Williams and Aitken (2011) are critical of these claims, and argue that ethics in S-D logic needs to be made explicit. They argue that this would avoid the compartmentalization of ethics, as has been the case under the traditional G-D logic of marketing². Williams and Aitken propose to add an eleventh FP with the aim that ethics becomes a fundamental aspect of S-D logic. They suggest: “Value co-creation is the result of differential desires of economic actors, which are in turn a result of the (a) differential access to resources and (b) differential values of actors” (p. 13). They reword this for conciseness as “[v]alue is determined by values” based on the fact that “values are a judgement of what is good”; thus, “voluntary component of exchange always involves ethical decisions” (Ibid.).

Williams and Aitken focused on providing an explicit ethical FP that is generally applicable to S-D logic. However, in order for S-D logic to incorporate ethics as more than just an add-on, each FP’s ethical implications should also be further examined. This author will focus on FP 6: “The customer is always a co-creator of value,” because this view of consumers as an active partner in the value creation process is a significant shift in the view of consumers that holds much promise for firms, but is fraught with ethical quandaries that have yet to be sufficiently addressed.

2. Background

2-1. Co-Creation

The term “co-creation” was popularized by Prahalad and Ramaswamy (2000; 2004). In their two seminal articles, they argued that consumers are no longer passive audiences, but are moving toward becoming active participants in the marketplace. Though this is not a new concept (see Bendapudi & Leone (2003) for a literature review of similar concepts³), its implications have become more apparent with the spread of the Internet and Web 2.0 platforms. These new technologies, which have given average consumers unprecedented access to the means of production and distribution⁴, have substantially changed the co-creation landscape, and allow consumers to participate in the value creation process in a more meaningful way than ever before (Hoyer et al., 2010; Prahalad & Ramaswamy, 2004; Sawhney, Verona, & Prandelli, 2005). Though co-creation takes place both off-line and outside of Web 2.0, the massive involvement in and popularity of these platforms (e.g.,

social networking sites) indicate that they are important facilitators of co-creation today (Ritzer & Jurgenson, 2010).

In FP 6, Vargo and Lusch use the term “co-creator of value” to highlight differences between the G-D focus on value-in-exchange (i.e., price) and the S-D focus on value-in-use (as determined by the user in the consumption process). Thus, they define co-creation of value as something that “occurs at the intersection of the offerer and the customer over time: either in direct interaction or mediated by a good, as indicated in FP3” (Vargo & Lusch, 2006a, p. 284).

Vargo and Lusch had originally formulated FP6 as “the customer is always a coproducer.” However, they later felt that the term “producer” was reminiscent of a G-D logic, and chose to rephrase “coproducer” as “co-creator of value” (Lusch & Vargo, 2008). Vargo and Lusch now consider “co-production” to be a component of co-creation that involves “participation in the creation of the core offering itself. It can occur through shared inventiveness, co-design, or shared production of related goods, and can occur with customers and any other partners in the value network” (Ibid., p. 284).

This refined definition of co-creation is more in keeping with the bulk of current literature on co-creation (Prahalad & Ramaswamy, 2004; O’Hern & Rindfleisch, 2009; von Hippel, 2005;). In fact, some scholars use the term “co-production” and “co-creation” interchangeably (e.g., Nambisan, 2002; Kristensson, Mathing & Johansson, 2008). This paper will define co-creation in this more narrow sense, because such forms of co-creation are becoming more commonplace, but have not had their ethical implications fully developed. Also, the tangibility of this definition helps readers to envision “fuzzy” ethical issues more concretely.

Co-creation can generally be separated into sponsored and autonomous co-creation (Zwass, 2010). Sponsored co-creation is firm-led, and this understanding is consistent with the co-creation concept in S-D logic. In contrast, autonomous co-creation is defined as when “individuals or consumer communities produce marketable value in voluntary activities conducted independently of any established organization, although they may be using platforms provided by such organizations, which benefit economically” (Ibid., p. 11). The Free and Open Source Software (FOSS) movement is representative of such user-led and

autonomous co-creation. Values created by such efforts are often put into commons, and may compete with firm offerings. Such peer production poses interesting ethical questions, but is beyond the scope of this paper⁵.

New product development (NPD) is a major area in which co-creation is generating considerable interest (Banks & Humphreys, 2008; Nambisan & Baron, 2009; Ogawa & Piller, 2006; Prahalad & Ramaswamy, 2000). Co-creation is seen as a way of gaining insight into customer needs, preferences, and requirements in a precise, timely, and reliable fashion to avoid the high failure rates of newly launched products (Hoyer et al., 2010; Ogawa & Piller, 2006; von Hippel, 2005). Due to the high costs of new product failure, firms are increasingly involving customers in the value-creation process.

The table below shows NPD co-creation activities as categorized by O' Hern and Rindfleisch (2009). As can be seen, the very idea of co-creation in NPD signifies a substantial departure from the traditional view of NPD. This is noted by von Hippel (2005) who says, "The idea that novel products and services are developed by manufacturers is deeply ingrained in both traditional expectations and scholarship" (p. 19). This makes it imperative that the ethical issues of newly emerging NPD co-creation are addressed, so that such NPD is undertaken in a responsible manner. Note that many of the key challenges listed in Table 2 have ethical implications.

Table 2: Characteristics of Co-Creation Types

Type of Co-Creation	Selection Activity	Contribution Activity	Key Payoffs	Key Challenges	Prototypical Application	Key Studies
Collaborating	Customer-Led	Open	Reduced development costs Continuous product improvement	Protecting intellectual property Attracting a critical mass of collaborators	Open source software	Grewal et al. (2006) Lakhani and Wolf (2005) von Krogh et al. (2003)
Tinkering	Firm-Led	Open	Enhanced differentiation Virtual test markets for new products	Policing the content of rogue co-creators Creating new competitors	Modified computer games	Jeppesen and Molin (2003) Nieborg (2005) Prügl and Schreier (2006)
Co-designing	Customer-Led	Fixed	Reduced development costs Decreased risk of product failure	Attracting a critical mass of designers Defending against new entrants	Online voting on customer-generated content and designs	Ogawa and Pillar (2006) Cook (2008)
Submitting	Firm-Led	Fixed	Shortened product development cycles Increased access to novel customer ideas	Acquiring knowledgeable new co-creators Retaining and motivating existing co-creators	Company-sponsored design competitions	Füller et al. (2004) Sawhney et al. (2005)

(O' Hern & Rindfleisch, 2009, p. 43)

From an ethical perspective, a key issue is the mutual dependency between producers and consumers arising from the very act of co-creation. In other words, firms must give up some degree of control when undertaking co-creation, particularly in NPD (von Hippel, 2005). However, if firms are not solely in control in co-creation, how much responsibility can society expect them to take for co-creation outcomes? On the other hand, if consumers are no longer just passive consumers, but are also not quite fully producers, what are their responsibilities in these same outcomes? These are some of the questions that this paper aims to address further on.

2-2. Marketing Ethics

“Marketing ethics” addresses principles and standards that define acceptable conduct in the marketplace. Murphy, Laczniak, Bowie, and Klein (2005) define it as “the systematic study of how moral standards are applied to marketing decisions, behaviours, and institutions” (p. 17). Ethics has been rising in relevance in marketing since the 1960s, and there has been a dramatic increase in the number of marketing ethics journal articles since the 1990s (Schlegelmilch & Öberseder, 2009). During this time, marketing ethics has undergone a broadening of topics and a move to include ethical issues from the consumer’s point of view. Some of the major areas covered are as follows: marketers and their markets (e.g., market research), product development to distribution (e.g., packaging and labeling), promotion (e.g., advertising), and marketing in a global society (e.g., social marketing) (Brenkert, 2008).

Various approaches can be used to analyze marketing ethics, though none are comprehensive due to the great variety and complexity of ethical issues. A value-oriented framework addresses marketing ethics by analyzing how values such as trustworthiness, fairness, and responsibility are handled by marketing (e.g., American Marketing Association’s “Statement of Ethics⁶”). Another way to approach marketing ethics is to use a stakeholder-oriented view, which emphasizes analysis of ethical issues from various perspectives (e.g., firm, employees, consumers, society, etc.). This approach tends to emphasize the social responsibility of the firm to various actors in society, and is often seen in relation with corporate social responsibility (CSR) (e.g., Maignan, Ferrell, & Ferrell, 2005). Another useful way of considering marketing ethics is to analyze ethical problems in terms of processes used by marketers such as market research, product development, and

advertising (e.g., Brenkert, 2008).

In this paper, the author will use aspects from all three approaches, but will organize them under a value-based framework: Schwartz’s “universal moral standards for corporate codes of ethics” (1998). This code of ethics developed by Schwartz (1998) is based on extensive review of four distinct sources: “(1) employees; (2) company codes; (3) global codes of ethics (e.g., Caux Principles and the Interfaith Declaration); and (4) the business ethics literature” (Schwartz, 2002, p. 29). Areas of convergence of these four sources were articulated into the following six universal moral standards⁷ (see Table 3).

Table 3: Universal Moral Standards

1. Trustworthiness	including notions of honesty, integrity, reliability, and loyalty
2. Respect	including notions of respect for human rights
3. Responsibility	including notions of accountability
4. Fairness	including notions of process, impartiality, and equity
5. Caring	including notions of avoiding unnecessary harm
6. Citizenship	including notions of obeying laws and protecting the environment

(Adapted from Schwartz, 2002, p. 29–30)

3. Ethics of Co-Creation

This section explores how Schwartz’s six universal moral standards apply to co-creation using past literature and examples from some pioneers of co-creation. The issues covered here are not meant to be an exhaustive list. Rather, its purpose is to give a brief overview of some of the ethical issues that exist in co-creation to begin a dialogue for awareness. Of course ethical issues are often multi-dimensional, and many of these issues can easily be analyzed against more than one moral standard. However, these complex issues have been simplified here in the interest of brevity.

Trustworthiness

Trustworthiness, which includes honesty, integrity, reliability, and loyalty, has been identified as being central to successful relationships with customers in the relationship

marketing literature (Morgan & Hunt, 1994). Thus, trustworthiness becomes a central issue in S-D logic, as it is “inherently both consumer-centric and relational” with an emphasis on ongoing, rather than transactional, interactions (Vargo & Lusch, 2004, p. 12). This aspect is particularly visible in co-creation because its interactive nature tends to require a high degree of transparency and openness regarding goals, activities, and processes (Ogawa & Piller, 2006; O’Hern & Rindfleisch, 2009; Prahalad & Ramaswamy, 2004).

Transparency is essential for building trust and relationships in today’s marketplace (Eggert & Helm, 2003). In recent years, transparency has been increasing as the Internet enables “companies to lend insight to an infinite amount of information,” and consumers demand that “companies make use of this possibility” (Einwiller & Will, 2002, p. 103). Because of such increased transparency, “any contradiction in what is being communicated to different stakeholder groups can be unveiled without a person having to undertake great efforts” (Ibid., p. 105). Transparency is interwoven with the notion of trustworthiness in the digital age, and is important to gain user trust for online platforms (Conway, Ward, Lewis, & Bernhardt, 2007).

Many co-creation platforms are online or require the use of computer software. Thus, users are required to agree to a “terms of use⁸” or “end-user agreement,” which sets out the rules for using the service and/or software. However, such terms are written in legal terminology and have been criticized for being excessively long and hard to understand for the average consumer (Pitta, Franzak, & Laric, 2003). In addition, these may be subject to change without notice, which is highly questionable from the perspective of trustworthiness.

This is particularly true under co-creation as users may have invested a lot of time and effort into the platform with expectations of long-term engagement with the firm, thus creating a “lock-in” effect⁹ (Zauberman, 2003). This “lock-in” effect is further strengthened by the network effects of many Web 2.0 co-creation platforms. Resulting high switching costs for users make users conspicuously vulnerable to any unilateral changes in user agreements.

Facebook, a social networking site, has been accused of such breaches of trustworthiness on multiple occasions, as it changes its privacy settings and terms of service frequently and without first informing its users. This came to a head in February 2009, when Facebook

changed its terms in a way that seemed to give them the right to users' content perpetually and irrevocably, even after the user deleted the content (Walters, 2009). The subsequent public outcry¹⁰ compelled Facebook to return to its former terms, but its controversial actions continue^{11 12}. Though dissatisfied, people are locked-in to Facebook and find it difficult to exit the relationship without hampering their social lives¹³. To prevent firms from using co-creation platforms in such unethical ways, a more transparent approach in setting terms of use is desired. These terms should be easily understandable, potential changes should be consulted about with users, and plenty of advance notice should be given of any changes.

Another element of trustworthiness is the moral obligation of safeguarding confidential information (Schwartz, 2002). In co-creation processes, both parties may find themselves privy to information about the other that they would not otherwise have had access to. From the consumers' perspective, there is the concern that the firm may use co-creator information in an unexpected manner. For example, consumers may not be aware that information they provide through product ratings has exchange value for Amazon.com, an electronic commerce company (Zwick & Dholakia, 2004), by allowing it to predict consumption patterns and to make recommendations (Beer & Burrow, 2010). On the other hand, firms are concerned that co-creation may lead to a leaking of valuable proprietary information. In fact, "firms seeking to harness the benefits of co-creation may find it necessary to relax control over their intellectual property" (O'Hern & Rindfleisch, 2009, p. 28). This makes establishing rules and norms of information confidentiality for both partners important to enabling co-creation opportunities.

With regard to avoiding conflicts of interest, word-of-mouth (WOM) warrants some attention. WOM "often exert[s] a strong influence on judgments of products" (Herr, Kardes & Kim, 1991, p. 454). Consumers consider WOM to be more trustworthy than advertising, or even neutral sources such as *Consumer Reports*, due to perceived source reliability (Buttle, 1998). However, the distinction between advertising by a firm and the seemingly objective WOM by consumers would become muddy when WOM is generated by co-creators of a product or service who may benefit from sales of the product or service¹⁴. If consumers involved in co-creation write a review of the product or service without disclosing their status, it may undermine public trust due to perceived and actual conflicts of interest. As such, norms should be developed that clarify the expectations for

co-creators providing WOM for the products or services with which they are involved.

Respect

Human rights is a central concern of respect, and Abela and Murphy assert that S-D logic contributes to such respect by saying, “Recognizing the importance of a more active, engaged consumer role as co-creators [in S-D logic] is a positive ethical development, because it is consistent with human dignity, autonomy, and other ethical concepts” (Abela & Murphy, 2008, p. 46).

However, scholars have expressed concern about the ethics of co-creation from a labor rights perspective (Humphreys & Grayson, 2008; Ritzer & Jurgenson, 2010; Söderberg, 2007). Co-creation is said to contribute to precarious conditions of professional creative employees (Ross, 2006), as much of their creative input can be “outsourced” to co-creators for free. Indeed, Will Wrights, the developer of the hugely popular Sims computer games¹⁵, has clearly stated that saving on labor costs was the primary benefit to co-creation (Banks & Humphreys, 2008). Some scholars argue that firms are taking advantage of consumers by exploiting the free labor of co-creators (e.g., Herman, Coombe, & Kaye, 2006), while others argue that co-creators are not so naive and are enjoying their voluntary inputs into the value creation process (e.g., Grimes, 2006). Regardless of which stance one takes, as co-creation becomes widespread and a major source of value creation, the need to discuss these issues is heightened. Clarification of what separates an employee from a co-creator, and what obligations, if any, the firm has to those whose labor they benefit from, will allow marketers to respectfully interact with stakeholders.

Another area of human rights that applies to co-creation is the right to privacy. Consumer rights to privacy were defined by Goodwin (1991) as “the consumer’s ability to control (a) presence of other people in the environment during a market transaction or consumption behavior and (b) dissemination of information related to or provided during such transactions or behaviors to those who were not present” (Goodwin, 1991, p. 152). However, some firms (such as Facebook and Google) that provide co-creation platforms sell user information to third parties, often for advertising purposes (Ritzer & Jurgenson, 2010). Yet, it must be noted that access to their services is provided free of charge precisely because of such ways of making indirect profit. Whether or not a firm uses private information is of

importance, but even more so is whether users are clearly informed of such practices (this is also a matter of transparency). Again, it is apparent that there is a need for clear terms of service that comply with acceptable privacy norms to be developed collaboratively between firms and users.

Responsibility

In defining marketing responsibility, Mascarenhas (1995) states that morally responsible actors “commit themselves to a task and readily accept accountability for its success and failure. They enter into decisions and actions aware of their risk and potential, willing to be blamed if they are performed faultily, and rightfully claiming credit for their probity” (p. 45). Abela and Murphy (2008) argue that S-D logic extends the idea of accountability beyond marketing performance to include ethical accountability based on its “recognition of the intangible value of relationships; the idea of outcomes as learning and the use of multiple success metrics” (p. 47–48).

In the marketing literature, product safety has been a major issue in the area of responsibility (Busch & Fair, 1980; Darden, Babin, Griffin, & Coulter, 1994). Although no one is likely to argue against the assertion that firms have a moral responsibility to make safe products, the tradeoffs between increased safety and price mean that the “scope, content, and limits of that duty is a matter of heated controversy” (Curlo, 1999, p. 38). This debate is likely to become even more complex when factoring in co-creation. If a co-created product fails or harms, who is responsible? Considering the definition of marketing responsibility set forth by Mascarenhas (1995), it is questionable whether non-professional co-creators have the ability to make decisions with awareness of all associated risks and potentials. As such, norms and codes may need to be developed that outline what types and levels of responsibilities firms have in informing co-creators of possible risks and potentials of co-creation. This may include the following: clarifying product safety standards of the industry; testing co-designed products for safety; and perhaps even educating co-creators on the importance of product safety.

Conversely, it would be naive to claim that co-creators are never responsible for their actions due to the non-professional nature of their involvement. At times, consumers knowingly engage in ethically questionable, or even outright illegal behaviors (Fukukawa,

2002; Fullerton & Punj, 2004; Reynolds & Harris, 2005). The empowerment of consumers in co-creation may give such consumers more opportunities to engage in unethical behaviors. For example, some unscrupulous consumers have submitted stolen designs as their own to Threadless, a t-shirt co-creation platform wherein users submit designs that are voted on, and the most popular of which are commercialized. Stolen designs are usually spotted during the voting stage, but some designs have made it on to an end product before being detected¹⁶.

Obviously, consumers who engage in ethically questionable and illegal activities would be morally (and likely legally) responsible for any losses the firm or others may suffer. However, some may question whether firms should also be responsible to some extent in exercising due diligence and proactively policing co-creator activities to prevent possible harm. Others would argue that such onerous burdens would unduly hamper firms from engaging in co-creation efforts. Either way, firms must be aware of the existence of such issues and clearly set forth standards for handling such situations. If these responsibilities are not clearly laid out, this may result in legal action against the firm by victims of co-creator's actions.

Fairness

Fairness includes the notions of process, impartiality, and equity, along with not taking advantage of others. Fairness is important to the relational focus of S-D logic, as perceived equity is strongly correlated with customer satisfaction (Szymanski & Henard, 2001; Oliver & Swan, 1989), and "overall satisfaction has a strong positive effect on customer loyalty intentions" (Gustafsson, Johnson, & Roos, 2005, p. 210). According to Ingram, Skinner, and Taylor, "Perceived fairness, from the consumer's point of view, is defined as the perception that the seller and buyer receive roughly proportional maximum outcomes relative to their minimal inputs" (2005, p. 240). However, in co-creation, the relative inputs of the firm and consumer are less clear, while tending to require higher amounts of input from consumers. As such, this may lead to differing expectations on what is "fair" between the two parties.

Again, the "terms of use" and "end-user agreements" are a major area of concern. "Co-creation involves, on the part of consumers, monetary and non-monetary costs of time, resources, physical and psychological effort to learn and participate in the co-creation

process” (Hoyer et al., 2010, p. 288); and yet it is not uncommon for firms to set terms that give them rights to commercialize and/or distribute user-generated contents without any compensation. For example, John Fluevog Shoes’ “Open Source Footwear” requires users who submit designs to sign away their rights to that design. The submission instructions state, “Remember, once you send this design to John Fluevog Shoes Ltd., it becomes public domain, owned by no one and with no compensation in any form¹⁷” (Fluevog, 2011). Yet, in reality, a design that is selected by the company is then “owned” by the company to sell for profit. Another example is the video game industry. “The standard industry practice is that end-user licence agreements generally exclude customers from commercializing add-on content for a game, while the game publisher claims an exclusive and royalty free licence to commercially exploit content created and distributed by users” (Banks & Humphreys, 2008). Some may question the ethicality of firms using their stronger market position to enforce such terms as co-creation becomes more than a creative novelty through widespread application in NPD processes.

Yet, it must also be noted that not all user innovators wish to retain ownership over intellectual property, instead choosing to freely reveal them to others (von Hippel, 2005; Alexy, 2009). Under free revealing, innovators voluntarily give up all existing and potential intellectual property rights, opting rather to make the information a public good accessible by all¹⁸ (von Hippel, 2005). Difficulties arise when some members of a community wish to retain ownership, while others consider freely revealing as the social norm (Banks & Humphreys, 2008). If firms allow some to retain ownership, while others do not, “a lack of consistency in intellectual property policies might create perceptions of unfairness among consumer contributors ... [and] create legal entanglements” (Hoyer et al., 2010, p. 289). Thus, there is a need for dialogue between users and firms to establish norms for fair allocation of value created under co-creation.

With regard to impartiality, firms with popular co-creation tools and platforms may use their position of advantage to make biased decisions regarding who to include and exclude from their network, thus capitalizing on lock-in effects. Of course, some form of exclusion is necessary for quality control and avoiding information overload. However, from an ethical perspective, the impartiality of such decisions is the crux of the issue. The decision to include or exclude users or contents should be made in an unbiased manner, without favoritism or prejudice. Standards for inclusion into the co-creation process should be set

forth in a clear manner to all.

Apple's App Store, the world's largest mobile application platform, has used its dominant position to unfairly exclude developers and their apps. Though the App Store opened in July 2008, Apple did not publish the official "App Store Review Guidelines" until September 2010 (Apple, 2010). Until then, there had been no clear guidelines for developers, resulting in apps being denied or even abruptly removed with little or no explanation (Spring, 2010). Apple even blatantly excluded Google's telephone service, Google Voice, from its App Store, resulting in questioning by the United States Federal Communications Commission (FCC) for anti-competitive behavior¹⁹.

Caring

Caring involves avoiding unnecessary harm and helping others in need. This implies a genuine concern for the welfare of others, with an emphasis on not exploiting the vulnerable (Williams & Murphy, 1990). According to Brenkert (1998), the vulnerable are "disadvantaged because they are impaired in their transactions in the marketplace." Abela and Murphy (2008) assert that S-D logic's relational focus helps vulnerable consumers by reducing the tension between consumer choice and protection. However, in co-creation, vulnerable consumers' very access to co-creation tools and platforms have ethical implications. As such, firms may wish to consider going beyond basic consumer protection when undertaking co-creation.

Many co-creation platforms and tools are provided online, thus making them inaccessible to those on the "wrong" side of the digital divide (Hacker & Mason, 2003; James, 2007). This puts the poor and uneducated at a disadvantage because their lack of access to co-creation tools (i.e., lacking IT equipment or information literacy) may result in a lower quality of life. This is especially concerning in NPD co-creation: if the poor and uneducated do not have input, new innovation activity may concentrate only on solving problems of the wealthier and better-educated consumers.

Recent interest in marketing to the bottom-of-the pyramid (BoP) is encouraging as it has opened the eyes of businesses to the unique challenges and opportunities that are found in interacting with impoverished people around the world (Hart & Prahalad, 2002; Prahalad,

2005). Caring firms can help these people access co-creation opportunities by providing access to co-creation tools and platforms, while making profits and helping to eradicate poverty (Ibid.). In fact, co-creation has the potential to alleviate the suffering of those at the BoP by giving them a means to give voice to their unique needs and insights, and by allowing them to provide labor, instead of money, to obtain products and services (Simanis & Hart, 2008).

Another vulnerable group is children, who often lack the capacity to make judgments regarding economic exchanges and are unaware of their legal rights (Brenkert, 1998). Many children in advanced nations have the knowledge and affluence to access co-creation platforms. However, considering that ethical issues of co-creation have yet to be clearly addressed by society, there may be some reservations against children participating in it. For example, photos taken on the Nintendo 3DS, a portable game console, can be automatically uploaded each time the device connects to a wifi network, and its end user agreement grants Nintendo “a worldwide, royalty-free, irrevocable, perpetual, non-exclusive and fully sublicensable license to use, reproduce, modify, adapt, publish, translate, create derivative works from, distribute, perform and display your User Content in whole or in part...” (Nintendo, 2011)²⁰. This is very concerning for a device targeted at children, as they are not likely to understand the full implications of such an agreement, and may not be able to make sound judgments to protect their privacy.

Citizenship

Aspects of citizenship include obeying laws and protecting the environment, and this concept has been covered extensively in the business literature under corporate citizenship and corporate social responsibility²¹. Since the 1960s, consumers have become progressively more aware of environmental issues (Straughan & Roberts, 1999), and are demanding that firms “produce increasingly higher quality products and services that are consistent with societal and environmental values if they wish to remain competitive in global markets” (Miles & Covin, 2000, p. 299). S-D logic recognizes such social and legal obligations inherent in citizenship (Vargo & Lusch, 2004).

With respect to law in co-creation, the subject of intellectual property rights merits further consideration (Grimes, 2006; Herman et al., 2006; O’Hern & Rindfleisch, 2009). As this

issue has already been touched upon under the responsibility section, it will only be addressed briefly here. Advancement in information and related technologies has resulted in a growing ease with which products can be pirated or reverse engineered, and this situation is likely to be exacerbated under co-creation. Individual lawbreakers are unlikely to suffer legal and public sanctions, as it is harder for rights holders to track and/or sue individual consumers²². Yet, the nature of Web 2.0 platforms means that such “small” infractions can easily be multiplied into massive ones. Thus, firms that engage in co-creation should inform consumers about pertaining laws, and should structure their platforms in such a way to curtail illegal acts. For example, YouTube educates users about copyright, and checks uploaded videos against a database of copyrighted materials²³ (YouTube, 2011).

Another area of legal ambiguity is the border-less nature of co-creation. Many co-creation platforms and tools are accessible by people from any country, which may lead to ethical tensions due to differing laws and customs. Because intellectual property laws differ by country, it may be hard for firms to even recognize illegal behaviors of users from other countries. Additionally, laws of some countries may be morally reprehensible to the firm. As such, firms may choose to support users who deliberately disobey the laws of their country as a form of civil disobedience. For example, Twitter, a microblogging social network, has been widely used to organize protests. In fact, it played such a central role in the recent series of protests in the Middle East (e.g., Tunisia and Egypt) that these are sometimes referred to as “Twitter Revolutions” (Comninos, 2011). These protestors were clearly disobeying the laws of their country, and their governments tried to restrict access to Twitter and other similar sites. Yet, many would say that Twitter acted ethically in supporting these “illegal” activities. However, firms must carefully balance such support for basic human rights with respect for legal and cultural differences.

Under the aegis of “citizenship,” discourse regarding the environmental aspects of co-creation may also be addressed. Co-creation allows the firm to engage in dialogue with consumers to assess their needs and preferences (O’Hern & Rindfleisch, 2009), but co-creators may unintentionally mislead firms due to the environmental value-action gap. This gap occurs where “an individual concerned about the environment does not necessarily behave in a green way in general, or in their purchasing” (Pickett-Baker and Ozaki, 2008). Such a gap is well-documented in extant research (Ibid.), and is problematic

for a firm hoping to undertake co-design of environmentally-friendly products. When co-creators claim that they want such products, but do not actually purchase them, how should a firm respond? What if co-creators express a desire for a particularly environmentally harmful product? Firms need to find a way to balance such conflicting demands with their moral obligation to protect the environment.

4. Conclusion

This paper has posited that there are many ethical issues in co-creation that have yet to be sufficiently addressed by the marketplace and society at large. Co-creation is still a new field without established norms, resulting in an uncertain terrain for firms and co-creators to navigate. At times, this has resulted in ethically questionable conduct by both sides, as illustrated in this paper. In such an environment, firms that proactively engage in addressing ethical issues are likely to gain goodwill. Past research suggests that ethical behavior fosters goodwill, which, in turn, can result in a superior corporate reputation—a source of competitive advantage in the marketplace (see Miles & Covin (2000) for a review of the relationship between ethics and reputational advantage). In addition, as co-creation becomes widespread, competition to attract co-creators is likely to escalate. With this in mind, firms should begin to build a reputation as a trustworthy and fair partner that treats co-creators with care and respect. Those firms should also set out clear guidelines on how co-creators are to share responsibilities and act as good citizens, as a firm's reputation will be influenced by the reputations of its partners (Ibid.).

4-1. Limitations and Future Research

This study is limited by its theoretical nature and the narrow definition of co-creation which restricted the scope of ethical issues considered. Undoubtedly, there are many more ethical issues unique to co-creation that will be raised as application of co-creation matures both in theory and in practice. It is also readily acknowledged that there may be disagreement as to the categorization of the various issues raised herein. For future research, empirical evidence on how managers perceive and handle various ethical issues in co-creation is sought, along with research into the ethical implications of the remaining FPs. Also, research that investigates how a firm's ethical reputation effects the quality and

quantity of co-creators it is able to attract is desired.

4-2. Summary

As researchers strive to develop co-creation and S-D logic into a comprehensive theory of marketing, they must be aware of the accompanying ethical issues. To this end, more research must be directed at both the theoretical and empirical levels, so that ethics can truly be incorporated as a foundational element of marketing theory. Marketing researchers and practitioners are encouraged to move beyond viewing ethics as an optional add-on in order to maintain legitimacy in an increasingly transparent society.

[Notes]

- ¹ This article was presented with commentaries from seven eminent scholars, and was given an award for “greatest contribution to the advancement of the marketing theory and thought” by the Journal of Marketing’s Editorial Review Board.
- ² Abela and Murphy (2008) also raise this point that the compartmentalization of ethics in traditional marketing is problematic.
- ³ Co-creation, co-production, customer participation, etc.
- ⁴ User-generated content and peer-to-peer distribution are well-known examples.
- ⁵ See Benkler (2006) for an overview of commons-based peer production.
- ⁶ This statement was adopted in 2004, and includes the following: honesty, responsibility, fairness, respect, transparency, and citizenship (AMA, 2011).
- ⁷ Note that four of these six values (responsibility, fairness, respect, and citizenship) are the same as those set forth in the AMA’s “Statement of Ethics” (see Footnote 5). The remaining “honesty” and “transparency” are subsumed under “trustworthiness.” Schwartz’s model adds “caring” as another ethical value, which is also embraced by the AMA under “do no harm” in its stated ethical norms (AMA, 2011).
- ⁸ This is also commonly known as “Terms of Service” and “Terms and Conditions.” These terms are considered to be legally binding, unless they are found to be in violation of existing laws.
- ⁹ “Lock-in” is defined as “consumers’ decreased propensity to search and switch after an initial investment, which is determined both by a preference to minimize immediate costs and by an inability to anticipate the impact of future switching costs” (Zauberan, 2003, p. 405).
- ¹⁰ Including a formal complaint prepared by the Electronic Privacy Information Center (EPIC) with the Federal Trade Commission.
- ¹¹ In fact, “Criticisms of Facebook” is its own article entry in Wikipedia. Details of Facebook’s myriad of controversies can be found there (Criticisms of Facebook, n.d.)
- ¹² For a similar ongoing case (as of June 2011), see the *New York Times* article on Twitpic (Brustein, 2011).

- ¹³ Some alternatives to Facebook touted as privacy-respecting SNS have been formed, but have had limited success in attracting a critical mass to make it functional as a place to easily connect with friends and family.
- ¹⁴ Even if the co-creator does not financially gain anything, the feeling of pride or other such intrinsic motivations may bias their reviews.
- ¹⁵ First released in 2000, more than 6.3 million copies of “The Sims” were sold by 2002, making it the best-selling PC game in history. By 2010, “The Sims” franchise had sold over 125 million units (Electronic Arts, 2011).
- ¹⁶ In one case, Threadless had already printed the t-shirts when they were contacted by the original artists. The company negotiated for the right to sell the already-printed t-shirts and compensated the artists for their design (Threadless, 2011).
- ¹⁷ However, those who submit designs that are commercialized are sent a pair of shoes, and their chosen name for the product is used.
- ¹⁸ Some motivations for freely revealing include the following: inducing manufacturer improvements, setting a standard advantageous to the user innovator, peer recognition, professional status enhancement, skill enhancement, altruism, reciprocity, ideology, and community norms (von Hippel, 2005; Alexy, 2009).
- ¹⁹ See Matlin (2011) for an overview of this case.
- ²⁰ See Noyes (2011) for an overview.
- ²¹ See Valor (2005) for a review of the similarities and differences of corporate citizenship and corporate social responsibility.
- ²² The U.S. music industry’s strategy of suing individual consumers was highly controversial and has done little to combat music piracy. They now are targeting firms such as ISPs and YouTube instead (McBride and Smith, 2008).
- ²³ However, this has not eliminated copyrighted material from being posted on the site, and several suits that have been filed against YouTube are still in the courts (e.g., Viacom).

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