

ROLE OF INFORMAL INSTITUTION IN BOP ECONOMY: A SERVICE-DOMINANT LOGIC VIEW

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Purpose – Institution is the most recent evolution and expansion of service-dominant (S-D) logic. In general, institution controls and coordinates the value cocreation and service exchange in service ecosystems. Institutions are humanly devised rules, norms, and beliefs. It can be formal codified laws and informal social norms and beliefs (Vargo and Lusch, 2016). Formal institutions work well when the actors are able to maintain and follow the codified rules and regulations. But in the case where formal institutions are difficult to be well organized and penetrated into whole scope of the society, informal institutions have the significant role of controlling and coordinating the behavior of the actors, especially users, in service ecosystem. This paper aims to provide the foundations to understand the role of informal institutions in service ecosystem by establishing the theoretical framework through categorizing the informal institutions that guide and govern the value cocreation interactions and behaviors of service receivers in the BOP economy.

Design/Methodology/approach – Establishing the theoretical framework through categorizing the informal institutions based on literature review from different disciplines, including sociology, economics, political science, entrepreneurship, service science, and S-D logic.

Findings – Institutions play the most important roles in controlling and coordinating value-creation interactions and service exchange in service ecosystems. At the bottom of the pyramid (BOP) economy, actors cannot maintain formal institutions (contracts or collaterals) for their economic activities due to risk and uncertainties in the BOP economy. Therefore, formal institutions do not work well to reduce the uncertainties and risks in the BOP economy. As a result, we found informal institutions increase the acceptance of risks and uncertainties in economic activities in the BOP economy. We classified four informal institutions—relationships, solidarity, trust, and social norms—which guide the value cocreation interactions at the BOP economy. First of all, relationships are established by forming individual, group, and community level bonding between the service providers and service receivers. Secondly, solidarity is established in the community developed within the service receivers and providers in the BOP service ecosystem by combined interests, actions, and group discussion. Thirdly, networks and solidarity create trust in the BOP service ecosystems. Fourthly, social norms are established in the BOP economy, including timely repayment, frequent meetings, awareness, and proper loan utilization. Finally, we extensively showed the micro, meso, and macro structure of service ecosystems in which networks, solidarity, trust, and norms as informal institutions control and coordinate the value-creation interactions at the BOP economy.

Originality/value – As the first step of our research, we classified four types of informal institutions: relationships, solidarity, trust, and social norms control at BOP service ecosystems to increase the acceptance of risks and uncertainties. Informal institutions control and coordinate the value cocreation interactions at different levels of service ecosystems which are very original to the service research community.

Keywords – Informal Institution, Financial Service, Service-Dominant (S-D) Logic, Service Ecosystem, Trust

Paper type – Conceptual paper

WHY INFORMAL INSTITUTIONS ARE IMPORTANT AT THE BOP ECONOMY?

Our society consists of formal and informal rules and regulations that guide the people's behaviors

in the society. In some cases, formal rules and regulations work well (North, 1990; Williamson, 1985; 1996; Ostrom, 2005). But informal institutions (belief, trust, and social norms) are the most basic to establish formal institutions (Giddens, 1984; Putnam, 1993; Fukuyama, 2000; 2001; Yamagishi, 1998). So, it is not easy to separate the role of both formal and informal institutions in our society. But in the context of the bottom-of-the pyramid (BOP) economy where formal institutions are very difficult to be well-organized and penetrated to the whole scope of the society, informal institutions guide and govern the behavior of the actors, especially service receivers in the service ecosystem. Constitutions, laws, property rights, contracts, agreements, and assurance—are the formal rules and regulations that reduce the uncertainty, risks, and transaction cost in economic activities (North, 1990; Williamson, 1996; Ostrom, 2005). On the other hand, sanctions, taboos, customs, traditions, codes of conduct, norms, culture, and trust—are the informal rules and regulations that reduce the uncertainty and risks in economic activities (Giddens, 1984; North, 1990; Fukuyama, 2000; Yamagishi, 1998; Ostrom, 2005).

The informal institution is the most fundamental factor for accepting risks and uncertainties in economic activities (North, 1990; Fukuyama, 1995, 2000; 2001; Yamagishi, 1998; Ostrom, 2005). Formal rules and regulations readily assure society in stable relations of low social uncertainty and risks (North, 1990; Williamson, 1996; Ostrom, 2005). On the other hand, informal institutions are needed under high social tension because formal rules and regulations do not provide assurance (Fukuyama, 2000; 2001). The BOP economy comprises 2.7 billion people in the world who live on less than \$2.50 a day. Social enterprises provide a wide range of service offerings to improve the quality of life by empowering the people of the BOP economy and helping them to bring positive changes in their lives by creating opportunities for them (Siddike and Kohda, 2017). In the BOP economy, economic activities are risky and uncertain. People in the BOP economy are unable to maintain contracts or keep collateral for their economic activities. Therefore, formal agreements do not work to reduce the uncertainty and risks in the BOP economy. As a result, *we believe that informal institutions increase the acceptance of uncertainty, risks and transaction cost in economic activities of BOP economy by guiding and governing the behaviors of the service receivers, value co-creation interactions, and exchange of services in service ecosystem.*

Conversely, service-dominant (S-D) logic is the new trend for 21st-century marketing, and it continues its evolution from 2004 to 2020 (Vargo and Lusch, 2004; 2008; 2016; 2017). Service ecosystem is one of the core concepts in S-D logic. A service ecosystem is defined as “*a relatively self-contained, self-adjusting system of resource integrating actors that are connected by shared institutional logics and mutual value creation through service exchange* (Akaka and Vargo, 2015; Lusch and Vargo, 2014; Akaka, Vargo, and Lusch, 2012; Vargo, 2011). Multiple actors are involved in value co-creation in S-D logic through resource integration and service-for-service exchange (Lusch and Vargo, 2014). In service ecosystems, institutions work as coordinators for the co-creation of value (Akaka, Vargo, and Lusch, 2013; Chandler and Vargo, 2011; Chandler and Lusch, 2015; Vargo and Lusch, 2016; 2017; Koskela-Huotari and Vargo, 2016). Without institutions, the service system is just the collection of freely acting actors. In a service ecosystem, actors’ behaviors are constrained and coordinated by institutions or institutional arrangements (Vargo and Lusch, 2016; 2017). In this research, *we define relationship, solidarity, trust, and social norms as informal institutions that play an essential factor in controlling and coordinating diverse people’s value co-creation interactions in service ecosystems.*

Most of the previous research in S-D logic and Service Science focused on conceptualizing and explaining the importance of institutions and institutional arrangements in service ecosystems (Vargo and Lusch, 2016; Vargo and Lusch, 2017; Vargo, Wieland, and Akaka, 2015; Akaka, Vargo, and Lusch, 2013; Chandler and Vargo, 2011; Koskela-Huotari and Vargo, 2016). Importantly, they described the importance of institutions and institutional arrangements in the service ecosystems by controlling and coordinating the value co-creation interactions, service exchange, and resource

integration without clearly differentiating the roles of formal and informal institutions (Vargo and Lusch, 2016; Vargo and Lusch, 2017; Koskela-Huotari and Vargo, 2016; Vargo, Wieland, and Akaka, 2015). Broadly, S-D logic considered institutions as the humanly devised rules, norms, and beliefs that enable and constrain the interactions of actors in service ecosystems (Vargo and Lusch, 2016; Vargo, 2011). However, it is difficult to separate the roles of formal and informal institutions in the service ecosystem. Because legal institutions work well in some contexts, but in the context of the BOP economy where informal institutions are the most fundamental to guide and govern the value co-creation interactions and behaviors of the service receivers in service ecosystem. Therefore, the above research background clearly demands research to understand the roles of informal institutions in service ecosystem in the context of the BOP economy through establishing the framework by categorizing informal institutions that guide and govern the value co-creation interactions and service exchange.

So, the main objective of this research is to provide foundations to conceptually understand *to categorize the informal institutions to develop a framework of informal institutions that guide and govern the behaviors of service receivers of service ecosystem in the context of the BOP economy*. More specifically, we review the literature from different disciplines to describe the roles of institutions in economic activities. Then, we conceptualize and categorize informal intuitions from the perspective of S-D logic, followed by our proposed framework of informal institutions for controlling and coordinating the behaviors of the service receivers in the context of the BOP economy. Finally, we conclude the paper by suggesting future research directions for quantitatively verifying and validating our framework in the service ecosystem.

ROLES OF INSTITUTIONS IN ECONOMIC ACTIVITIES

Institutions guide, enable and constrain the actions of individuals in society. More importantly, institutions govern the economic activities of economic actors in society. Different disciplines describe the roles of institutions in society differently. First of all, institutions in sociology help to structure society by keeping the social orders. Institutions form the social network structure, which presents the outcome and context of people's actions in society (Giddens, 1984). More importantly, it represents the embeddedness of social relationships in the network of society. In organizations, institutions shape the structure of the organizational systems by constraining and controlling the interactions and actions in the organizations. Institutions in economics explain how organizations form and shape (Coase, 1937). In political science, institutions govern the commons (individuals, nations, and the world). Institutions are defined as the humanly devised constraints that structure human interaction (North, 1990; Ostrom, 2005; Williamson, 1996). Institutions comprise all the elements of the social environment that regulate how we can interact with each other. (North, 1990; Ostrom, 2005; Williamson, 1996).

INFORMAL INSTITUTIONS: A SERVICE-DOMINANT (S-D) LOGIC VIEW

Institution is the most recent evolution and expansion of service-dominant (S-D) logic (Vargo and Lusch, 2016; 2017). In general, institution controls and coordinates the value co-creation and service exchange in service ecosystems (Vargo and Lusch, 2016; Vargo and Lusch, 2017; Vargo, Wieland, and Akaka, 2015; Akaka, Vargo, and Lusch, 2013; Chandler and Vargo, 2011; Koskela-Huotari and Vargo, 2016). Institutions are humanly devised rules, norms, and beliefs. It can be formal codified laws and informal social norms and beliefs (Vargo, 2011; Vargo and Lusch, 2016; 2017). Formal institutions work well when the actors can maintain and follow the codified rules and regulations. But in the case where actors are not able to keep and follow formal rules and regulations. In such a situation, informal institutions control and coordinate the behavior of the actors in service ecosystems.

Institutions play a central role in service exchange and value cocreation. From the service-dominant (S-D) logic point of view, institutions (formal rules and norms) control and coordinate the value

cocreation interactions and service exchanges in service ecosystems (Vargo and Lusch, 2016; Akaka and Vargo, 2015; Vargo, Wieland and Akaka, 2015). Institutions enable actors to accomplish an ever-increasing exchange and value cocreation in service ecosystems (Vargo, Wieland, and Akaka, 2015; Akaka, Vargo, and Lusch, 2013). Institutions also govern the resource integration by the actors in the service ecosystems (Koskela-Huotari and Vargo, 2016). But S-D logic never differentiates the role of formal and informal institutions in service ecosystems. S-D logic broadly considers institutions as the humanly devised rules, norms, and beliefs that enable and constrain the interactions of actors in service ecosystems (Vargo and Lusch, 2016; 2017). Though it is difficult to separate the roles of formal and informal institutions in the service ecosystem, we can identify the importance of informal institutions in service ecosystems in the context of the BOP economy. Therefore, we define relationship, solidarity, trust, and social norms as the informal institutions in service ecosystems (North, 1990; Fukuyama, 1995; 2000; 2001; Yamagishi, 1998; Yamagishi and Yamagishi, 1994; Putnam, 1993). Figure 1 shows the classification of institutions based on previous literature.

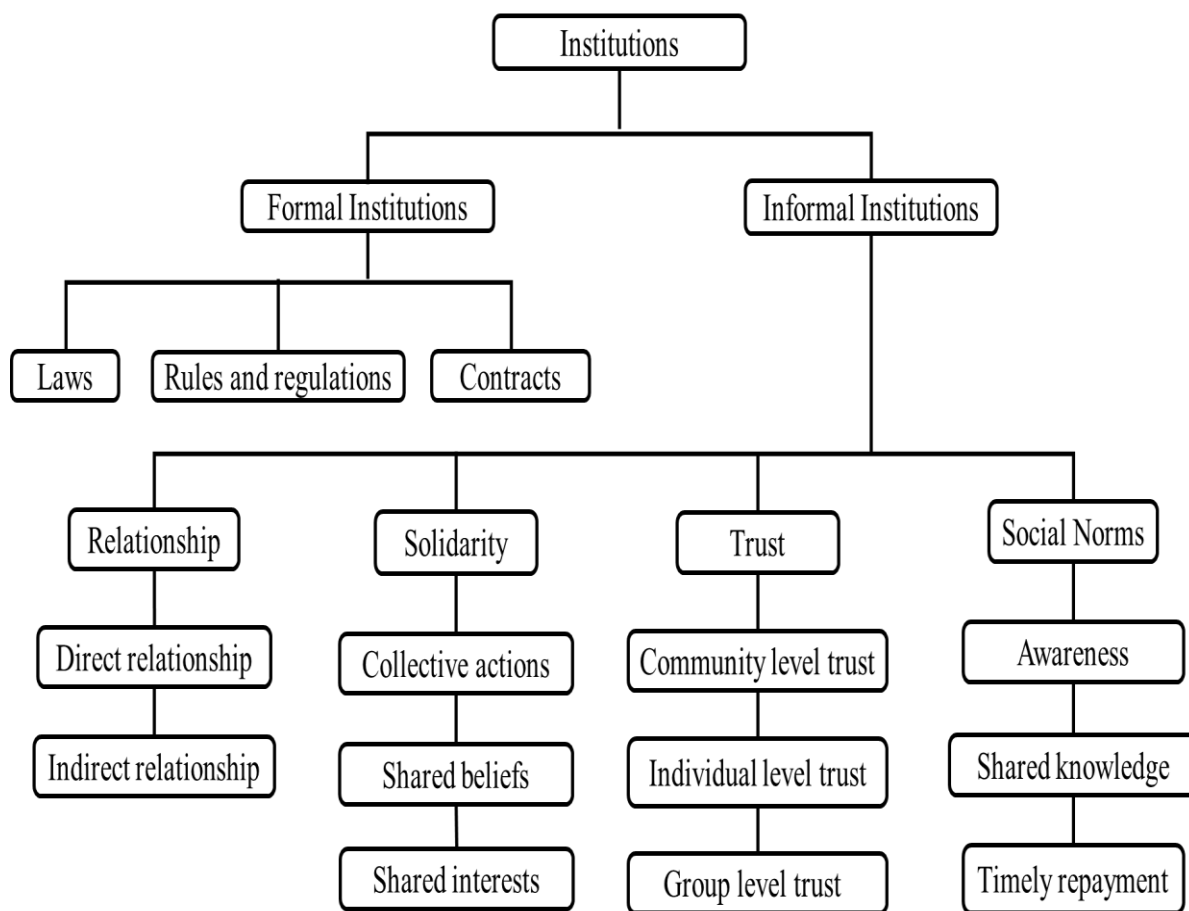


Figure 1: Classification of institutions

CATEGORIZATION OF INFORMAL INSTITUTIONS IN THE CONTEXT OF THE BOP ECONOMY

In this section, we describe the categorization of informal institutions in the context of the BOP economy. At the context of the BOP economy where formal institutions are not so easy to be well structured and penetrated into the whole context of the society, informal institutions play the significant role for controlling and coordinating the behaviors of actors, especially service receivers, in service ecosystem. Therefore, legal institutions do not work well to reduce the uncertainties and risks in the BOP economy. As a result, we found informal institutions guide and govern the

economic activities, service exchange, and behaviors of the service receivers by increasing the acceptance of risks and uncertainties in the BOP economy. We classified four categories of informal institutions—relationship, solidarity, trust, and norms—which guide the value cocreation interactions and service behaviors of the service receivers at the BOP economy. Figure 1 presents the categorization of informal institutions in the context of the BOP economy.

Relationship with diverse actors is one of the core factors influencing service receivers and service providers to interact with other actors in the service ecosystem (Vargo and Lusch, 2004; Prahalad, and Ramaswamy, 2004a; 2004b; Ramaswamy, 2009). In S-D logic, direct and indirect interactions with the service providers and receivers form the relationship for value co-creation (Prahalad and Ramaswamy, 2004a; 2004b; Ramaswamy, 2009; Vargo and Lusch, 2004; Ordanini and Pasini, 2008). More importantly, frequent and continuous interactions between service providers and service receivers are the key to the co-creation of value, ultimately guiding and governing the service receivers' behaviors in the service ecosystems (Prahalad and Ramaswamy, 2004a; 2004b; Ramaswamy, 2009; Vargo and Lusch, 2016; 2017). In the context of financial services in the BOP economy, relationships are established by forming the individual, group, and community level bonding between the service providers and service receivers which ultimately enable, guide, and govern the behaviors and value co-creation interactions BOP economy (Husain, 2007; Siddike and Kohda, 2017; BRAC, 2013; 2014).

Secondly, solidarity is one of the key components of forming groups, community and the society as a whole (Husain, 2007; Putnam, 1993; Gidden, 1984). The importance of solidarity is well-recognized in the sociology to form the modern society. Solidarity is about the unity of feeling, especially among the individuals in the group, community, and society with a common interest to mutually support each other within a group, community and society (Husain, 2007; Putnam, 1993; Gidden, 1984). The S-D logic research overlooked the literature of the feeling of unity or mutually supporting each other in the service ecosystem. But the core of S-D logic is about the cocreation of value through the mutual interactions (Vargo and Lusch 2004; 2008). In the context of financial services of the BOP economy, the behaviors of service receivers, especially the activities of economic exchange are guided and formed by the sense of combined interests, a sense of feeling unity, and a sense of working together to alleviate poverty from the society (Husain, 2007). More importantly, solidarity in the context of the BOP service ecosystem, is the sense of feeling community developed within the service receivers and providers in the BOP economy.

Thirdly, trust is a fundamental factor for people to accept risks and uncertainties in economic activities (North, 1990; Fukuyama, 1995, 2000; 2001; Yamagishi, 1998; Yamagishi and Yamagishi, 1994; Ostrom, 2005). Trust is also considered the most significant “moral resource” that positively contributes to society's overall economic, social, and political advancement (Putnam, 1993; Fukuyama, 2000; 2001; Yamagishi and Yamagishi, 1994). It also facilitates the market process and increases cooperation within and between organizations and the customers (Smith, Carroll, and Ashford, 1995). In addition, trust increases strategic collaboration and information sharing in negotiations within organizations and with the customers for the mutual benefits of interpersonal interactions (Thompson, 1991; Siamwalla, 1977). However, the role of trust in the service ecosystem have never been discussed yet. But in the context of financial services in BOP economy, economic activities are very risky and uncertain (Siddike and Kohda, 2017; Husain, 2007). In the context of the BOP economy where formal institutions are very difficult to be well-organized and penetrated in the scope of the whole society, informal institutions have significant role for controlling and coordinating the behaviors of actors, especially service receivers, in service ecosystem. People in the BOP economy are unable to maintain contracts or keep collateral for their economic activities. Therefore, formal agreements do not work to reduce the uncertainty and risks in the BOP economy. As a result, we believe that trust as informal institution influence people's perceptions to accept uncertainty, risks and transaction cost in economic activities of BOP economy.

In the BOP economy, trust between individual service receivers and the service providers and trust between service receivers and group leaders of the community have been established, known as personal trust. In addition, trust between group leaders of the community and the service providers is considered a group-based trust. Finally, trust between leaders of the society and the service providers is defined as the community level or society-based trust (Husain, 2007; Siddike and Kohda, 2017).

Fourthly, we identified social norms as another critical, influential factor that enables, guides, controls, and forms society's structure (Ajzen and Fishbein, 1977; Azen, 1991; Ajzen and Driver, 1992). Social norms are the individual and societal forces that guide the behaviors of the people in society. Mainly, social norms work as a normative influencer that controls and coordinates the behaviors of the people (Ajzen and Fishbein, 1977; Azen, 1991; Ajzen and Driver, 1992). In S-D logic, the societal governing mechanisms have never been discussed yet. But in the context of financial services of the BOP economy, social norms influence the behaviors of service receivers by influencing them to be timely repay the loans, frequently joining the meetings, creating awareness and proper utilization of the loan.

A FRAMEWORK OF INFORMAL INSTITUTIONS FOR INFLUENCING SERVICE RECEIVERS' BEHAVIOR

In this section, we propose a framework of informal institutions for influencing the behaviors of service receivers in the context of the BOP economy. Figure 2 presents our proposed framework of informal institutions which guide and control the behaviors of the service receivers in service ecosystems. This framework is under development.

First of all, the direct and indirect relationship between service providers and service receivers and among the service receivers govern the behaviors of the service receivers (P1). Secondly, feeling a sense of solidarity in the form of working and feeling as a group/community by the service receivers guides service receivers' behaviors (P2). Thirdly, trust between/among the service receivers and service providers influences the service receivers' behaviors in the service ecosystems (P3). Finally, personal and social pressures as social norms also control and coordinate the behaviors of the service receivers in the service ecosystems (P4). All the constructs (relationships, solidarity, trust, and social norms) of the proposed framework of informal institutions are conceptualized in the following ways:

Relationship

Relationship with diverse actors in service ecosystems is one of the essential components of the informal institution. The relationship is defined as the direct or indirect communication, discussion, and engagement between service providers and service receivers. In service ecosystems, service providers directly communicate and discuss with service receivers. In addition, service providers also indirectly communicate and consult with service receivers. For example, service providers and service receivers communicate and discuss among themselves via engaging platforms (eBay, Amazon, Airbnb), social networking technologies (Facebook, Viber, Line), and other communication modes. So, the relationship with diverse actors in service ecosystems plays the most critical role in controlling and coordinating the behaviors of actors. Therefore, we propose that the relationship between service providers and service receivers has a positive and significant impact on the behaviors of service receivers.

Proposition 1: *Relationship will have a statistically positive and significant impact on the behaviors of service receivers.*

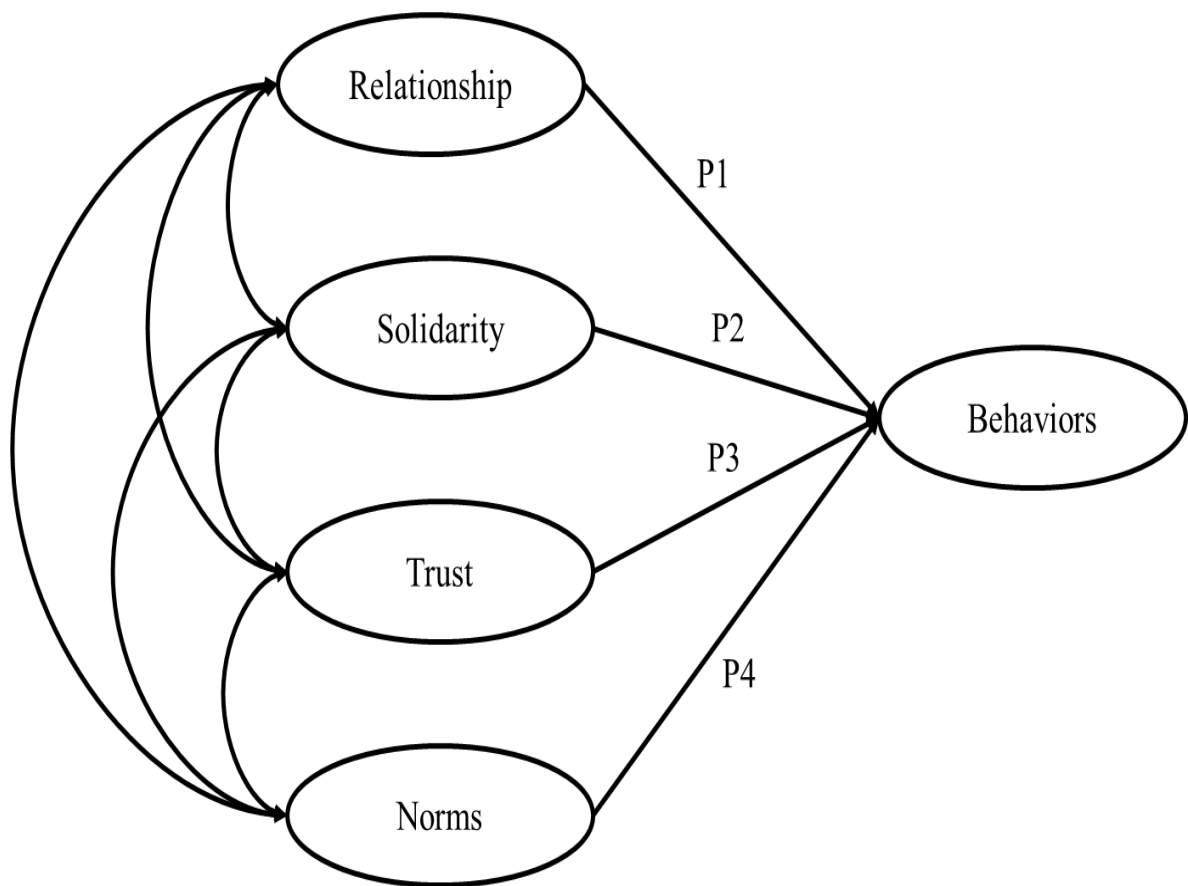


Figure 2: A proposed framework of informal institutions for influencing the behaviors of service receivers

Solidarity

Solidarity is another important informal institution that influences service receivers for value co-creation interactions and service exchange with the service providers. Solidarity is defined as the feeling of a sense of working together, belonging together, community, shared interests, and believing in other actors in the service ecosystems. It is a feeling of sense that service receivers feel working together with service providers. In addition, service receivers also feel a sense of belonging together with other actors. Furthermore, service receivers feel a sense of a part of a community while communicating with other actors in the service ecosystems. Service receivers also feel shared interests while interacting with service providers, other customers, and other stakeholders. Finally, service receivers feel a sense of believing other actors while interacting in the service ecosystems. Therefore, we assume that solidarity between service receivers and service providers has a statistically positive and significant relationship with the behaviors of service receivers.

Proposition 2: *Solidarity will have a statistically positive and significant impact on the behaviors of service receivers.*

Trust

Trust is another crucial informal institution that controls and coordinates the value co-creation interactions and service exchange in service ecosystems. Trust is defined as the psychological state of shared expectations and intentions of individual actors or groups or society as a whole. Trust generates through the continuous interactions with individuals, groups, and society as a whole in the service ecosystem to accept uncertainties and risks. Individual belief is about how a service receiver trusts a service provider, how a service receiver believes other service receivers, and how a service receiver trusts other stakeholders in the service ecosystems. In addition, group-level trust is about how a representative of a group of service receivers trust service providers in the service

ecosystems. Furthermore, community-level trust is how a service receiver as a community leader trusts the service providers in the service ecosystems. Finally, it is also about how does a service receiver believes people in society. Therefore, we propose that trust between service receivers and service providers has a statistically positive and significant impact on the service behaviors of service receivers.

Proposition 3: *Trust has a significant positive impact on the improvement of service behavior statistically.*

Social norms

Social norms are the most influential institutions that influence the behaviors of the people in the service ecosystems. Social norms are defined as the personal and social pressure as well as responsibility which form and structure the people's behavior in the society. More importantly, social norms are also known as subjective norm or normative social influence which govern the behaviors of people in the service systems. In the theory of planned behavior, social norms work as social pressure which influence people in the society to engage in various types of specific behaviors. Therefore, we propose that social norms have statistically a positive and significant impact on service receivers' behavior in the service ecosystem.

Proposition 4: *Social norms have a significant positive impact on the service receivers' behavior.*

DISCUSSIONS AND FUTURE RESEARCH DIRECTIONS

We proposed a new emergent research domain in S-D logic and Service Science: informal institutions which guide and govern the behaviors of actors (service receivers) in the service ecosystem in the context of the BOP economy. More importantly, informal institutions are the most fundamental to establish the formal institutions. In the context of the BOP economy where formal institutions are very difficult to be well structured and penetrated in the whole scope of the society, informal institutions control and coordinate the behaviors of actors, service exchange and value co-creation interactions in service ecosystem. This research provides the foundations to understand the role of informal institutions in service ecosystems by establishing the theoretical framework through categorizing the informal institutions that guide and govern the value co-creation interactions and behaviors of actors especially service receivers, in service ecosystem. This research categorized different informal institutions, namely relationships, solidarity, trust, and social norms based on previous research, which plays essential roles in the success of economic activities in the BOP economy. Then, a theoretical framework of informal institutions which govern and guide the value co-creation interactions and behaviors of the service receivers in the BOP service ecosystems was proposed. In this framework, direct and indirect relationships between/among service providers and service receivers and others influence the service receivers' value co-creation interactions and behaviors with service providers. A sense of solidarity while interacting with service providers, service receivers, and other stakeholders also governs the service receivers' behaviors. Thirdly, trusted relationships with service providers and other service receivers also form the successful value co-creation interactions in the BOP context. Finally, individual and social pressures govern the behaviors of the service receivers in the service ecosystems. Our framework has not been completed yet; it is still under development.

This is the first research in the Service Science and S-D logic, which concretely classified different informal institutions that guide, govern, control, and coordinate the service exchange, value co-creation interactions, and overall success of the BOP economy. Previously, Vargo and Lusch (2016; 2017) expanded and added institutions and institutional arrangements which constrain, control, and coordinate value co-creation interactions and service exchange in the service ecosystems. But in this research, we concretely classified different informal institutions that are crucial for the success of

economic activities in the BOP economy. We believe that this research provides an opportunity for the service researchers to quantitatively measure components of informal institutions through the development of concrete scales and their validation. We also believe that service industries in the developed countries will be benefited from our research for measuring factors or informal institutions that guide and govern the behaviors of service receivers in the developed economy. Last but not least, S-D logic and service science disciplines will also be greatly benefited by using our framework of informal institutions to improve service behaviors and value co-creation interactions.

This research is not free from limitations. First of all, the categorization and framework of informal institutions are based on literature review and our understanding of S-D logic, Service Science, and the BOP economy. Secondly, our framework of informal institutions for controlling and governing the service receivers' behaviors is conceptual and not tested and validated yet. But we provide several propositions for developing and measuring the scales of informal institutions that guide and govern the economic exchange, value co-creation interactions, and behaviors of service receivers in the BOP economy. We are currently contacting a social enterprise that is the pioneer of providing services at the BOP economy. We will conduct interviews with the service receivers of a social enterprise in the BOP economy to more concretely categorizing the informal insertions and developing a more concrete model. In addition, we will also survey the service receivers in the same social enterprise in the BOP economy for verification and validation of our framework. Finally, we could develop our final version of the framework of informal institutions for guiding and governing the behaviors of service receivers, economic exchange, and value co-creation interactions based on the results from both interviews and surveys.

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