

Board Practices for Innovation: Balancing Prudence and Risk

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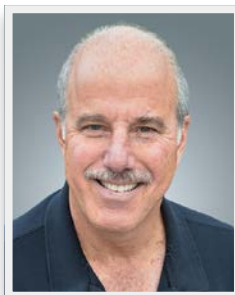
Innovation is a word that frequently instills fear into boards—innovation means new and new is synonymous with change and risk. Managing risk frequently tops the governance priority list, whereas discussions about innovation often go by the wayside. As healthcare organizations look to become sustainable and continue to grow in this highly volatile and complex environment, boards are confronted with new questions and challenges. To survive and thrive amongst these changes, healthcare governance needs to balance fiduciary responsibilities while increasing innovation.

Boards must not misconstrue innovation with randomized experimentation, which carries huge risk. There are, in fact, ways in which diligent governance can incorporate organizational advancement and improvements through board practices, organizational partnerships, and hospital executive leadership selection.

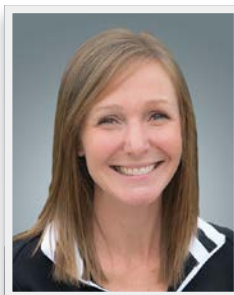
As boards seek to increase innovation, it is essential to look past the standard “professional qualifications” and find transformation-minded members who have demonstrated success in thinking outside the box to find risk-balanced opportunities, make highly bold decisions, and be willing to disrupt and pivot legacy business practices.

Board Practices

Historically, the composition of a strong hospital board included members with the primary skill sets of operational expertise and “number watching.” Diversity in board membership included someone with a finance background, a law background, and clinicians. Selection onto the board was based on experience and professional acumen. But as boards seek to increase innovation, it is essential to look past the standard “professional qualifications” and find transformation-minded members who have



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demonstrated success in thinking outside the box to find risk-balanced opportunities, make highly bold decisions, and be willing to disrupt and pivot legacy business practices.

The focus is not just about new member selection, but also continued development of an innovation mindset with current board members. As you assess your board’s innovation practices, ask if your board:

- Explores best or uniquely interesting practices from other organizations
- Participates in board education, development, and ideation opportunities that have a focus on innovation
- Takes time to learn about governance issues and challenges that have been overcome in other industries, and/or network with organizations in other industries, to integrate new opportunities and practices from outside healthcare

Lastly, current board members need to take an honest look in the mirror about their ability to not only think but execute innovatively. In annual self and aggregated board assessments, boards should ask open questions about their flexibility, openness, adaptivity, willingness to explore process improvements, and other competencies that indicate an innovative mindset.

Organizational Partnerships

The second area boards can look to improve innovation is through unique organizational partnerships. In her book, *Our Journey to Corporate Sanity*, Futurist Ayelet Baron explains that historically, leaders have sought safety and security at all cost, but businesses have taken this penchant for safety to such an extreme that it has come at the high cost of restriction.

Key Board Takeaways

As all healthcare boards seek to navigate the current volatile and uncertain environment, they are considering the changes they must make to survive and thrive. One such way is to integrate innovative practices, while also balancing risk and fiduciary responsibilities. For example:

- Improve board practices such as increasing diversity in experience, background, and vocation for board member selection, as well as provide intentional education and skill development on innovative practices.
- Incorporate innovation through finding unlikely partnerships.
- Widen the considerations for hospital executive leadership selection—select leaders who can demonstrate innovation through adaptability and metered creativity.

Her suggestion is to develop partnerships to help drive innovation and build economic viability.

Affiliations, acquisitions, alliances, mergers, and joint ventures are central talking points in critical conversations about hospital viability, growth, and sustainability. In a survey of senior financial executives in healthcare, Healthcare Financial Management Association (HFMA) reports 42 percent of hospitals have entered an affiliation or acquisition relationship in the last five years. Additionally, 34 percent of hospitals are considering an arrangement in the next 12 months. As healthcare delivery transforms in the U.S., hospitals need to partner with other organizations to be successful.¹ Historically some hospitals, such as academic medical centers, may be more familiar with this type of long-term partnership, but there is opportunity to expand further partnerships.

One such example is The Innovation Institute, which is owned by five non-profit health systems. Located in La Palma, California, it is a unique collaborative focused on creating a culture of innovation for these health systems. The Innovation Institute owns an incubator that is focused on solving problems on the front lines by working with physicians, nurses, healthcare workers, and the general public to mine ideas and develop new products that can be commercialized. Most community-based

¹ HFMA Value Project Report: Acquisition and Affiliation Strategies, June 2014.

hospitals do not have tech-transfer capabilities and miss out on the opportunity to advance innovative solutions, but through this partnership, The Innovation Institute is making waves.²

Hospital Executive Selection

Another area in which boards can exert innovative practices is through the selection of their executive team. With healthcare enshrouded in a cloud of legislative and financial uncertainty, selecting executive leaders who can demonstrate innovation through adaptability and metered creativity (the kind that minimizes risk) are critical competencies that should be considered in any executive hire and developed in any current executives.

Finding and/or developing these skills in executives who can not only plan for, but also execute against a strong business plan is no longer good enough. It is mission critical for executives to be able to plan for and execute against Plans A and B, while also being ready to pivot into Plan C with an adaptive and creative mindset. To ensure innovation across all facilities as a part of a healthcare system, boards can make a commitment to exploring how to define

these innovative competencies across all hospitals within the system.

Seth Lee, President and CEO of Summit Talent Group and an expert in the recruitment of healthcare executives, notes “Innovation is process improvement on steroids.” Finding executives with a long history of process improvement and divergent thinking will improve innovation operationally at hospitals and health systems. In addition, Seth suggests boards that are trying to become more innovative will recruit executives that have worked outside healthcare at some point, have had varying career experiences, have worked in multiple geographies, or have even been expatriates. All of these qualities will help build a more innovative leadership team.

Effective boards must be able to pivot and move to new frontiers, not just try and make small adjustments within the parameters of business as usual. Boards must consider how to improve their innovation mindset through their board practices, partnerships, and executive selection to ensure that there is a balance of prudence, but also a capacity for significant change. ●

The Governance Institute thanks Jim Finkelstein, President and CEO, and Sheila Repeta, Senior Consultant, of FutureSense, LLC for contributing this article. You can learn more about their company and work at www.futuresense.com or contact them at jim@futuresense.com and sheila@futuresense.com.



² For more information, visit The Innovation Institute's Web site at www.ii4change.com.