Co-Creating New Service Innovations: Exploring Elderly Care in Japan and Finland

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Abstract

In many developed countries the provision of care services for elderly people has become a big challenge. This is mainly due to its increasing costs running concurrently with a declining proportional share of taxpayers. Therefore, there is a need for developing new cost effective and high-quality care services which are valued by the users. We suggest that by focusing on the nature of service innovation (incremental vs. radical) and the level of service co-creation (low vs. high) we can better understand the characteristics of needed collaboration in new service development (NSD). Our findings from Japanese and Finnish elderly care organizations indicate that balancing the involvement of service providers and clients co-creation efforts in NSD will result in high-quality and cost effective elderly care services.

Introduction

In many industrialized countries the population is aging rapidly. It is estimated that by 2030 the aging index, which indicates the amount of aged people (>65) per 100 youths (<15), is estimated to exceed 100 in all developed countries, and, in several European countries and Japan the index might even exceed 200 (Gavrilov & Heuveline, 2003). This means that cost and productivity considerations are becoming key issues in producing elderly care services in these countries. It has been argued that elderly care is evolving through a shift from conventional institutional service provision towards new forms of intermediate and home supported types of services (Djellal and Gallouj, 2006). Accordingly, care service providers are confronted with the challenge to develop elderly care services that respond to the individual needs of high-quality but still can be produced cost efficiently. We suggest that this challenge can be overcome by proper client-provider collaboration.

The purpose of this paper is to identify the key issues that stand for better, more versatile, and even lower priced elderly care services. To achieve this goal we build our theoretical understanding on the innovation management and service marketing literature, and, construct a framework by combining the nature of service innovation (incremental vs. radical) and the level service co-creation (low vs. high). The framework suggests three separate modes for new elderly care service development: a client-driven, a provider-dominated, and a balanced one. We use this framework to explore the main characteristics, practices, and service development activities in a number of Finnish and Japanese elderly care service organizations. We expect that exploring the elderly care service development in these two most rapidly aging nations in the world provides valuable insights how the perceived value of these services can be increased by proper client-provider collaboration. Our empirical findings indicate that the balanced mode of new service development, where both the care service providers and their clients are deeply involved in the co-creation process, produce care service offerings that are both highly-valued and cost efficient.
Elderly Care – Challenge for Service Providers

Having long been restricted to a choice between care in home or family or large-scale old people's homes, the market for care services to the elderly has undergone considerable upheaval. However, care services for the elderly form an activity that is not easily defined since they cannot be put into a single category (e.g. according to industry classification) and because they are located at the intersection of various other major groups of activities (Djellal and Gallouj, 2006). Accordingly, this diversity makes it difficult to identify innovations in these services.

Traditionally, care services have been defined by the public ideology; they were publicly financed with less attention paid to its cost-performance, the quality of services, and customer satisfaction (Masuda and Kojima, 2001). But now in many European countries, the horizontal trajectory has for several years been evolving through a shift from institutional service provision towards intermediate and home supported services (Djellal and Gallouj, 2006). Also, in Japan, a drastic change in care services thinking took place since 2001 when the new elderly care service insurance, Kaigo Hogen, was launched. The target of social welfare began to change towards service marketing. After the change, the care was no longer considered as a limited service targeted only to socially weak persons but it became a universal possibility open to all elderly persons. This created a rapidly expanding private market for elderly care services, and the sector is now a growing market also for new service innovations.

An improvement in the quality of life can possibly be achieved through new type of service innovations. Adopting a more service-dominant approach within the field of elderly care means that customers are not perceived to buy service functions as such but they buy benefits. Elderly persons are now expected to be interested in the kind of comprehensive well-being which can be achieved through versatile care services. A care service itself is not any more an aim but a result of an innovative understanding of well-being. Multi-party collaboration and client-provider co-creation of new care services can provide an innovative approach to the improvement of the elderly care (Bettencourt, Ostrom, Brown and Roundtree, 2002).

Client-Provider Collaboration in New Service Development

Recent literature both in marketing and strategy suggests that when it comes to services, customers play different foundational roles in value-creation mechanisms (e.g. Grönroos, 2007; Prahalad and Ramaswamy, 2004). In the same vein, Vargo and Lusch (2004) introduced the concept of the service dominant logic (SDL), according to which the customer is always a co-producer of value, not a target of the value, because he or she mobilizes knowledge of the resources, and this effort influences in the success of the value proposition. Accordingly, the customer becomes embedded in the service offering and ultimately is responsible for the value added to the process.

According to Bullinger, Fähnrich and Meiren (2003), the commercial success of a service offering also depends critically on its specification and design. A growing number of authors postulate that successful services can and must be systematically planned, thus preventing them from being ad hoc processes (Cooper and Edgett, 1999; de Brentani, 2001; Froehle, Case and Voss, 2000; Fitzsimmons and Fitzsimmons, 2000). To help with the systematic planning of new service development, we propose that a service organization should look at
the nature of innovation. In the case where the innovation is based on an existing value creation system, including known technology, knowledge, and architecture, the change is more or less an incremental one. On the other hand, the innovation can be a radical act, introducing a new element or a new combination of old elements (cf. Schumpeter, 1934). These kinds of radical innovations may also change the whole value creation system (Möller, Rajala and Svahn, 2005).

As several scholars argue, service innovations are co-created with the firm and its clients (Gadrey, Gallouj and Weinstein, 1995; de Brentani, 2001). Furthermore, den Hertog (2000) points out that the nature of the service innovation depends upon whether it is supplier-dominated or customer-driven. It is the customers who typically lead their suppliers toward sustaining and successful innovations. However, customers are not necessarily the best source of radical innovations (Christensen and Bower, 1996). Accordingly, we can claim that the customer or client-driven innovations in services are more incremental in nature, whereas suppliers or providers stand for the more radical ones.

We suggest that the basic classification of innovations (either to incremental or radical ones) can be complemented by the level of service co-creation (low vs. high). By combining these dimensions we are able to create a conceptual framework (Figure 1) with a vertical axis demonstrating the nature of innovation and a horizontal axis portraying the level of service co-creation.

![Figure 1. Framework for the study](image-url)

On the bases of these two dimensions we can identify three different modes for new service development (NSD) co-creation: a client-driven, a provider-dominated, and a balanced one. These modes reflect the level and characteristics of client involvement and provider domination in the process. We argue that balancing the client's and provider's participation and efforts, especially in radical service innovations, enables high-quality and cost-effective provision of new elderly care services. Furthermore, it needs to be pointed out that this kind of balanced co-creation is not a mixture of the client-driven and provider-dominated co-creation but a separate mode of collaboration (Möller, Rajala and Westerlund, 2008).
Methodology

To explore value co-creation within elderly care we need a large and versatile database including detailed description and analysis of various single phenomena within the comprehensive framework. The data used in this study was based on case studies carried by 8 researchers (Kuisma, 2007; Ogawa, 2007; Vilppö, 2007; Kario, 2007; Kahanpää, 2007; Valkama, 2007; Oja, 2008; Huhta, 2008) including altogether 14 organizations (12 in Finland and 4 in Japan). The data was collected during 2006-2008 by semi-structured in-depth interviews. The case organizations were selected among a number of elderly care service providers representing both radical and incremental service innovations as well as the different levels of client-provider involvement. The interviewees were selected among the top and middle-level managers representing the best knowledge of service development in these organizations. In each case organization 2 to 5 persons were interviewed.

Empirical Study - Developing New Elderly Care Services in Finland and Japan

We applied our theoretical framework as an analytical tool for identifying the characteristics of value co-creation in the elderly care services. Unfortunately, due to space limitations we are able to present only the concluding findings.

Client-driven NSD: Our findings indicate that the more the service provider had taken into account elderly persons’ wishes and needs when developing the care services, the higher the value of these services seemed to be for the client. Incorporating even employees (care personnel) and the elderly person's family resulted in far better outcome. Furthermore, increasing the variety of different types of standardized services was not appreciated, or valued, as much as the client's own participation in the development process. This gives support for our proposition that customer initiated improvements are important, especially, in incremental service innovations. Another interesting finding was that, in Japanese cases, the service providers had been more eager to listen their clients when developing care services. Finnish service providers, on the other hand, had mainly developed standardized types of care services which were offered to all clients regardless their specific individual needs. All these findings support the argument that client-driven NSD is typically based on incremental innovations, and the added value originates from small scale service improvements.

Provider-dominated NSD: Our findings support the proposition that the more radical service innovations are provider-driven. Service providers tend to produce more radical changes and tolerate more risk than clients typically do. Consequently, service co-creation in the provider-dominated NSD seemed to emphasize, besides service quality, also cost-efficiency thus leading to higher overall value than the client-driven NSD. Our findings from the provider-dominated NSD support the conception that service providers are willing to make radical changes if they obtain any assurance that the changes will improve service quality as well as enhance cost-efficiency.

Balanced NSD: We found case examples both from Finland and Japan to give support to our preliminary idea that balanced co-creation of radically new elderly care services results at the same time in high perceived quality and high cost-efficiency. Thus, radical service innovations opening new opportunities to improve elderly care services can be best achieved when several actors having complex capabilities and complementary resources are interacting and clever innovation ideas are somehow arisen. A radical innovation creating high value to customers with high cost efficiency, such as the caring-TV (providing
comprehensive interactive care-related services via TV network), was initiated and
developed in collaboration with a number of different actors (company providing the needed
technology, municipality authorities, and a university unit). The clients' role in this
development process was more or less a tester, providing hands on information about the
usability. One of the Japanese elderly care service providers offered rehabilitation services
ranging from accommodation to day-care services and home visits. Through radical
reorganization of all major activities, facilities and working models and innovating new
device instruments, it had succeeded to upraise rehabilitation results of its clients to
completely new level. Despite obviously higher service quality than an average the cost-
efficiency is on a good level. Also, in this case the service concept was developed in
 collaboration with clients and a number of other actors but originally it was initiated by a
single person having strong authority.

Generally speaking, these findings indicate that it is important to increase the elderly people's involvement in service provisioning together with service providers. Family integration, the organization of personal services, employee satisfaction and the comprehensiveness of care also supported the importance of a high level collaboration within elderly care. This kind of collaboration is, in fact, valued more than the increase in the variety of services offered. Our findings indicate, to some extend, that successful radical service innovations need co-creation which is based on a networked multi-party collaboration. Finally, our study also gives support to the argument that we cannot develop one general new service development model having all positive characteristics, but we can benchmark the most interesting cases and adopt the best practices when developing new types of elderly care services.

Discussion and conclusions

Elderly care is a rapidly growing sector in many Western and Asian economies. In this paper we have suggested that service providers need to enhance their ability to collaborate with their clients to offer them care services that are cost-effective and of high-quality. Combining service marketing and innovation management approaches provides us a tool for identifying three different collaborative modes for new service development (customer-driven, provider-dominated, and balanced co-creation of new services). Our empirical findings show that equal characteristics of these modes can be found both in Japanese and Finnish elderly care markets, which indicate that our findings could be valid also in other cultures and circumstances. From the service marketing viewpoint, our study provides important findings that we no longer can exclude the elderly care sector from business and marketing topics because of its huge and rapidly increasing financial value, and because of its complex nature. As for managerial implications, we suggest that in order to increase, or even maximize, the value creation (high quality and high cost-efficiency) managers should create platforms where clients and other actors can collaborate to achieve a creative, balanced atmosphere for value creation. From the elderly care service provider’s point of view, it seems to be important to consider the role of client (elderly person), or even the 'extended client' (elderly person's family and relatives), when developing new care services - no matter whether they are based on incremental or radical innovations. Finally, our study provides some guidelines when designing and commercializing new care services in the areas where the previous understanding and the role and usefulness of customer involvement (collaboration & co-creation) are exiguous.
References


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