

## Chapter 20

# Co-Creation and Healthcare Operations Management

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### ABSTRACT

*Service research has produced a definition that sees services as the integration of customers' and producers' resources to co-create value. Clear articulation of hitherto obscure phenomena enables sharper thinking on how such phenomena could be managed. This article discusses the implications of co-creation in healthcare, a sector of society that is perceived as difficult to manage. Co-creation is here understood as a variable that has different intensity and significance in different areas of healthcare. The Demand – Supply –based operating logic (DSO) is used to segment health service production into areas where co-creation appears in different roles.*

### INTRODUCTION

In management research great effort is put on defining and testing concepts and constructs. An aspect or phenomenon of observable and conceivable reality is isolated, named and defined, then positioned in relation to others as constructs. A concept works as a lens, through which an observer can see a part of the world sharply, while some other parts remain blurred. A concept is defined by giving it a name and stating what it is, and delineated by stating what it is not. Then it might be operationalized and measured, which in turn allows quantitative research to explore regularities and dynamic relations between phenomena. When it is understood how the world works, technologies can be developed (Arthur, 2009). For example, the relation between input and output has existed as long as humans have produced things. However, only after Alfred Marshall in the late 19<sup>th</sup> century defined productivity, could that relationship be systematically observed, recorded and managed.

The nature of services and the service economy have been subject to a long and ongoing debate. Recently a view has emerged that sees services both as a type of economic value that does not have a material form; and a production type where producers and customers, buyers and sellers jointly co-create

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value. Co-creation has existed as long as humans have joined hands for mutual benefit. Now that this phenomenon has a legitimate name, it is crucial to explore its implications for management.

In this article co-creation is discussed in the context of healthcare through the following steps. First, the current definition of services as an integration of the value and the production perspectives is explicated. Second, the managerial implications are discussed. Third, the distinction between goods and service production systems is elaborated as a multi-dimensional continuum. Fourth, the specific characteristics of healthcare as a service production system are introduced. Fifth, health services are segmented into managerially meaningful categories and the role of co-creation in each is discussed. Finally directions for future research are postulated.

## **THE DEFINITION OF SERVICES**

The conceptualization and management of services has a long history. The Physiocrats and the early classical economists did not see the immaterial as economically significant. Since services do not create permanent inputs to economic growth, how could they be of value? The majority of service workers were domestic servants. The employer-employee –relation was embedded in tradition and authority so what would be the need for service management?

With increasing wealth the service sector expanded. By the mid 20<sup>th</sup> century it was close to a third of advanced economies, now more than two thirds. Such a large chunk of economic activity could not be ignored. A new way of conceptualizing services developed within Marketing. The novel idea was that immaterial value could be created and traded. Services might not have a physical form, neither can they be owned, stolen nor returned, but they can be priced, sold, and bought. This line of thinking has been crystalized in the IHIP –definition: services differ from physical products in that they are immaterial, therefore also heterogeneous, inseparable, and perishable. IHIP, however, was not the end of history. There is a large spectrum of services, from housecleaning to legal advice, from taxis to heart transplants. A definition to cover them all from the position of the immateriality of the offering produced inconsistencies, contradictions, and an endless debate to determine, what is service and what is not (Zeithaml, Bittner & Gremler, 2013).

A decade ago a new line of thinking emerged. Services were defined from a production perspective as cocreation of value, that is, the defining characteristic of service is that customers participate in production. They may do it in person (dentistry), through their property (car repair) or by means of individual information (insurance claims). A dichotomy emerged between the traditional Goods –dominant logic (GDL) and the new Service –dominant logic (SDL) (Vargo & Lush, 2004; Sampson & Froehle, 2006). Focus shifted from services as products to services as production

More recently IHIP and SDL have been combined into the Resource Integration Model (Moeller, 2010). Co-creation means that the producer's and the customer's resources are integrated to produce value. The IHIP categories apply differently to different aspects of a service. The service contract is Immaterial, as services can be sold only as contractual promises of some future action. Heterogeneity applies to customer resources, as individuals have varying needs and requests. Inseparability appears in production processes where both parties must participate. Producer's resources are Perishable. If no customer shows up producers' capacity is left unused and can't be stored for later use.

The Resource Integration (RI) view elegantly combines IHIP and SDL into the new standard model of services. If this is accepted as, for the time being the best way to understand services, which are the

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